

RAIL PRIVATISATION THE SWEDISH EXPERIMENT

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Until the UK Government unveiled its rail privatisation proposals last year, Sweden had been the scene of Europe's most radical rail restructuring programme. In 1988, prompted by the growing deficits of their state railway (SJ), the Swedish parliament ordered the separation of rail infrastructure ownership from train operations, and opened up the system to private sector train operators through the introduction of competitive tendering for local rail service contracts. Superficially there are similarities to the current UK proposals for BR, but the Swedish model is underpinned by a much greater recognition of the economic, social and environmental role of rail transport. Deregulation has taken place within a tight framework of local government control and co-ordination of public transport, and the state railway has survived and prospered - total privatisation was never part of the Swedish plan to transform the management and commercial performance of her railways.

Sweden is a big country - six times the land area of Scotland - and the long distances suit rail transport; but with a population density of just 48 persons per square mile - well under a third of Scotland's density - the volume of

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business available to rail is sparse. Nearly 90% of the rail network is single-track, compared to a half in Scotland - but 67% of the system is electrified, while Scotland lies near the foot of the European league table, with just 22% of her network electrified. The contrasting approaches to rail privatisation in part reflect different political cultures, but on a practical level there is much to learn from Sweden's more measured approach to the rail problem - and her continuing support for an integrated and well-funded public transport system.

THE CHANGING FACE OF SWEDISH PUBLIC TRANSPORT

The origins of the recent changes to Sweden's railways lie in the 1983 establishment of 24 County Transport Authorities responsible to the 24 counties and 286 lower-tier municipalities for the organisation of local and regional public transport. Operating subsidies from local government (typically covering 50% of costs, with the balance from fares), the introduction of discounted season tickets, improved services and co-ordinated timetables all subsequently contributed to a reversal of the previously declining fortunes of public transport, with regional bus traffic (journeys of less than 100 kms between urban areas) increasing by 55% between 1980 and 1985.

The 1988 Transport Act followed through the earlier changes by giving the County Transport Authorities the right (but not the obligation) to go out to tender for bus services in a competitive market of state-owned, municipal and private operators. Bus operators in Sweden cannot set up local or regional services outwith the concession framework - the County Transport Authorities are responsible for all timetabled services other than long-distance coaches. This is a striking contrast to the British situation since bus deregulation in 1986 - here Regional Council control (County Councils in England and Wales) is restricted purely to loss-making routes and services which the private sector require subsidy to operate. In 1992 all but 5 of the Swedish counties had gone out to tender for at least part of their bus networks (typically for contract periods of 3 to 5 years), with the general experience being reductions in operating costs of up to 20%. In contrast to the fragmentation and decline of British bus timetable information since deregulation, all public transport information for each Swedish county is contained in a single booklet published by the County Transport Authorities. To emphasise the source of funding and control, all contracted buses are painted in the County Transport Authority livery, irrespective of vehicle ownership.

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THE NEW SWEDISH RAILWAY - PUBLIC AND PRIVATE SECTOR PARTNERSHIP

The 1988 Transport Act had an even greater impact on the rail sector. The main objectives were to create a 'road model' for the organisation and funding of the rail system, and to ensure rail's survival as an effective competitor by upgrading neglected infrastructure. The key institutional and financial changes were as follows:

- A sharp distinction between on the one hand, the new National Rail Administration, Banverket, which would be responsible for rail infrastructure, and be guided by socio-economic considerations (like its counterpart, the National Road Administration), and on the other hand SJ, which would be turned into a train operator and marketing organisation with strictly commercial objectives.
- Parity between road and rail (incorporating social and environmental costs) in the treatment of road taxes and rail track charges, and for investment decision-making.
- Opening up the rail system to new influences - in particular the County Transport Authorities, who wanted more say in rail planning as part of their responsibility for integrated public transport, and the private sector, who could be expected to introduce innovative operating and marketing practices.

The 7,000 mile rail network was divided into strategic sectors. In the case of the core network of main lines and secondary lines, SJ retains sole rights to all passenger and freight services for the time being, although there are plans to break this monopoly in 1994. Over the network of local 'county lines' (a quarter of the total rail network), the 24 County Transport Authorities have sole rights to all passenger services. They can choose whether to subsidise rail services or replacement buses, using county tax money and state grants, and have the right to put rail services out to competitive tender in order to get best value for money.

Under the new set-up, Banverket is responsible for maintenance of rail track, signalling, stations and control of train operations. Train operators are charged for use of the track in accordance with a published scale of fees decided by the Government, and non-negotiable for users. Charges depend on type of rail vehicle, but all operators pay a variable charge dependent on usage, and a fixed charge, described by Banverket Director Lars Hellsvik as a 'subscription charge or entrance ticket to the system' - just like annual road vehicle taxes. The variable charge incorporates track maintenance, accident

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costs and pollution costs, and is designed to cover the marginal cost of operation imposed on the community by the additional traffic (Sicking 1993). Sweden is the only European country where an attempt has been made to base the taxation of fuel and vehicles on an estimate of the social and environmental cost to the country. Unfortunately, the principle of transport cost responsibility is now being watered down as a further stage in Sweden's adjustment to the rules applying in most EC countries. This is particularly ironic in light of the statement in last year's EC White Paper on Transport that 'internalisation of external costs should be a major element of a transport policy integrating the protection of the environment' (Bowers 1992).

In 1992 total track use charges in Sweden covered only around one third of rail infrastructure maintenance costs. Charges are payable to the Treasury, not to Banverket, again reflecting a wish to mirror the arrangements for road transport, in the interests of fair competition between the modes.

Unlike the UK Government's proposals, rail operators are not required to contribute towards infrastructure investment, which the Government has trebled since 1988. Future spending plans for the rail network are even more ambitious under the current Conservative administration. A 10-year investment programme recently laid before parliament assigns £2.8 billion to the national rail network, to cover a wide variety of schemes the length and breadth of the country - notably for upgrading to 125 mph operation, double-tracking and major new line construction (Freeman Allen 1993). New investment is justified by cost-benefit analysis, and the environmental benefits of switching traffic from road to rail played a major part in the current programme. Applying the same outlay per capita to Britain, the new government-owned Railtrack organisation would be enjoying the prospect of almost £2 billion investment funds annually - around double the actual current level.

The 1988 Transport Act was designed to encourage greater private sector involvement in local rail operations, and in 1990, exercising their new freedom to put train services out to competitive tender, three counties in the Smaland region of southern Sweden became the first to award a contract not to SJ, but instead to a private operator - in this case, BK Rail, the subsidiary of a local bus and haulage group. The 4 year contract covers local railcar services over 285 miles of single-track routes radiating over upland forestry and farming country from Nassjo, an important junction on the Stockholm - Malmo main line.

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The experiment has been widely judged a success. Operating costs have been cut significantly through flexible work practices agreed locally - train drivers sell tickets and undertake light cleaning duties as well as driving. Passenger numbers increased from 12,900 a week in March 1990 to 18,900 in October 1992, and 95% of trains now arrive within 3 minutes of schedule.

With a staff of 55, small is clearly beautiful for BK. They are spared worries about investment in track and rolling stock - Banverket upgrades the track, and the railcars are owned or leased by the County Transport Authorities. The relatively self-contained network of train services has few interfaces with other operators (principally at Nassjo with SJ, which retains all main line passenger and freight operations) and as a result BK's lower overheads and flexible work practices have enabled a better public service to be provided at lower cost to the taxpayer. By contrast, under the UK proposals for wholesale privatisation, a broadly equivalent location such as Carlisle could become entangled with the services of more than a dozen different passenger, freight and parcels train operators.

The productivity benefits of more flexible work practices don't appear to be based on the kind of exploitation which has undermined the pay and conditions of British bus workers since deregulation - the BK drivers have a higher basic wage than their SJ counterparts, they all belong to the same trade union, and the private sector option is popular with those who don't want to work unsocial hours (BK-operated trains run during the day only). Despite the impact of economic recession, Sweden retains a high respect for social welfare and public service.

While SJ still has absolute rights to all freight services on the core network and county lines, it has surrendered control on a number of branch lines in South and Central Sweden. Three small-scale private operators have stepped in to keep traffic on rail, using their proximity to the market and flexible work practices to maintain a profitable service where SJ could not. These 'short-line' freight operations are now actively supported by SJ, since they have retained feeder traffic to SJ's trunk network, linking to the rest of Sweden and the European mainland. Rail freight is strong and growing in Sweden as a whole - carrying 38% of total freight tonne/kilometres in 1990, one of the highest rail shares in Europe. In contrast, BR's share of the British freight market is now less than 8%, one of the lowest in Europe, and continues to decline.

With the requirement for SJ to survive as a commercial enterprise, the state railway has achieved a major turnaround in business performance. In 1992 SJ was handling the same volume of traffic as in 1988 - but with a third fewer

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staff - and it now heads the productivity league table for European railways. Punctuality of long-distance train services has improved radically - in 1992, 82% arrived within 5 minutes of schedule, compared to just 66% in 1985 (Jackson 1993). For tendered passenger services, SJ has cut its costs by 20%-30% in response to the arrival of BK, thereby retaining 17 of the 19 contracts to run groups of local and regional trains, against stiff competition from the private sector. Under the Swedish model of limited deregulation, complete abolition of the state railway is not on the agenda - the practical outcome, as expected, has been to inject extra business efficiency into the SJ performance without splintering the national network.

CRITICISMS OF THE SWEDISH MODEL

There have been criticisms of the Swedish model, both in Sweden and in Britain. The House of Commons Select Committee Report referred to Banverket's alleged lack of response to SJ's urgent commercial priorities for track maintenance, but to what extent this is a widespread problem wasn't made clear. In their evidence to the Committee, SJ confirmed that 'the split up has been very positive in many instances' (House of Commons 1993). The Committee criticised the proposed separate ownership of infrastructure and train operations, favouring instead a system of vertical integration which would give franchisees direct responsibility for traffic control and day-to-day maintenance of track and signalling.

However, it should be remembered that the infrastructure/operations split in Sweden was deliberately conceived as a means to ensure that society's needs took precedence over individual commercial demands for maintenance and investment. Seen in that light, SJ's claimed local problems are no more than a small price to pay for the widespread rejuvenation of the railway in a much fairer national transport framework.

Another Swedish criticism has focused on the lack of line-specific or time-specific charges for track use, reflecting market conditions and the practical quality of track on different routes. Banverket wanted such an arrangement, but the Government prefers uniform national charges which mirror the system used for road taxation. It has been suggested that breaking the link between the market and the providers of rail infrastructure can result in infrastructure that is too good - and too costly - for what the operator can afford. Of course, this hinges on the general level of track charges, and in Sweden these are set nationally at a marginal cost level which encourages operators and the County Transport Authorities to get involved. Naturally, this implies a high level of public subsidy and investment, but in Sweden (doubtless aided by their system of proportional representation for elections)

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there remains a political consensus in favour of a properly funded rail network. The lack of market messages to influence Banverket towards rationalisation or upgrading is a natural consequence of a system designed to take account of factors which simply do not register in the market place. Thorild Hellmuth, Managing Director of County Skaraborg Transport, describes this as the 'iceberg effect', in which only 10% of the factors influencing transport policy are the obvious business issues of income, costs and utilisation of the transport service itself, whereas the other 90% of costs and benefits - 'the socio-economic perspective' - arise elsewhere for society in the form of energy saving, health effects, environmental impact, public safety, etc. In Sweden, spared the dogma of a Thatcherite era, business people and public servants alike still recognise that the health and wealth of society cannot be properly measured by crude accountancy indicators.

LESSONS FOR BRITAIN

Over the last five years Sweden's new rail policy has proved the value of a pragmatic mix of business efficiency and public service, with massive state investment underpinning a gradual process of carefully controlled and geographically limited private sector involvement at the margins of the system. While a more controversial deregulation of inter-city and freight services is now proposed for 1994, practical experience points to a number of specific applications which would radically improve the present British privatisation plans.

Railtrack's narrow commercial remit looks ominous for traffic development and future investment. Wider social, economic and environmental objectives - with cost-benefit analysis applied to all rail and road investment schemes - would help to create a more level playing field. A standard national tariff for track use - pitched at the level of marginal cost to the community, and matched by equivalent road taxation - would foster a greater development of rail services to tackle the much bigger external competition from road transport. If the Government's real goal is to develop rail transport, privatisation is at best a side issue, the big obstacle to progress being the lack of fair competition between road and rail.

The Swedish model for local competitive tendering could work well in British Passenger Transport Executive (PTE) areas such as Strathclyde, helping to reduce costs within a robust public service framework. In rural areas, however, many surviving services cross Regional or County boundaries, and local government re-organisation will bring more fragmentation. The lack of buoyant sources of locally raised taxes as found in Sweden is another problem. Nevertheless there could be scope for

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experimental local authority/private sector partnerships in some relatively self-contained areas of the rural rail network, provided that the Government were to transfer a ring-fenced proportion of BR's Public Service Obligation grant for a guaranteed long-term period. This happened in Sweden, where, in addition to local taxation, the Government made a firm 10-year commitment to transfer the equivalent of previous national subsidies to the County Transport Authorities.

The lines north of Inverness come to mind - they are self-contained, with a single interface with the rest of the rail network, modest in scale and traffic levels, and lie within the area of a single Regional Council (Highland) which the Government proposes to retain as a unitary authority. While ScotRail have made greater efforts to tap the local and tourist markets in recent years, it's hard to believe that a locally-controlled and locally-based operator couldn't do a better job than a large national organisation managed from Glasgow. However, while private sector involvement in Sweden has brought increased productivity and flexible work practices apparently without any serious downside for the staff involved, this is very much a reflection of the Swedish ethos. Based on previous UK privatisations and the experience of British bus deregulation, it must be doubtful that rail staff wages and conditions (as opposed to rewards for top management) would survive unscathed from a process of competitive tendering in the current political context.

In the freight sector, the Swedish experience of private sector involvement in short-line operations on the periphery of the network may have special relevance in Scotland. There is little left of a general, publicly available, rail-freight network in Scotland - most services are geared to specific bulk flows for which contracts are made with a specific customer, and where the passenger network benefits of linked services and through tickets do not apply. Under pressure from unrealistic and inappropriate financial targets imposed by the Government, BR's Railfreight Distribution division has in the last ten years withdrawn regular freight services from most of the Highland rail network - paradoxically, the region with the longest overland hauls to the rest of Britain and Europe. The only routes which now carry freight traffic are from Fort William to Glasgow (mainly aluminium and paper) and from Inverness to Aberdeen (timber).

The proposed ScotRail franchise will be a purely passenger train operation; under the Government's plans to open up freight access to the rail network, the privatised Railfreight Distribution - and its sister BR division for bulk traffic, Trainload Freight (split into three private businesses) - will face extra competition from new private sector train operators. Locally based private

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rail freight companies could in future offer the market sensitivity and operational productivity typical of the ubiquitous road haulier - but at much less cost to the environment - feeding long-haul traffic into Scotland's international railheads at the Mossend Euroterminal and nearby Coatbridge container terminal. Provided the Government allocate a big enough budget to their post-privatisation capital grant and track subsidy schemes for rail freight, new business flexibility could encourage a shift from road to rail on secondary routes such as Thurso-Inverness-Perth and Oban-Glasgow where the heavy lorry is currently supreme.

In the final analysis, the practical reality of rail deregulation comes down to politics. In Sweden, competitive tendering is carefully controlled within an integrated transport framework and a social welfare consensus. The separation of track ownership from train operations has been part and parcel of a conscious decision to work towards a level playing field for competition between road and rail. Despite the worst recession in living memory, substantial public investment in rail infrastructure remains a priority for society.

In Britain, the lack of strong local government involvement in public transport outwith the Passenger Transport Executives, the continuing imbalance between road and rail investment, and the deep spending cuts sought by the Treasury point at best to a patchy and muddled process of rail privatisation. Of course, a future administration might decide to drop the dogma and build a transport policy based on the principles of sustainability and social justice, so that any fundamental changes in the framework were geared to society's needs rather than the vested interests of a narrow business outlook. In the meantime, the cultural and political differences between Sweden and the UK as presently governed mean that rail restructurings with superficial similarities can have profoundly different outcomes. In the words of a leading rail commentator, Curt Elmberg, Technical Adviser to the Swedish Public Transport Association: 'In the UK...privatisation has been the key word. In Sweden...it's fair competition, the best is the winner, regardless of ownership. Leadership is far more important than ownership'.

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