Media Backgrounder

Recent public transport market developments with a focus on suburban and regional rail

The gradual opening-up of the public transport market in Europe over the last 20 years has created increasing business opportunities for non-incumbent competitors. The market also attracts a growing number of non-EU companies such as MTR (Hong Kong), ComfortDelgro Group (Singapore), Egged (Israel) and PTT Suisse amongst others.

Five key trends:
1. Market concentration is leading to ever bigger groups, suggesting that size represents a competitive advantage in the public transport market. It is also a way for multinational companies to acquire the local knowledge needed to enter new markets. The Transdev/Veolia merger created one of the largest public transport companies worldwide. Some smaller (public and/or private) companies have been bought and integrated into larger groups and thus have disappeared from the market. For example, in Central and Eastern European Countries and the UK (mainly bus operators) and more recently, as a result of the financial crisis, many public PT companies (mostly in Southern Europe) are being sold by authorities.

2. There is also vertical market integration led by state-owned railway companies. For example, SNCF – Keolis; DB – Arriva; FS – Netinera; NS – Abellio and expansion by state-controlled bus, light rail and metro companies such as RATP.

3. There are very few new market entrants in the urban public transport market, with some exceptions. In Germany, for example, where former managers of big private groups have created medium-sized transport companies buying small operators: Marwyn (Germany) and Qbuzz (Netherlands).

4. There are some new entrants in the railway sector (mainly joint ventures), particularly in the field of open access long-distance services, also offering (inter-)regional commuter connections: RegioJet (Germany), Westbahn (Austria), NTV (Italy).

5. There is some evidence of incumbent operators considering the establishment of “low cost” operators to compete with new entrants, although this is a complex issue for many state-owned companies.

Suburban and regional rail:
Not all suburban and regional rail services are yet open to competition and the market is expected to grow further.

The main access barriers encountered by non-incumbent rail companies are the financing and access to vehicles, the incongruence between contract length and
vehicle life time, the considerable costs to participate in a tender (up to €5m per undertaking).\(^1\)

Due to the large market share to be tendered in the next few years, analysts expect an “overload” of competitive tendering schemes. In particular, medium-sized and smaller competitors will concentrate on just a few of these tenders and the risk of seeing (very) limited participation (at least in some of these tenders) is high. In the past three years, several tenders witnessed very limited participation; some were even cancelled.

**Germany:**
The suburban and regional passenger rail market is considered – in comparison to other European countries - to be attractive for bidders. DB still operates 87% of all train kilometres.\(^2\) Between 2011 and 2015, almost 50% of all train kilometres are being put to tender, representing +/- 320 million train kilometres.

The competition is characterized by railway undertakings in public ownership. In addition to DB, the main publicly-owned competitors are:
- Abellio (NS-Netherlands)
- AVG (Stadt Karlsruhe)
- Netinera (former Arriva D) (FS – Italy)
- BeNex (Stadt Hamburg 51%)
- Keolis (SNCF-France)
- HLB (Land Hessen)
- SBB CFF FFS (Switzerland)
- VIAS (DSB-Denmark)

The only publicly listed company active in Germany, Veolia-Transdev, is also the “biggest of the small rail operators” (n°2 after Deutsche Bahn).

**United Kingdom (England, Wales and Scotland):**
More than half of the country’s 19 rail franchises are due to be renewed in the coming three years; competition for some of which has already begun. Privately-owned companies express some concerns about the threat from foreign state-owned competitors, which seem to bid more aggressively. For example, according to governmental sources, the winning bid by Abellio (NS Netherlands) for the Greater Anglia rail franchise, was almost a fifth higher than those of UK-based rivals.

Expected competitors on the UK market:
- Virgin Trains - joint venture between Virgin Group and Stagecoach
- Stagecoach, FirstGroup, Go Ahead and National Express (the London-listed transport groups)
- Abellio - subsidiary of Nederlandse Spoorwegen and Keolis, a company controlled by France’s SNCF. These groups already have a sizeable presence in the UK market through joint ventures.
- Arriva - subsidiary of Deutsche Bahn.
- Renfe - the Spanish state-owned rail operator, and MTR, the Hong Kong-listed, government-controlled transport group, are also looking at opportunities.

**Sweden:**

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\(^1\) Source NDV

\(^2\) See study ‘Bieterengagement im deutschen SPNV-Markt’ from KCW for BAG-SPNV
Since the market opening in Sweden over 20 years ago, all local and regional rail services are operated under tendered public service contracts from public transport authorities.

The rail market was fully liberalized in 2010 and any rail operator is allowed to introduce commercial rail services. In reality very few new operators have started services and SJ is the dominant rail operator with >90% of the long distance commercial operations.

The local and regional rail passenger market has changed dramatically during the last 20 years, from SJ being the only operator to a number of operators competing for contracts today. The number of passengers has increased dramatically mostly because of improved services, public investments in rolling stock and the operations under integrated contracts in the regional intermodal public transport system.

Effective and successful models were put in place based on better cooperation between operator and local authorities. These schemes led to shared responsibilities and increased revenue risk for operators. In general, increasing parts of the payments to the operator are directly linked to the fare box revenues. In addition, contracts are increasingly closely integrated in a holistic intermodal transport planning approach.

As in the rest of Europe, there has been a concentration of bigger companies in the last 10 years.

The main competitors on the Swedish market are railway companies in public ownership:
- SJ (incumbent Swedish rail operator) and subsidiaries, like ‘Stockholmståg’ operating the commuter train system in Stockholm
- Arriva (Deutsche Bahn)
- Tågkompaniet (NSB, Norwegian state railways)
- DSB VÅST, DSB SMÅLAND (DSB, Danish state railways)
- MTR (Hongkong - operates Stockholm Metro)
- Veolia (belonging to the Veolia Environment group)\(^3\)

The competition for contracts has often resulted in contracts with (very) low margins. The successful bidder has not always been able to deliver those tight contracts as was lately the case in West Sweden where the contract for regional rail services could not be fulfilled and the operator (a subsidiary of DSB) had to be replaced.

**Denmark:**
Denmark had traditionally tendered its services on the basis of very specific service and quality requirements set by the authorities. All stakeholders were extremely successful in lowering the cost and become highly efficient. As in

\(^3\) On December 6, 2011, Veolia Environment, seeking to reduce debt and focus on its core business announced it would sell its share in Veolia Transdev, within a two-year time frame. The Caisse des Dépôts et Consignations is the other major shareholder of Veolia Transdev.
Sweden, parts of the gross contract were changed to a gross-incentive (close to being a net) contract, giving the operator more freedom to better adapt the services to the needs of the customer.