



Deregulation of the Norwegian long distance express coach market



Jørgen Aarhaug*, Nils Fearnley

Institute of Transport Economics, Gaustadalleen 21, 0349 Oslo, Norway

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ABSTRACT

This paper offers new insight to the effects of long distance express coach deregulation in Norway, which formally happened gradually between 1998 and 2003. We study data over a period that spans from the years prior to deregulation and up to 2010. We document the degree of both competition and co-operation in the market, which has taken a particular form in Norway due to historical requirements on coach operations. We also document that the market has changed character as a consequence of inter-modal competition, in particular with air traffic. Our paper documents the successful development of an often neglected public transport mode, which has the potential to make long distance passenger transport more efficient more sustainable, and with hardly any subsidy requirements.

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1. Introduction

The Norwegian geography offers long distances, mountainous landscapes, deep fjords and bendy roads. Still, its demography demonstrates a history of political commitment to allow small and remote countryside communities to thrive. Apart from its major cities, Norway is a country that is hard to serve by high capacity public transport, like rail. However, scheduled coach services were for a long time strictly regulated in order to protect the railways. Before 1998, it was the responsibility of coach companies to prove that they were not in competition with the railways, in order to obtain licences to operate—similar to the requirements in Germany (Walter et al., 2011). In the 1980s, most express coach routes were extended local routes, and local bus companies operated most of them. Operators with area licences in neighbouring counties co-operated and joined their licences in order to operate through-services. Such cooperation was a de facto requirement for establishing express coach routes (Leiren and Fearnley, 2008). This regulation was first lifted in limited areas in 1999 when consideration of passengers' benefit became the important consideration. Then, in 2003, entry regulation was abolished all together, for county border crossing services, as is the official term (Leiren et al., 2007).

This paper studies the impact of these reforms and the subsequent EU-regulation 1370/2007 (EC, 2007) on the Norwegian express coach market, also drawing on experience from Sweden and the UK. We do so by analysing longitudinal data obtained from the express coach companies (service levels, demand and financial

information); the national confederation of operators (ownership, mergers, buy-outs, acquisitions, entry and exit); county authorities and central governments (information about integration with local public transport, subsidies and contract award procedures); and interviews with key persons in the industry and public sector, in 2011. The main source is data collected as part of Aarhaug et al. (2011a), a rich selection of statistics and developments of the industry in the period after year 2000. We also draw on analyses and data collected as part of work leading to Aarhaug and Fearnley (2012), Aarhaug et al. (2011b), and Alexandersson et al. (2010). Aggregation of these data has been a necessary due to the clause in using them. We do not, therefore, present local or disaggregate data.

The Norwegian term “express coach” was introduced by the industry. It describes Norwegian county border crossing bus transport, i.e. a bus which serves two or more of Norway's 19 counties. This is similar to the definitions used in, e.g., Italy and Sweden, although the latter also includes a minimum route length of 100 km (van de Velde, 2009), but differs from definitions that purely relate to route length, as in the UK (> 15 miles) and Finland (> 250 km). The typical Norwegian express coach has a high average speed and few stops compared with local bus services, and is mainly operated on a commercial basis.

Our paper starts out by providing a short description of the theoretical and empirical background for the paper. Then, we describe the historical development in the industry. Finally, we discuss the Norwegian developments in a national and international context looking at explanations for the observed effects, and conclude the paper by pointing at some general lessons that can be learned from the Norwegian experience.

* Corresponding author. Fax: +47 22609200.

E-mail address: jaa@toi.no (J. Aarhaug).

2. Theoretical and empirical background

Passenger transport markets in general are characterised by relatively strong levels of state interventions, relating to two fundamental issues, (i) market failures and (ii) the dissatisfaction of the market outcome from a socio-political point of view (van de Velde, 2004). However, in this paper we look into a market that has been allowed to evolve as a result of a relaxing of the regulatory measures typically introduced to correct the undesired market outcome (like exclusive rights, entry restrictions and price regulation). In a sense, this puts the express coach industry as a new technology being introduced. The reason for it not being introduced earlier is, however, restrictive regulations and not new technology. Looking at the express coach industry in this way, we see many similarities with the growth to maturity of a new transport mode, as described by Garrison and Levinson (2006).

The availability of international experience with express coach deregulation and liberalisation from other countries is limited. White and Robbins (2012) revisit their 1986 review of express coach deregulation in England, Wales and Scotland. They find that the markets, followed by an initial period of price and frequency competition, and growth, are dominated by one major operator and relatively stable levels of service and patronage. Alexandersson et al. (2010) observe about a decade after the 1998 Swedish long-distance coach deregulation that the express coach market is dominated by privately owned coach operators running services to and from the capital Stockholm. Their service and patronage levels are relatively modest, although some growth is observed in the late 2000s. (Since then, a wider deregulation was introduced in Sweden in 2012, which relates in particular to local passenger transport.) Swebus is the dominating operator with a market share of about 50 percent (Aarhaug and Fearnley, 2012). It is too early to evaluate any further effects of the full deregulation of Swedish public transport, which totally opened the market for commercial services anywhere in the country, which entered into in force in January 2012. Italy opened its national interurban market progressively between 2007 and 2013, with the market fully opened 1-1-2014 (Van de Velde, 2013; Beria et al., 2014). Therefore, it is probably too early to evaluate impacts in Italy, too. Beria et al. (2014) point at many companies that have entered the market, but that most of the lines offered are with low passenger volumes, and low frequencies. They also notice regional variation between southern and northern Italy in terms of which services are offered. The transformations that followed the end of the Communist regime in Poland cannot easily be compared with the express coach liberalisations that took place in other Western European countries. Taylor and Ciechanski (2008) describe a stepwise process of deregulation which started prior to the Polish Communist fall in 1990. The process started with liberalisation of road transport and commercialisation and later privatisation of state-owned companies following the 1988 Economic Activity Act. Further liberalisation and deregulation took place between 1998 and 2000, after which some fierce competition in the market has taken place. Still, almost all regular coach services are provided by the former State Road Transport (PKS) companies. PKS was split into a larger number of branches during the 1980s and 1990s, a few of which have been acquired by international operators (notably Veolia). Passenger numbers and passenger revenues have declined steadily despite the deregulation—mainly because of the great expansion in individual motoring (Taylor and Ciechanski, 2008). In Germany, the market for long distance bus lines has been opened from January 2013. In the wake of this, there has been a rapid expansion of new services, with a large number of new entrants into the market (Augustin et al., 2014). The traditional dominant actor, Deutsche Bahn's bus services, has reduced its market share, as the total volume of the long distance coach market has increased.

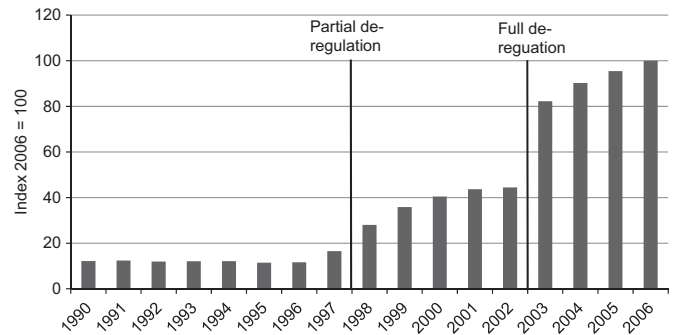


Fig. 1. Index of passenger development, selected lines. 2006=100 (data source: Leiren et al. (2007)).

3. Historical developments

In 2012, the Norwegian express coach industry was dominated by the marketing company Nor-Way Bussekspress (NBE), which is owned by some 20 plus coach companies and which dominated the express coach market since the first coach services were introduced. NBE does not operate any coaches themselves, but it markets their services. NBE was established well before deregulation with operations targeted at areas without rail service.

3.1. Rapid growth following deregulation

Fig. 1 illustrates the development in the number of passengers transported by the express coach industry in Norway in the period 1990–2006 for a limited number of routes. This figure presents data from selected routes studied in Leiren et al. (2007). These routes were selected in order to give a representative picture of the Norwegian express coach industry, but only connecting data on one in four lines.¹ The figure illustrates that before the first round of partial deregulation, there were already some few lines in operation. These include lines that were established as a substitute for closed railway lines, or in areas without railways. In many communities, these express coach lines constituted the only public transport service available. The first round of partial deregulation took place around 1998 and, as the figure illustrates, it resulted immediately in increased traffic. This growth is mainly a result of the introduction of new express coach routes. The next shift came in 2003, when the entry regulation was removed entirely and passenger numbers more than doubled almost overnight.

3.2. Consolidation follows growth

The post-deregulation growth is also clearly evident in the newer and more complete data, shown in Fig. 2. However, this data also shows that the growth halted in 2007/2008. Looking at the composition of traffic, it is clear that most of the volume growth has taken place on the shorter lines. The dominant factor behind this development is the TIMEkspressen concept, which Nettbuss introduced. This concept was introduced already before deregulation, but the deregulation allowed it to expand into many more communities. It consists of relatively high frequency services mostly targeted at the frequent traveller and commuter segments around some of the larger cities in Norway. The original concept had one departure per hour, 24/7, hence its name TIMEkspressen, but this has been modified with more departures on high volume times and fewer departures at night, but never less than one bus

¹ The lines are, Oslo–Trondheim, Oslo–Kristiansand, Oslo–Måløy, Oslo–Bismo, Oslo–Årdalstangen, Oslo–Beitostølen, Oslo–Skien, Oslo–Porsgrunn, Stavanger–Kristiansand and Bergen–Stavanger.

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