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Agility in the Swedish intermodal freight market – The effects of the withdrawal of the main provider

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ABSTRACT

Based on interviews and two workshops with the main stakeholders as well as media coverage, this article analyses the changes in the market from the deregulation leading up to the Swedish market exit of CargoNet, the former monopolist provider of intermodal freight transport, and the events that followed. The analysis applies business model theory. When CargoNet left the Swedish market in April 2012, some of the traffic was absorbed by other intermodal providers and the wagon load rail system. The routes to the far north of Sweden, however, were assuming an infrastructure role for the main forwarders and road hauliers, who formed the joint venture Real Rail with CargoNet to continue traffic. The business model applied by Real Rail differed from CargoNet's and other intermodal providers, mainly by the tight connection to the customers, who guaranteed volumes.

1. Introduction

Like in most European countries, the national railway administration dominated the Swedish intermodal freight transport (IFT) market the decades after it emerged in the 1960s. In a European comparison, however, the IFT sector was affected early and significantly by the deregulation of the Swedish railway sector that started in the 1980s (Jensen, Sjöstedt, & Woxenius, 1992; Jensen & Stelling, 2007; Stelling, 2007). Although freight transport is highly contextual and generalisation between countries should be done with care, the early and extensive deregulation implies that the authors expect this research effort to be internationally interesting. The Swedish context might not explain but at least illustrate the phenomenon of deregulating IFT in a wider European setting.

Through a number of organisational changes, the IFT business was incorporated and merged with the Norwegian freight railways to form the company CargoNet (CN). The Swedish state sold its shares to the Norwegian State Railways in 2010. The deregulation caused successively hardened competition in the IFT market and in October 2011, CN decided to rather abruptly leave Sweden, intending to discontinue the service only seven weeks after the announcement. At the time, CN controlled about 80% of the domestic, non-maritime-related market (Backman, 2013a), and operated a Scandinavian backbone network of shuttle trains covering both Sweden and neighbouring Norway. The withdrawal put the Swedish IFT users in terms of forwarders and road hauliers in an acute and awkward position. The domestic intermodal market, including maritime containers, at the time constituted 3.8 billion tonne-kilometres (Trafikanalys, 2013).

About a decade ago, Bontekoning, Macharis, and Trip (2004) asserted that intermodal freight transport research was emerging as its own application field within transport research, and scientific publication has intensified significantly since then. It is now a typical topic at transport and logistics conferences, it is the subject of several special issues in leading journals, and a journal dedicated to the subject has also been established. While the scientific literature on IFT is fairly extensive and articles on modal competition are plentiful, comparatively few scientific publications focus on the industry structure and effects at the level of individual firms. It appears that case studies and more detailed investigations of inter-firm competition are more frequent in reports in national or EU-funded projects such as DIOMIS (UIC, 2009). This article tries to bridge the gaps between macro and micro studies of the IFT market and between scientific research and more applied investigations framed in projects. Hence it follows the recommendations by White (2014) to include so called grey literature and by Woxenius (2015) to bridge the extending gap between curiosity-driven and impact-driven research.

The purpose of the article is to analyse the reasons for CN's withdrawal and how direct customers, shippers and other stakeholders reacted to and coped with this sudden withdrawal of the IFT service. The infrastructure role of the domestic IFT terminal-to-terminal service is also investigated.

Abbreviations: CN, CargoNet; GC, Green Cargo; ICF, Intercontainer-Interfrigo; ICS, Intercontainer Scandinavia AB; IFT, intermodal freight transport; RC, Rail Combi; RR, Real Rail; SJ, Swedish State Railways.

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Applying theory on business models and market dynamics, structured, semi-structured and more informal interviews with representatives for the main stakeholders and an extensive media coverage review are used for analysing the changes in the market from the deregulation leading up to the former monopolist CN's market exit and the events that followed. The actors who took over parts of the business are interviewed in particular depth. Two workshops were also organised by the round table for intermodal freight transport and green corridors of Closer, a Swedish arena for research, development and innovation within transport efficiency. The authors are part of that round table and assisted in the preparation of and presented the research design at the workshops. One of the workshops focused on infrastructure and transport providers on 20 March 2012 (Kyster-Hansen, 2012a) and the other, arranged on 11 September 2012, on shippers (Kyster-Hansen, 2012b). The first workshop assembled 43 participants and the second 16. A paper in the non-review track of the 13th WCTR in Rio de Janeiro in 2013 covered the first stages of the research. The final empirical research step of this longitudinal study involved interviews with industry representatives and a review of the business press up to the autumn of 2016. The research is founded on knowledge gathered through decades of own research on the Swedish IFT system.

The research is inspired by Churchman's systems approach (Churchman, 1979) and his assumption that all systems are unique and the findings from studying one system cannot necessarily be generalised to be valid for other systems. Other researchers, however, can learn from the facts and findings of the deliberately detailed case study and apply them to their own research objects. Representatives of the commercial stakeholders as well as policy makers can use experience gained from Sweden's early deregulation when exposed to similar conditions. Hence, Sweden can be seen as a rail policy guinea pig.

The following section gives the policy background in terms of the deregulation of the Swedish rail sector and the consequences for the organisation of IFT provision. The next section provides a theory section on business models while the following section provides the empirical setting of CN's withdrawal from the Swedish IFT market. The next section is devoted to the response by stakeholders such as forwarders and road hauliers in their roles as CN's direct customers, shippers and the public sector. The article is finished by an analysis and conclusions.

2. Deregulation of the Swedish railway sector

The deregulation of the Swedish rail sector started in 1988. The first step was to divide the integrated Swedish State Railways (Statens Järnvägar, SJ) into infrastructure (Banverket, Swedish Rail Administration) and operations (which kept the name SJ) with its freight division SJ Gods.[1] The second stage in January 2001 was to divide SJ into passenger (which kept the name SJ, but no longer as an abbreviation) and freight (Green Cargo, GC) operations, real estate (Jernhusen), vehicle maintenance (Euromaint), on-board service (Trafficare) and ICT support (Unigrid). For further details on the general features of the Swedish rail reforms, see Alexandersson and Rigas (2013). They were all transformed into limited companies, were expected to deliver profits to the state and became subjects to competition although SJ kept the monopoly on routes it could operate profitably. The three former companies are fully owned by the Swedish state, whereas the three latter were successively sold to private investors.

The deregulation of the Swedish IFT market started early and followed a slightly different logic than the other parts of the rail freight sector. Lacking the structure with UIRR companies (like Kombiverkehr, HUPAC, Novatrans and CEMAT) and national container companies (like Transfracht, CNC/Naviland and Italcontainer) prevailing in most European countries (see Aastrup, 2002 and Woxenius, 1994), SJ's intermodal division, SJ Kombi, strongly dominated the Swedish IFT market. SJ Kombi wholesaled domestic IFT terminal-to-terminal services to road hauliers, who in turn often were subcontractors to forwarders. SJ Kombi required the forwarders' and hauliers' trust that they would remain wholesalers when deregulation allowed them to start retailing directly to shippers. The forwarders and hauliers were suspicious since the parent company SJ Gods also retailed wagon load and system train transport to shippers (Woxenius, 1994) and they were increasingly disappointed with the service, attitude and prices raised with neither notice nor negotiations. Accordingly, the Swedish forwarders and hauliers threatened to formally file complaints of breaching the competition laws (Backman, 2013a). The compromise was that SJ Kombi was broken out of SJ Gods forming the limited company Rail Combi (RC) already in 1992. The company was separated from SJ Gods into the holding company Swedcarrier and 30% of the capital was sold to private investors, but the Swedish state bought the shares back a few years later.

The idea was that RC should be a neutral IFT production organisation wholesaling IFT services to road hauliers by operating a backbone network of terminals and routes. SJ Gods/GC was the main supplier of rail haulage. The company should carry its costs but did not aim for maximising the profits (Backman, 2013a). Hence, it aimed for a responsible infrastructure role and was constantly subject to its customers' and supplier's option to start competing operations. RC reported small but stable returns, mainly through comparatively full trains, but was in fact often accused of under-prising by road hauliers, SJ Gods/GC as well as shipping lines (ibid.). The customers and competitors expected CN to focus on customer service rather than sales, and a TV commercial campaign upset the customers as they failed to see why RC needed to build a brand.

In 2002, RC was merged with the entire freight operations of the Norwegian State Railways (NSB Gods) forming the limited company CargoNet (CN). NSB Gods had closed its domestic wagon load services to favour its IFT services so it was rather similar to RC, but it also offered system train services and brought in rolling stock to CN in terms of rail engines and wagons. It was a straight merger and Norway ended up with 55% of the capital and Sweden with 45%. Interestingly, the Swedish ownership returned to GC. The deal was, however, carried out with strong political commitment, partly since Norway and Sweden just had failed to merge their state-owned telecom firms Telenor and Telia. The political price of another failure was regarded as too high (Backman, 2013a).

GC never assumed an active ownership and CN was dominated by Norwegians although the Swedish operations were fairly independent. GC sold its shares to NSB in 2010. It was debated within the Swedish rail sector whether it was wise to run the IFT services with its infrastructure role as a limited company and even more so to enter a mixed ownership with Norwegians and finally to leave it fully to foreign ownership.

RC/CN maintained its dominating role for domestic IFT services throughout the deregulation and when most active it operated a network with about 60 different routes between 14 terminals with an annual flow of some 500,000 TEUs. Nevertheless, it successively lost grounds to new entrants starting new shuttles for maritime containers to and from Port of Gothenburg. RC/CN was affected by the cherry pickers and counter-acted by focusing less on geographical coverage and more on individual shuttle trains for semi-trailers and the wagon fleet was changed into pocket wagons only. Large customers also started operating their own-account trains, e.g., COOP (Sorkina, 2012; Flodén & Sorkina, 2014). The demise of the network operations is visible from Fig. 1, but the final withdrawal will be dealt with further into the article.

Notably, GC also acted as a competitor to CN for IFT services despite owning almost half of the company and being the main supplier of rail haulage to CN's Swedish operations. The firms had competed for a long time, GC's predecessor SJ Gods actually kept the shipping lines as its customers already when CN's predecessor RC was formed in 1992

[1] "Gods" is Swedish for goods/freight and does not imply a belief in several supreme beings.

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