Competition in Swedish Passenger Railway: Entry in an open-access market

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Abstract

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The results show that the incumbent's prices decreased by 12.8 percent on average between March 2015 and June 2016. The price level of the competitor is well below the average price that was offered on the railway market in the pre-entry period. Further, the largest price reduction, in percentage terms, was found on tickets booked 10 days before the departure date. Finally, the decrease in the average price of the incumbent seems to be an ongoing process, and a further drop in price would not be unexpected.

Keywords: Railway, Entry, Open access, Competition, Prices, Web crawler

JEL Codes: C10, L19, L92, R40
Competition in Swedish Passenger Railway

*Entry in an open-access market and its effect on prices*

Andreas Vigren*

August 29, 2016

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1 Introduction

The European railway market has seen some major restructuring and liberalization reforms in the last few decades, often originating from the three “railway packages” with new legislation launched by the European Union. Sweden is no exception and is, together with the Czech Republic, Germany, and Italy, one of the countries that has gone the furthest in liberalizing its market for passenger railway services. Since 2010, Sweden has had open access to the market, thus abolishing the state-owned enterprise SJ’s\(^1\) monopoly. As noted by Fröidh and Nelldal (2015), the services offered by the operators established since 2010 have been limited and can be seen as complements to SJ’s service. That is, these new services have not resulted in extensive competition with SJ. The exception is the Hong Kong-based operator MTR Express, which announced its entry on the Stockholm-Gothenburg line in April 2013. Operations began in March 2015, and this paper’s focus is on what effect this has had on the market prices. The development in the Swedish on-track competition is described in more detail in Section 3 of the paper.

The research question posed in this paper is whether entry on the Stockholm-Gothenburg line has lowered the ticket prices paid by ordinary travelers, as would be expected from increased competition. The question might be straightforward to answer with just fundamental economic theory, but few studies concerned with the impacts of open access in Europe have empirically proven this with more than descriptive and limited “before and after” comparisons. An extensive dataset was used in this paper with price information for both the pre and post-entry periods, spanning a total of 18 months. The main contribution is to give a more formal and rigorous empirical analysis than previously performed on the pricing development following a major entry in a passenger railway market. Price competition has attracted extensive attention in the airline literature, but not concerning railways. In addition, this paper adds to the transport literature using data collected with web crawlers. Finally, it gives more insights on railway pricing in Sweden, which for many years has been more or less unstudied due to the enterprise structure of SJ and lack of publicly available data.

\(^1\)SJ is originally an acronym for Statens Järnvägar (Swedish State Railways). The company has simply been named SJ since 2001.
Few empirical studies on entry in European railway markets have used more formal and systematic methodologies. However, this does not mean that the issue has not been explored. Two works (Tomeš, Kvizda, Jandová, & Rederer, 2016; Tomeš, Kvizda, Nigrin, & Seidenglanz, 2014) used descriptive statistics to study the open access competition in the Czech Republic that began in 2011 when the monopoly of the state-owned incumbent České Dráhy was contested on the Prague-Ostrava line. Tomeš et al. (2016) suggested that the open access competition lowered fares by 46 percent between September 2011 and 2014 and that service frequency and quality increased. The authors also claim that all operators on the line are unprofitable. Using graphical analysis with data collected by a web crawler, Beria, Redondi, and Malighetti (2014) studied the entry of a new operator (NTV) in the Italian high-speed rail market and the impact this has had on the incumbent’s (Trenitalia) prices. After the entry, no change on the pricing of second-class tickets could be observed, only on the first-class tickets. In addition, spikes in prices on weekends were found to be smoothened, and the entrant was seen to have an aggressive pricing behavior. Lastly, for Germany, Séguret (2009) noted that head-on competition with the state-owned incumbent Deutsche Bahn was not easy to sustain in the long run. Rather, competing operators could only run low-cost trains between cities that were not on Deutsche Bahn’s network.

While the previous four studies were mostly descriptive, Bergantino, Capozza, and Capurso (2015) used an econometric methodology to investigate inter-modal price competition in the Italian air and high-speed railway markets, and they provided a description of the intra-modal competition in the latter market. The authors found no predatory pricing behavior by the incumbent, nor a reduced supply. Instead, claims of strategic pricing were made after correlating the incumbent Trinitalia’s lagged fare \((t - 1)\) and the entrant’s (NTV) fare at time \(t\). Their econometric analysis also showed that railway fares were lower with increasing inter-modal competition.

Related to the empirical studies discussed above are those using simulation as a tool for inferring price and supply effects of competition in railway markets. Of special interest for the Swedish railway market is the study by Preston (2008) where the potential for on-track competition was analyzed. Assuming identical service qualities, stopping patterns, and speed of services of both the incumbent and the entrant, some scenarios for Swedish inter-city trains were simulated. With open entry on an inter-city line, having one fast and one slow type of service in parallel, Preston suggested
that the most likely scenario is that the entrant matches the incumbent’s frequency and that fares for both operators are reduced by 20 percent compared to the pre-entry fares. In addition, such a scenario would decrease profits by 23 percent, and give a 31 percent higher total social welfare. On busier lines, head-on competition is a more likely outcome scenario, while “cream-skimming” is more likely otherwise (Preston, 2008, 2009; Preston, Whelan, & Wardman, 1999). For competition on international lines, Johnson and Nash (2012) found, for international lines, that consumers would benefit from lower fares and higher service frequency if entry would occur. However, the costs for that entrant would also need to be lower than the incumbent’s in order to earn profits. In evaluating the privatization of the British railway system, Preston and Robins (2013) found similar evidence.

As mentioned above, empirical studies on entry and its effect on prices have paid more attention to airline markets, especially for the US market (see, for example, Borenstein and Rose (1994); Dai, Liu, and Serfes (2014); Gerardi and Shapiro (2009). One probable explanation for this is the extensive data provided by the Bureau of Transportation Statistics. Brueckner, Lee, and Singer (2013) reviewed impacts on price following entry by low-cost carriers. Using European data, Schipper, Rietveld, and Nijkamp (2002) found a 34 percent decrease in fares and a 36 percent increase in service frequencies between 1988 and 1992 following the liberalization of the European airline market. Norman and Strandenes (1994) simulated the Scandinavian airline market and found that airline fares would decrease substantially with the upcoming deregulation in the 1990s, while service frequency would increase slightly. Finally, in analyzing the Norwegian deregulation of the airline industry, Salvanes, Steen, and Sørgard (2003) found semi-collusive behavior between the two airlines SAS and Braathens.

The rest of this paper is organized as follows. Section 2 provides a discussion on intra- and inter-model competition and product differentiation. Section 3 gives an overview of the competition in the Swedish railway market. Section 4 describes the data used in the empirical framework presented in Section 5. The results are given in Section 6, and a discussion follows in Section 7. Finally, Section 8 concludes the paper.
2 Competitive Nature of the Rail Sector

This section provides a discussion on the characteristics of competition in the Swedish railway market and the scope for price competition in relation to other means of competition. Before the open-access reform in 2010, the state-owned rail enterprise SJ held a monopoly in providing passenger rail services. Although the operator is fully owned by the Swedish Government, it has instructions to act on a commercial basis. Accordingly, standard economic theory suggests that quantity (the number of departures) is under-supplied and prices higher than in a situation of perfect competition. Although enjoying a monopoly on all passenger rail services, the incumbent (SJ) could not behave entirely as a monopolist. The main reason is that other public transport modes such as coach and air (but also the car) compete for the same passengers. The competitiveness of different modes differs mainly with respect to the travel distance and the cost or fare structure.

The competitive pressure from other modes can be in the price, quantity, or quality dimensions. In the literature on industrial organization, the strategic behavior of market incumbents and potential entrants is an established field and is described in, among others, the work of Tirole (1988) and Belleflamme and Peitz (2010). A natural starting point is to consider a duopoly framework where operators compete in prices (Bertrand competition) or quantities (Cournot competition). The former type of competition is common where capacities are easy to adjust, while the latter, Cournot competition, is more suitable in the opposite case (Quinet & Vickerman, 2004). An example of the former is the express bus market where it is easy for the operator to adjust its timetable and bus supply. In contrast, long-distance passenger rail service is more inflexible in the short-run in terms of departure times and the number of daily departures because the railway capacity allocation process is made 6months to 2 years before departure. With this reasoning, competition in rail services is made in a Cournot fashion, in which a standard result from a Cournot duopoly is that quantities are higher and prices lower than in the monopoly case, although not at the levels implied by perfect competition (Tirole, 1988).

Preston (2008) notes, however, that Cournot competition is not the most appropriate for on-track competition. One must also consider the demand side of the long-distance rail market, which to a large extent is characterized by a “book-ahead” market in which price competition can be
more efficient. This is also in line with the general criticism against Cournot competition, which essentially points out that firms are more likely to set prices rather than the "auctioneer" price setter determining the market clearing price (Tirole, 1988). With pure Bertrand competition, the "Bertrand paradox" (market price equals marginal cost, even with a duopoly) immediately arises due to the non-realistic assumptions of the Bertrand model (Tirole, 1988). While Edgeworth (1897) suggested limited production capacities for firms, which would leave residual demand for firms from which they could charge higher prices, Kreps and Scheinkman (1983) showed that, under certain conditions, a two-stage game with quantities set in the first, and Bertrand competition in the second, yields the Cournot outcome (Tirole, 1988). Both approaches resolve the Bertrand paradox, but the transport (and other fields') research literature seems to have focused on product differentiation, which also relaxes the assumption about homogeneous products that is made in both the Cournot and Bertrand cases. Although this paper is not concerned with differentiation directly, the concept will be discussed because it could have implications on the degree of price competition.

First, vertical product differentiation refers to differences in product quality such that, given equal prices, a consumer always prefers one of the products. A simple example would be differentiation into first and second-class tickets. In contrast, the horizontal type, which will be in focus here, focuses on product characteristics where, given equal prices, people consume different goods based on their preferences. A typical example would be different departure times.

On the subject of intra-modal competition and product differentiation, much attention has been on the airline market, and many of these studies have had a theoretical focus. A few examples are the studies by Borenstein and Netz (1999) and Brueckner and Flores-Fillol (2007) on schedule competition, Sengupta and Wiggins (2014) on price dispersion in online and offline booking, Wei and Hansen (2007) on size of aircrafts and frequency of service, and Pels, Nijkamp, and Rietveld (2000) with multiple airports. As a consequence of product differentiation in various forms, the importance of price as a means of competition decreases. An example is provided by Lindsey and Tomaszewska (1998) who, using simulations, showed that rescheduling flights has greater potential than fare cutting in reducing the profits for an entrant, given that the incumbent operator is indeed acting in a predatory fashion. In analyzing short-distance bus services, van Reeven and Janssen (2006) noted that the latter, fare cutting, has a greater scope for product differentiation, and thus greater
possibilities for avoiding excessively hard price competition. They also found that operators would want to schedule their departures just before their competitor’s in order to get their competitor’s customers. These authors’ model did, however, find that operators also compete in price.

Although not as vast, there also exists some literature on product differentiation in rail services and the implications of such differentiation on price competition. The reputation of an incumbent might affect the use of price as a mean of competition, and thus the Stockholm and Gothenburg line where the incumbent SJ has been operating for several decades (Fröidh & Byström, 2013). Ruiz-Rúa and Palacín (2013) found that there is a competitive advantage for incumbents and that an entrant needs to use price to balance out their disadvantage, and this ultimately puts downward pressure on market equilibrium prices. Preston (2008) used simulation for a Swedish scenario to conclude that although price competition is present, frequency is also a means of competition among operators. Arguably, with the train-path allocation process, frequency is a more long-term mean of competition.

The conclusion that can be drawn from the discussion in this section is that competition is often not only about price, and there are other dimensions that play a role when the decision to travel is made. With respect to this, the impact on prices from competition might be reduced, but it should still be an important factor to compete with. In the following section, the entry process on the Stockholm-Gothenburg line is presented along with some observations on the competition carried out by the operators.

3 Developments in Swedish On-Track Competition

This section describes the most important events in the on-track competition for Swedish passenger railway services. The Stockholm-Gothenburg line, operating on the railway section called the Western main line, is given special attention. For a more detailed review on reforms and overall developments in the Swedish railway sector, see Nilsson (2002), Alexandersson and Rigas (2013), and Nilsson, Pyddoke, and Ahlberg (2013).

The number of commercial operators in the Swedish passenger railway market is still quite limited. There have been some entries into the market during the last decade, but most of these have not had a very substantial impact on the market. Transdev was among the first to launch commercial traffic,
first in 2007 with night trains between Gothenburg/Stockholm and Storlien, and later in 2009 with another service from Stockholm bound for Malmö that was branded Snälltåget (Fröidh & Nelldal, 2015). Today, on a typical weekday, these two services have one departure in each direction. On the Falun/Karlstad to Gothenburg line, TÅGAB (Tågåkeriet i Bergslagen) launched a passenger service in 2012 that today has about two departures in each direction two to three days a week. Fröidh and Nelldal (2015) note that TÅGAB’s service is more of a complement to SJ’s supply and that some regional commercial traffic also exists, although this is marginal.

On the Stockholm-Gothenburg line, the on-track competition has become more noticeable in the last five years, especially since 2014. The first operator to launch commercial services on the line was Skandinaviska Jernbanor in December 2011 using the name Blå Tåget (the Blue Train). Although the service has been running for almost five years, this is not a direct competitor to SJ because it is more of a niche concept giving an “old-fashioned” train experience. Also, the trip takes about 2 hours longer than SJ’s service. Today, one departure in each direction is offered a couple of days a week. What has resulted in a substantial entry on the line is the service launched by MTR Express. A second operator, Citytåg, announced a new train service on the same line, but the plans were later canceled. The more important events relating to these two operators, and the traffic launch in early 2015, are described next and are illustrated in a timeline in Figure 1.

* The Swedish Transport Administration

Figure 1: Timeline of events regarding competition on the Stockholm-Gothenburg line. Sources in text.
In April 2013, it was revealed that the Hong Kong-based operator MTR and the new Swedish operator Citytåg had submitted applications for train paths\(^2\) on the Stockholm-Gothenburg line in the annual timetabling process. In September, the Transport Administration announced that both operators were granted train paths to use in 2014, with Citytåg announcing that it would start operations in June of 2014 and MTR announcing that it would start in the fall of 2014. With new competitors on the track, the CEO of SJ predicted that prices would fall by 10 to 15 percent, thus indicating that the company would indeed be affected by the entry (Augustsson, 2013).

In January 2014, Citytåg postponed its start of operations to the fall (Augustsson, 2014a). Two months later, the company announced that it had canceled its plans to enter the market. The CEO of Citytåg cited the simultaneous entry by MTR, institutional uncertainty in access to depots and maintenance, and the fact that their tickets were not permitted to be sold on SJ’s sales platform sj.se (Augustsson, 2014b)\(^3\) as reasons for the withdrawal. The two latter issues were also identified as potential market distortions by Nilsson et al. (2013). It should be mentioned that SJ lets more or less all other actors on the market sell tickets on the platform, including Snälltåget, TÅGAB, and several express bus operators. In April, the only remaining entrant, MTR, announced it would postpone its start of services until March 2015. Just as with Citytåg, MTR said that the postponement was due to not being allowed onto SJ’s sales platform and that it needed time to develop its own sales channels (Augustsson, 2014c). MTR complained to the Swedish Competition Authority, arguing that SJ was discriminating against the company, thus reducing the degree of competition (Swedish Competition Authority, 2014). The authority ruled against MTR’s complaint with the motivation that access to SJ’s sales platform is not indispensable to enter the market and that MTR itself could well develop and market its own sales platform (Swedish Competition Authority, 2014).

In December 2014, MTR started selling tickets at the central stations in Gothenburg and Stockholm in the form of coupons to be redeemed on their upcoming website. The website was launched one month later and revealed MTR’s pricing scheme. In addition to not having a traditional first-class segment, the price of the cheapest ticket was set at 185 SEK, 10 SEK lower than the

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\(^2\)A train path is, roughly, the right to run a train between two points in the rail network at a given time and date.

\(^3\)SJ’s sales platform, sj.se, is generally viewed as the national booking site for train trips.
corresponding ticket with SJ\textsuperscript{4}. Just as with SJ, MTR seems to have a dynamic pricing system in which price is adjusted based on the number of available seats. That is, the more fully booked the train, the more expensive the tickets.

Finally, in March 2015, MTR started operating its train service MTR Express. About three departures a day in each direction were offered in the first six months until the fifth and last train had been delivered in August 2015. At full capacity, MTR offers up to seven departures in each direction. For comparison, SJ offers about 18 departures in each direction with its express train service. Although MTR Express has half of SJ’s supply, the entry should arguably be considered a substantial entry compared to the previous entries and to have increased the competition in the passenger railway market.

The average price per week for both operators from July 2014 to June 2016 is illustrated in Figure 2 using the data presented in Section 4. The points in the figure are the weekly average price posted on each operator’s website. Because both operators utilize some kind of yield management system, the prices vary with time of day and season, resulting in higher prices, for example, during holidays. In the pre-entry period of Figure 2, ranging between July 2014 and March 2015, only SJ (the solid line) operated along the route, and the weekly average price fluctuated between about 400 SEK and 550 SEK. There were some exceptions, most notably during Christmas time. When MTR (the dotted line) entered the market in March 2015, its average prices started at around 300 SEK. After a short time, their average price increased at a steady level for some months, which was most probably due to a reduction in supply during the summer weeks. Around late August of 2015, MTR’s average price dropped back to around 300 SEK where it has remained.

From a visual inspection of Figure 2, it seems as if SJ’s prices have been decreasing gradually following the entry of MTR. Although spikes are still present, the average price now lies around 450 SEK after an increase in the last months of the sample period. In order to determine whether there is a significant difference between SJ prices in the pre and post-entry periods, a more formal analysis will be presented in the remainder of this paper, starting with a presentation of the data.

\textsuperscript{4}1 SEK is approximately 0.1 euro
Figure 2: The weekly average prices of SJ and MTR, ranging from June 2014 to June 2016. 1 SEK≈0.1€. Source: sj.se and mtrexpress.se, compiled by the author.

4 Data

For Sweden, publicly available data on the demand side of rail transport (passengers and prices) are scarce, if not non-existent. To the author's knowledge, only two sources are available: the official statistics on railway traffic from Transport Analysis, and the report “Development of supply and prices on Swedish railway trains 1990-2015” published by the Swedish Transport Agency. Although both sources provide panels over multiple years, they lack richness in the geographical and/or within-year dimensions. Therefore, these data are not suitable for evaluating more than long-term and overall market developments.

5 The Swedish title is “Utveckling av utbud och priser på järnvägslinjer i Sverige 1990-2015”
In order to analyze more short-term developments, a web crawler program written in Python was created for this paper. The web crawler requests the lowest available price on a specific departure from the online booking sites sj.se and mtexpress.se. It utilizes the Yahtra API, developed by Martin Thuresson. Put simply, the program sends a request to a website asking for the lowest price (fare) available, irrespective of booking class, for buying an adult, non-refundable one-way ticket, with no change of trains, on a specific line at a specific time and date. A line is defined as an origin-destination pair, irrespective of which way the trip is going. A train is a trip between A and B at a specific departure time, and only for that direction. That is, a train going from B to A at the same departure time is considered to be a separate train. This request is made
for each departure every day starting 31 days ahead of departure, meaning that every departure have up to 31 observations. The input file feeding the requests to the program is constructed using the Swedish open-access GTFS-data (General Transit Feed Specification, or timetable data) provided by Samtrafiken, to which all public transport services, except for flights, need to report. Consequently, the GTFS gives the supply for the whole transport sector, excluding air.

The information collected in one request is the price and whether there are available seats on the train (or, similarly, if the departure is fully booked). Further, the dataset used in this study also contains information about the operators, train number, departure, and arrival stations and time. From this, more variables can be constructed, such as the travel time or the number of days ahead of departure for which the price is observed. Because the program only observes the lowest price, most of the observations are for second-class tickets. There might, however, be occasions where first-class tickets are observed because second-class is fully booked. The relevant product here is thus the railway trip between two places at the lowest cost available.

From July 2014 to June 2016, the program was set up to collect prices on six different lines for the operators SJ and Snälltåget. Similarly, prices from MTR Express were collected since February 2015, one month before its start of operations. The lines for which prices were collected are, in order of distance, Stockholm-Malmö, Stockholm-Gothenburg, Stockholm-Sundsvall, Stockholm-Karlstad, Gothenburg-Malmö, and Stockholm-Borlänge. The lines are illustrated in Figure 3, and were selected partly because they are popular origin-destination pairs (Swedish Transport Agency, 2014), but also because these are some of the lines where SJ operates express trains frequently. Table 1 presents

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<tr>
<td>Stockholm-Malmö</td>
<td>435</td>
<td>297</td>
<td>402</td>
<td>217</td>
<td>150</td>
<td>1643</td>
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<td>185</td>
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<td>199</td>
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<td>1453</td>
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<tr>
<td>Stockholm-Karlstad</td>
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<td>–</td>
<td>238</td>
<td>168</td>
<td>195</td>
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<tr>
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<td>238</td>
<td>53</td>
<td>195</td>
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<tr>
<td>Stockholm-Borlänge</td>
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<td>–</td>
<td>195</td>
<td>55</td>
<td>195</td>
<td>865</td>
<td>72,903</td>
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<td><strong>Dataset aggregate</strong></td>
<td><strong>385</strong></td>
<td><strong>345</strong></td>
<td><strong>202</strong></td>
<td><strong>150</strong></td>
<td><strong>1646</strong></td>
<td><strong>72,903</strong></td>
<td><strong>1,271,687</strong></td>
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Table 1: Line characteristics between July 2014 and June 2016 (non-directional). 1 SEK≈0.1€
some descriptive statistics for the markets on the selected lines, sorted by travel distance. Prices and departures are presented only for express trains and non-directional.

The second column shows the average price per line, and for all operators. The third shows the corresponding, but for operators other than SJ. Prices tend to be higher the longer the line. This is not only shown in the average price, which increases with distance, but is better shown in the maximum price column where the maximum price on the Stockholm-Borlänge train is roughly half that of the two longest lines. The lowest price (150 SEK) is found on the Stockholm-Malmö train, and is bookable at sj.se for traveling with Snälltåget. This is 45 SEK lower than SJ’s lowest price attainable on all its express train lines, which is the minimum price on the four other trains. Consequently, these four are the lines where SJ faces no on-track competition. The Stockholm-Malmö line is also grouped into this category because of the limited competition from Snälltåget. Finally, on the Stockholm-Gothenburg line, MTR currently holds the lowest price of 185 SEK.

Table 1 also presents statistics on the number of daily departures in both directions on a line. The Stockholm-Gothenburg line enjoys the highest number of daily departures, 41 on average. It is important to note that the high frequency is not likely to be a reaction to the entry of MTR⁶, but rather a consequence of high demand for long-distance rail along this route relative to the rest of the country. Comparing the time tables over the last couple of years, available from the Swedish Transport Administration, no clear deterring strategy can be seen. The frequency (or supply) is high on the Stockholm-Malmö line as well, with an average of 30 daily departures. Because the four other lines serve smaller cities, and thus have lower demand compared to the two largest lines, the average daily frequency decreases accordingly.

The estimation framework in which the data are used makes use of the fact that MTR only entered one line, thus not affecting the other lines and allowing them to serve as control groups. In the estimations, data for all three operators (SJ, MTR Express, and Snälltåget), were used.

⁶A deterrence strategy might be to increase frequency in order to deter or lower profits for the entrant (Belleflamme & Peitz, 2010).
5 Estimation framework

In order to infer the impact on the incumbent’s prices following the MTR entry, a difference-in-difference approach was used based on the fact that the entry only occurred on the Stockholm-Gothenburg line. Arguably, journeys on two different lines are not substitutes because the nature of the trip is to visit a particular place, and pricing decisions on different lines are independent of each other. Thus, events occurring on a single line should be able to be isolated and identified when compared with other non-affected lines. Let $T_{mt}$ be a treatment dummy variable taking the value 1 for SJ trains from date $t = t^E$ when MTR starts operating line $l = \text{Stockholm-Gothenburg}$, with the full sample period being $t = \text{July 21 2014, \ldots, June 3 2016}|_{t=\text{working day}}$. In the estimations, only working days are used in order to have a more homogeneous sample. The variable $T$ takes the value 1 for the Stockholm-Gothenburg line from March 21, 2015, and onwards. Thus, the associated coefficient measures the average change in SJ’s prices after MTR’s entry. In the initial model, time and train ($m$) fixed effects are included to control for unobserved factors affecting price. More fixed effects are included later to extend the model, to isolate the average price effect, and to infer booking patterns. The baseline estimating equation (Model I) is defined as:

$$\ln(P_{lmtd}) = \theta_1(T_{mt}) + \beta_1(d) + \beta_2(d^2) + \lambda_t + \delta_m + \epsilon_{lmtd} \quad (1)$$

where $\ln(P_{lmtd})$ is the logged price of booking a ticket on line $l$ and train $m$ at departure date, or time, $t$, observed $d$ days before departure\(^7\). The Greek letters are coefficients to be estimated, with $\theta$ measuring the average price effect following MTR’s entry on the Stockholm-Gothenburg line and $\lambda_t$ and $\delta_m$ being the time (day) and train fixed effects, respectively. The former is though to capture seasonality, as well as variations in supply. By construction, the train fixed effects act as line fixed effects as well because all trains are run on only one line\(^8\). Finally, $\epsilon_{lmtd}$ is an error term. Standard errors are clustered at the train level to account for serial correlation within groups, which could inflate the standard errors.

\(^7\) $d$ is the number of days difference between the date the price was observed and the departure date of the train. For example, for a train departing January 20 and a price observed on January 1, $d$ is equal to 20, and for the same departure with a price observed January 10, $d$ is equal to 10.

\(^8\) The subscript $l$ could therefore be removed, but it is included because it allows for a more intuitive presentation of the models.
In the estimations, only working days (weekdays) and express-train departures are used in order to impose a more homogeneous sample. The purposes of working day and weekend trips are usually different, and the potential difference in pricing behavior is avoided by excluding the latter trips. The same holds for express trains versus trains with lower average speeds.

$d$ and $d^2$ represent the number days until departure and the square of the number of days. These will be referred to as the “days-variables”, the “days-coefficients”, and the “days-relationship” in the remainder of the paper depending on the context. It is well established in the research on railway (Bergantino et al., 2015; Beria et al., 2014) and airline pricing (Dobson & Piga, 2013; Gaggero & Piga, 2010; Malighetti, Palari, & Redoni, 2009) that the price varies negatively with booking day. In other words, booking a ticket further in advance often gives a lower price than booking closer to the departure date, and this is the relationship that the two variables $d$ and $d^2$ capture.
\( d^2 \) are intended to capture. This relationship is illustrated in Figure 4 using a reversed x-axis (ranging from 31 to 0). The figure illustrates the mean price for each given day before departure for SJ on the Stockholm-Gothenburg line, which increases monotonically as the departure date approaches. Alderighi, Nicolini, and Piga (2015) showed, by including a variable for the number of seats sold (or, the load factor) and dummy variables for booking days in an airline context, that this phenomenon is driven by two effects: the load factor and other inter-temporal (or time factor) variations. If the load factor is not observed, the days-variables also capture the first effect because the load factor most likely increases as the departure date approaches. Because the load factor is unobserved in the dataset used in this study, these two effects are not possible to separate. That is, the coefficients associated with the days-variables include both the load factor and inter-temporal effects. This should not, however, affect the causal effect on price changes after MTR’s entry, only the causal effect on changes in load factors and inter-temporal factors. In addition, the fixed effects imposed on the additional models to be estimated should also account for the unobserved variation.

A first extension to the initial Model I above is made by including variables where the two days-variables are interacted (multiplied) with the train fixed effects. This forms Model II, which takes into account more heterogeneity by allowing the days-relationship to differ across trains (departures). A more popular train is thought to have a steeper relationship between price and the day before departure that the ticket is purchased, implying that prices are increasing faster. The estimating equation for Model II is:

\[
\ln(P_{lmtd}) = \alpha + \theta_1(T_{mt}) + \beta_1(d) + \beta_2(d^2) + \lambda_t + \delta_m + \delta_m \ast (d + d^2) + \epsilon_{lmtd}
\]  

A second extension involves allowing the two days-coefficients to change at the point when MTR enters the market. By interacting the variable T with the two days-variables and with associated coefficients \( \theta_2 \) and \( \theta_3 \), the post-entry change in price for each booking day can be inferred, allowing for an inter-temporal analysis of what has happened with prices after the entry, for example if prices
are reduced more close to departure date. The resulting estimating equation is Model III:

\[
\ln(P_{tmt}) = \alpha + \theta_1(T_{mt}) + \theta_2(T_{mt} \ast d) + \theta_3(T_{mt} \ast d^2) + \beta_1(d) + \beta_2(d^2) + \lambda_t + \delta_m + \delta_m \ast (d + d^2) + \epsilon_{tmtd}
\]  

(3)

Supposing that \( \theta_1 \) is insignificant, a significant convex relationship between \( T_{mt} \) and the days-variable interactions like the one in Figure 4 would imply that prices have changed the most 0 days ahead of departure. In the example, price has changed further out from departure date as well, but by a smaller magnitude. This is using the reversed x-axis. If the axis is not reversed, the opposite argument holds. A significant value of \( \theta_1 \) adds to that price change.

For comparability across models, the statistic

\[
\Delta p = \exp(\hat{\theta}_1 + \hat{\theta}_2 \cdot \bar{d} + \hat{\theta}_3 \cdot \bar{d}^2)
\]  

(4)

was calculated for each model. This gives the average percentage price change following each model, that is, for the average number of days before departure (about 15 days).

Model III was also used to investigate how the average price has changed over the post-entry sample period. Using Equation (3) the model was estimated using restricted sample periods starting April 21 2016, and adds one month at a time until ending at May 21 2016. That is, the first estimation used the sample period July 21 2014 to April 21 2016, the second from July 21 2014 to May 21 2016 and so on. Using combinations of the full post-entry sample period, a total of 15 estimations were conducted, and the statistic from Equation 4 shows the average price change for each of the restricted sample periods.
5.1 Endogeneity issues

Two potential cases of endogeneity (simultaneity) bias have been observed, both relating to operator supply. The operator’s supply can be defined in two different ways – as the number of departures on a given day or as the number of seats offered at a particular departure. The question that needs to be addressed is to what extent the operator can adjust any of the supply with respect to exogenous shocks.

First, the possibility to add departures for a specific day is relevant if the operator faces an exogenous demand shock to which it wants to, on short notice, add an extra departure. It is argued that this possibility is very limited, mainly due to the railway capacity allocation process (or timetabling process). In order for an operator to run a train between two stations at a given time, there is an annual application process launched by the Swedish Transport Administration. The Transport Administration coordinates and decides upon the next year’s timetable, and it is also responsible for solving potential scheduling conflicts. Such conflicts arise when at least two operators want to use one or more sections of the track at the same time. Not only does the operator compete against other applicants on the same line and time, but also against other operators wanting to use any train section on or crossing the line. Given a decided timetable, this limits the operator’s freedom to adjust its supply and the possibility to add another departure. Another limitation for the operator to respond to shocks is that this planning process is made about one year ahead of the running timetable. For more about the capacity allocation process, see Nilsson (1999) and Hultén (2011).

The second possibility for the operator to adjust to a sudden increase in demand would be to adjust the number of wagons attached to the train. Recalling that this paper is concerned with the express train services of SJ, the relevant rolling stock are the X 2000 (X2 by ABB) and SJ 3000 (X55 Regina by Bombardier) trains. Both train types have a fixed number of wagons, meaning that no wagon can be added or removed. The only possibility is to attach another train to the first one (making it a double-train), which indeed would increase capacity. However, there are two reasons why this would not be a likely way to deal with a sudden increase in demand. First, the decision by
the operator to run double-trains are made before the 31-day time frame observed in the sample data. Second, the increase in demand would need to be rather large to justify adding another train (about 700 seats) to the particular departure fewer than 31 days before departure.

To summarize the discussion presented here, it is argued that the operator’s possibility to add capacity is marginal, both with respect to new departures and in varying the number of wagons. Thus, the simultaneity bias should, with respect to this, be small.

5.2 Identification

As was discussed in Section 4, in order to identify the effect that MTR’s entry has had on SJ’s prices on the “treated” Stockholm-Gothenburg line, it is necessary to include control groups (lines) that are not affected by the entry. An assumption is that all lines follow a similar price trend in the pre-entry period. If it were the case that the treated line was already subject to, for example, a downward trend in price, then it would be harder to justify a causal relationship between the entry and a potential price change in the post-entry period. This is also known as the parallel-paths assumption (Angrist & Pischke, 2008).

Figure 5 plots the average monthly price for the treated line and the five control lines combined, starting in July 2014. Prices are normalized to 100 for July 2014, and a vertical line is added indicating 21 March 2015 when MTR entered the market. For the parallel-path assumption to hold, the trend for the two trains left of the vertical line should not differ.

In order to be confident that there is no pre-entry trend in the treated line, the method originating from David (2003), and discussed in more detail in Angrist and Pischke (2008), was employed. Equation (1) is used and modified to:

\[
\ln(P_{\text{mtd}}) = \sum_{n=1}^{N} \theta_n(T_m(-n)) + \theta_1(T_{mt}) + \beta_1(d) + \beta_2(d^2) + \lambda_t + \delta_m + \epsilon_{\text{mtd}}
\]  

(5)

The difference is that the summation term is added, where \(n\) is a specific month before entry and \(N = \text{August 2014, …, March 2015}\). The idea is to introduce lead dummy variables of the treatment variable \(T_r(-n)\) for the treatment line in a specific month in the pre-entry period, and 0 for all other lines and months. Seven leads are included. Also, \(T_{mt}\) from before is included. The
Figure 5: Monthly development in mean price. July 2014 = 100.
reference month is July 2014. A statistically significant value of the dummy in, for example, January 2015 ($\theta_{-2}$), would indicate that the average price for the treatment line is different from the control lines for this month compared to July 2014. If the parallel-path assumption holds, the coefficients in the pre-entry period, $\theta_{-7}$ to $\theta_{-1}$ should be insignificant.

The estimation of the $\theta_{-n}$ coefficients are presented in Table 2. From the results, it is clear that the parallel-path assumption holds because none of the pre-entry coefficients are significantly different from 0 at the five percent 5 percent level, thus confirming the hypothesis of similar pre-entry price trends. Lastly, the original treatment coefficient, $\theta_1$, is negative and significant implying that there is a structural break after March 2015.

<p>| | | |</p>
<table>
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<tr>
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<tbody>
<tr>
<td>$\theta_{-7}$</td>
<td>-0.038</td>
<td>(0.033)</td>
</tr>
<tr>
<td>$\theta_{-6}$</td>
<td>0.003</td>
<td>(0.036)</td>
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<td>$\theta_{-5}$</td>
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<td>$\theta_{-4}$</td>
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<td>$\theta_{-3}$</td>
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<td>$\theta_{-2}$</td>
<td>-0.066</td>
<td>(0.044)</td>
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<td>$\theta_{-1}$</td>
<td>-0.079</td>
<td>(0.042)</td>
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<td>$\theta_1$</td>
<td>-0.176**</td>
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<tr>
<td>Constant</td>
<td>6.740**</td>
<td>(0.044)</td>
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</table>

| R$^2$ adj. | 0.682 |
| Observations | 1,601,652 |

Table 2: Results from the parallel-path test
Table 3: Results from models I, II, and III

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
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<tbody>
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<td>MTR</td>
<td>-0.13464**</td>
<td>-0.13676**</td>
<td>-0.13865**</td>
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<td>(0.012)</td>
<td>(0.012)</td>
<td>(0.015)</td>
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<td>MTR*days</td>
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<td>MTR*days^2</td>
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<td>0.00014**</td>
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<td>Days</td>
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<td>-0.05916**</td>
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<tr>
<td></td>
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<td>(0.000)</td>
<td>(0.001)</td>
</tr>
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<td>Days^2</td>
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<td>0.00108**</td>
<td>0.00100**</td>
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<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
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<tr>
<td>Constant</td>
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<td>(0.038)</td>
<td>(0.038)</td>
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<td>X</td>
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<td>Train</td>
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<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Train*Days</td>
<td>-</td>
<td>X</td>
<td>X</td>
</tr>
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<td>Average price change (∆p)</td>
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<td>-0.128**</td>
<td>-0.128**</td>
</tr>
<tr>
<td></td>
<td>(0.012)</td>
<td>(0.012)</td>
<td>(0.012)</td>
</tr>
<tr>
<td>R^2 adj.</td>
<td>0.681</td>
<td>0.699</td>
<td>0.699</td>
</tr>
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</table>

Notes: Dependent variable is ln(price). Standard errors clustered at line level, in parenthesis. ** p < 0.01, * p < 0.05. 1,601,652 observations in all models.

6 Results

This section presents and discusses the results from the models in Equation (1) through (3). Table 3 presents the estimates for the treatment, the treatment interactions, and the control variables. In the lower part of the table, two rows show the calculated average price change and the corresponding standard errors. These are calculated using the log of Equation (4) and the sample average number of days on the Stockholm-Gothenburg line.

With standard errors clustered at the train level, all coefficients and statistics were significant at the 1 percent level across all models. The coefficients of determination (R^2 adj.) were similar and high across the models, and the coefficients all had the expected signs.
Starting with Model I, an average price decrease of 12.6 percent\(^9\) was estimated for the post-entry period on the Stockholm-Gothenburg line. Because Model I has no entry interaction variables with the days-variables, the estimates from the model should be interpreted as the average price decrease over all booking days and for the whole post-entry period. The coefficients for the days-variables showed a convex relationship with the prices increasing at an increasing rate as the date for a departure is closing in.

Turning to Model II, the days-variables are allowed to vary at the train level. Thus, each train has an individual relationship between price and booking days. As described earlier, the interpretations of the days-coefficients also change and are not directly comparable to the corresponding coefficients in Model I. The added fixed effect, thus accounting for more heterogeneity, increases \(\theta_1\) marginally by 0.2 points.

In Model III, the days-variables are interacted with the entry dummy variable \(T_{mt}\). The \(\theta_1\) estimate increases somewhat. However, the average price change coefficient at the bottom of Table 3 suggests that the average price change is no different from that of Model II. Further, the \(\theta_2\) and \(\theta_3\) coefficients show that, for every day before departure, prices are lower after MTR’s entry.

With the days-relationship estimated in Model III, there is now no single average price change, but rather an average price change depending on the number of days ahead of departure. The price change for each day \(d\) before departure is calculated as

\[
\Delta p_d = \exp(\hat{\theta}_1 + \hat{\theta}_2 \cdot d + \hat{\theta}_3 \cdot d^2)
\]

using estimates from Model III and illustrated in Figure 6. The solid line (left axis) illustrates the percentage change in price after MTR’s entry up to 31 days before departure. Note that the x-axis is reversed. The figure shows the price change in terms of price reduction (that is, in positive numbers). For example, a price reduction of 10 percent implies that prices have dropped 10 percent. For completeness, the monetary price reduction is also included, as illustrated by the dotted line.

\(^9\)Because the dependent variable is logged, the percentage change in the dummy variables’ coefficients is calculated as \([\exp(\theta_1) - 1]\)
Figure 6: Price reduction in percentage (left axis) and monetary (right axis) terms after entry (x-axis is reversed) (right axis). The monetary change is calculated as the average price in the pre-entry period for the Stockholm-Gothenburg line for each given day before departure multiplied by the percentage change.

Figure 6 shows a concave relationship in the percentage price reduction over the days ahead of departure in the post-entry period. The smallest price reduction is found at 31 days, 8.6 percent, which is the longest time before a departure that this study observes prices. Conversely, the largest percentage price reduction, 14.1 percent, is found when observing the price 10 days before departure. After this point, the price reduction lowers gradually to a 12.9 percent reduction at the departure date. Turning to the monetary price change, a positively sloped, almost linear, relationship is found. The smallest price reduction, 26 SEK, is again seen 31 days before departure, and the greatest price reduction, 85 SEK, is seen at the departure day.
Finally, restricting the post-entry sample period for each month after MTR’s entry shows the pattern of the average price reduction on the 21st of every month from March 21 to June 3. The results are plotted in Figure 7 and Table 5 (Appendix). The dashed line indicates statistically insignificant price changes, and the solid line indicates significant changes.

During the first two months following MTR’s entry, March and April 2015, no significant price changes are found. However, in the following months, the price is gradually and significantly reduced by around 11 percent towards the end of 2015. The average price continues to drop by a couple of percentage points during the start of 2016 and settles at around 14 percent in mid-2016.
### 6.1 Robustness analysis

A robustness test was made to determine if the selection of control lines affected the estimation results. Using Equation (3), Model III was re-estimated by leaving out one control line at a time. In total, five new estimations were made. This test focused on the three coefficients related to the treatment variable and on the average price change as defined by Equation (4). If the coefficients were to change substantially, one would suspect that the line in question is not appropriate to include as a control line when investigating events on the Stockholm-Gothenburg line and should be left out of the estimations. The results from the five estimations plus the full sample (used as baseline) are presented in Table 4.

Using the baseline as reference, the $\theta_1$ coefficients generally deviate by some $\pm 0.2 - 0.4$ points. The exception is when leaving out the Stockholm-Malmö line. Doing this reduces the $\theta_1$ estimate by 1.4 points. Turning to the estimates for the $\theta_2$ coefficients, the same pattern is found with the

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<td>MTR</td>
<td>-0.13865**</td>
<td>-0.12157**</td>
<td>-0.14280**</td>
<td>-0.13613**</td>
<td>-0.14093**</td>
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<tr>
<td></td>
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<td>(0.015)</td>
<td>(0.016)</td>
<td>(0.016)</td>
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<tr>
<td>MTR*days</td>
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<td>-0.00288**</td>
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<td>-0.00277**</td>
<td>-0.00276**</td>
<td>-0.00279**</td>
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<tr>
<td></td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
</tr>
<tr>
<td>MTR*days$^2$</td>
<td>0.00014**</td>
<td>0.00014**</td>
<td>0.00014**</td>
<td>0.00014**</td>
<td>0.00014**</td>
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<tr>
<td>Time</td>
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<td>X</td>
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<tr>
<td>Avg. price change ($\Delta p$)</td>
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<td>-0.114**</td>
<td>-0.132**</td>
<td>-0.125**</td>
<td>-0.130**</td>
<td>-0.131**</td>
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<tr>
<td></td>
<td>(0.012)</td>
<td>(0.016)</td>
<td>(0.011)</td>
<td>(0.012)</td>
<td>(0.012)</td>
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<tr>
<td>Obs.</td>
<td>1,601,652</td>
<td>1,167,770</td>
<td>1,397,578</td>
<td>1,442,489</td>
<td>1,528,749</td>
<td>1,446,516</td>
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</table>

Notes: Dependent variable is $\ln(price)$. Standard errors clustered at line level in parenthesis.

** $p < 0.01$, * $p < 0.05$.
Stockholm-Malmö line deviating somewhat more, although marginally, than the other four lines. The $\theta_3$ coefficients are no different from the baseline. Finally, the calculated average price change shows the same differences across lines as the $\theta_1$ and $\theta_2$ coefficients.

On the whole, excluding any of the lines does not alter the results much. Although the Stockholm-Malmö line gives rise to a somewhat higher deviation, it is, arguably, close to the baseline estimations. Thus, it is deemed as appropriate to include this line in the estimations.

7 Discussion

It is clear that consumers are facing lower prices on the Stockholm-Gothenburg line. Figure 2 shows that the entrant MTR’s weekly average price is roughly 100 SEK lower than the corresponding prices of SJ. The results from the analysis also show that consumers are facing lower prices with the incumbent SJ, on average about 13 percent lower. The reduction in price also differs with the number of days to departure, as illustrated in Figure 6. In relation to previous research, the results in this paper show a more modest price decrease. Comparing numbers in Figure 2 in Tomeš et al. (2016), a 31 percent $^{10}$ decrease was found after 13 months (about the same time elapsed after MTRs entry) in the Czech Republic, which is substantially greater than the estimate after one year in this paper.

The price competition seems not have been a “race to the bottom” in the sense that operators want to be recognized as the one offering the cheapest tickets. At least not yet. Since its entry, MTR has not lowered the lowest price obtainable for a ticket (185 SEK), nor has SJ responded by lowering their corresponding lowest price (195 SEK), which has been its lowest price for many years. This might be because these prices are offered, more or less, at marginal cost, or it might be the case that the low-end prices are not an effective strategy to attract customers.

The results from the interacted MTR-entry and days-variables (coefficients $\theta_2$ and $\theta_3$ in Table 6 and plotted in Figure 6) suggest that the price decrease varies depending on how far ahead a ticket is booked. The number of days before departure is not necessarily the only direct determinant of the price, and this relationship is rather an artifact of a load factor price strategy. Because a train

$^{10}$In September 2011, when RegioJet entered, Tomeš et al. (2016) quote a price of 404 CZK (without loyalty card). January 1, 13 months later, the price was 278 CZK. $(278 - 404)/404 = -0.312$
arguably fills up more as the departure date is closing in, the number of days before departure serves as a proxy for this. Consequently, the observed price decrease found in this paper is probably not a fully “active” decision by SJ to lower prices, but rather the natural response of a yield management system aiming to fill the trains at the highest profit. With MTR in the market, the number of seats offered on the line has increased. In the case that none of the customers were to choose this new service, and the market demand would not change, SJ would fill its trains as before and the prices offered at each given point in time would be the same. However, the more likely case is that some former SJ travelers now choose MTR. Whether price or service quality is the reason for this does not matter. What matters is that, at any point in time before departure, SJ now does not have as full trains as before. Because of this, the price facing consumers traveling with SJ is lower. This is an important insight, and these mechanisms probably hold the explanation to the estimates shown in Figure 6. SJ is not able to extract as much money as before from people booking tickets late because they do not have as full trains. There might be mechanisms in the yield management system that raises the price as the departure date approaches, but assuming that this mechanism has not changed in the past year, the company still would have lower total revenues.

Figure 7, which illustrates the monthly development in price following the MTR entry, shows a gradual price decrease, rather than an immediate shift. Given the market conditions, this is not surprising. Acquiring new customers requires marketing in order to attract customers, something that MTR did not engage in for very long before its service started, as described in Section 3. Entering a new market is especially hard when challenging a very old monopoly and when not being allowed to sell tickets and to appear on the major sales channels for train tickets. The downward-sloping curve in Figure 7 most likely illustrates the establishment process. While not having much, or any, effect on the incumbent’s prices in the first two months, the average price decreases substantially during the first four to five months after MTR’s entry. In the following months, the incumbent’s price still decreases, but at a slower pace. Arguably, this is a sign that the new operator has successfully established itself on the market and has attracted customers. Finally, relating Figure 2 and 7, the former indicates an increase in SJ’s prices in the last months of the analysis period. This increase is not found when analyzing the monthly development, and might therefore be because of seasonal variation not accounted for in Figure 2.
It is important to note that this paper only analyses the short-term effects of the increased competition on the Stockholm-Gothenburg line. The next step is to follow up not only on prices, but also on the supply, service quality, and sales-channels. Looking at train-path allocations released by the Swedish Transport Administration, the supply seems not to have changed much with any of the operators. Service quality is also similar with modern trains, although MTR’s are newer. Regarding prices, Figure 7 gives no clear implication on whether prices on the line have started to converge or if further decreases are to be expected. Figure 2, which shows the development of the weekly average prices of SJ and MTR, indicates a slight increase in MTR’s prices, which could indicate that the entrant is attracting more customers and that the incumbent’s prices thus will continue to drop. If this ends up being the case, then the average price on the line will be expected to decrease further.

Another long-term concern is the profitability of the operators. While it is not possible to disentangle SJ’s revenue and costs on the Stockholm-Gothenburg line (or its commercial activity in general), the company has been making a stable total profit in recent years. In 2015, SJ’s profit was 471 million SEK (SJ AB, 2015). The corresponding figure for MTR Express after less than a year of operations was a loss of 90 million SEK (MTR Express AB, 2015). The profitability of both operators is something to look into in the years to come, and something that might determine the supply of passenger rail services in the whole country. If large revenues on the Stockholm-Gothenburg line directly, or indirectly, subsidize traffic on other lines, the latter traffic is likely to be reduced in the future. Competition on other lines would also be of great interest to study in the years to come, but at the time this manuscript was written no concrete plans to establish traffic on other lines had been publicly revealed by MTR or any other new operator.

Given the ongoing market liberalization process in Sweden and Europe, access to price and passenger data is important for policy and market evaluations of future developments in the industry. As described in Section 4, such data are scarce. A step towards more transparency and better market information would be for the operators to, either voluntarily or not, share such data on a regular basis and to ensure that such data are provided at the level of individual lines. A possible model could be the one used by the US Bureau of Transport Statistics, to which American airline companies report a 10 percent sample of tickets sold every quarter with origin-destination information and
ticket characteristics. Such data have been important in the empirical airline literature as well as in policy evaluation. Similar data for the Swedish (or European) railway market would be a much welcome addition.

8 Conclusions

This study has focused on the entry of the operator MTR on the Stockholm-Gothenburg line in March 2015 and what implications this entry has had on ticket prices, in particular the incumbent SJ’s prices.

An econometric analysis has been carried out using price data from the operators’ websites. The results show an average price decrease of 12.8 percent for the period of just over one year after MTR’s entry. The price decrease is shown to be different depending on how early a ticket is booked, with the largest price reduction of 14.1 percent, on average 60 SEK, found about ten days ahead of departure. The average price on the line has seen a steady decline since the entry date, and a further decrease is not unexpected.

This paper also highlights the need for more publicly available data, most importantly on prices and passengers traveling in the railway network. Currently, very little such data are available in Sweden, and this makes the market less transparent and makes it more difficult to evaluate policies.
9 References

References


A Appendix 1 - Average price change over time

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Avg. price change</th>
<th>MTR enters</th>
<th>p-value</th>
</tr>
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<tbody>
<tr>
<td>2015</td>
<td>March</td>
<td>-0.001</td>
<td>(0.022)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>April 21</td>
<td>-0.036*</td>
<td>(0.020)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>May 21</td>
<td>-0.071**</td>
<td>(0.017)</td>
<td>*p &lt; 0.05</td>
</tr>
<tr>
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<td>June 21</td>
<td>-0.086**</td>
<td>(0.015)</td>
<td>**p &lt; 0.01</td>
</tr>
<tr>
<td></td>
<td>July 21</td>
<td>-0.094**</td>
<td>(0.015)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>August 21</td>
<td>-0.102**</td>
<td>(0.012)</td>
<td></td>
</tr>
<tr>
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<td>September 21</td>
<td>-0.103**</td>
<td>(0.011)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>October 21</td>
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<td>(0.010)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>November 21</td>
<td>-0.115**</td>
<td>(0.009)</td>
<td></td>
</tr>
<tr>
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<td>December 21</td>
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<td></td>
</tr>
<tr>
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<td>(0.010)</td>
<td></td>
</tr>
<tr>
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<td>February 21</td>
<td>-0.138**</td>
<td>(0.011)</td>
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</tr>
<tr>
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<td>(0.011)</td>
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</tr>
<tr>
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<td></td>
</tr>
<tr>
<td></td>
<td>May 21</td>
<td>-0.137**</td>
<td>(0.012)</td>
<td></td>
</tr>
</tbody>
</table>

** **p < 0.01, * p < 0.05.

Table 5: Results from the models on average price development