

Hybrid markets – contract design, performance and conflicts

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Background

- Public transport services in Sweden (bus and rail) have been tendered by PTAs (administered at county level) since the late 1980s
- The use of passenger incentive contracts became a wide-spread feature in tenders as part of an ambitious program launched by stakeholders in 2008 – the so-called Doubling Project (aimed to double public transport journeys from 2006 to 2020 and market share to 2030)
- Although significant improvements have been made (+37% growth in journeys) and market share (from 18 % to 31 %) between 2006 and 2018, the goals still seem difficult to achieve
- Moreover, costs have exploded - increasing 60 % in real terms

Has the use of passenger incentive contracts played a role in the increased number of passenger journeys and costs?

Earlier research on effects of passenger incentive contracts

Article / report	Result	Type of analysis
Hulten (2015)	Higher costs (but not significant) than average bus service	Comparison of means
Vigren (2016)	Same as average bus service	Stochastic frontier analysis
Pyddoke &Swärdh (2017)	No significant results on costs or passenger growth	Case study of 17 medium sized Swedish cities. Econometric analysis
Pyddoke & Lindgren (2018)	Less passenger growth and lower cost increases with passenger incentives than in comparison areas	Case study from Stockholm. Descriptive statistics
Vigren &Pyddoke (2019)	No significant effects on costs or passenger growth	Case study from Skåne. Econometric study with no comparison areas.

Passenger incentives in Swedish public bus transport

Type of contract	Passenger incentive share of contract revenues	Used in for example
Fixed compensation and/or payment per bus km	0 %	Lines with low density
Fixed compensation with small incentive	Approx. 10 %	Medium-sized cities
Incentive contract	Approx. 25 %	Skåne region
Super-incentive contract	Above 50 %	Stockholm region

Preliminary results

- Passenger incentive contracts have no significant effects on costs per bus km. Explaining variables are the development of population density and supply
- Special (for example environmental) requirements on buses in contracts have no significant effects on costs (contrary to results from previous studies)
- Passenger incentive contracts have no significant effects on bus passenger journeys. Supply is the dominant explaining variable
- The widespread adoption of passenger incentive contracts coincides with a shift to improved load factor in buses in recent years.
- A tendency to have more conflicts between parties on contract interpretation, and challenging of tenders in court

Conclusions and future research

- The use of passenger incentive contracts has become common in Swedish public transport, partly due to a strong belief that this could be an important tool to complete the so-called doubling project
- Although a stronger growth in public transport journeys coincides with an increased use of passenger incentive contracts it is hard to find evidence that the two are interrelated. Likewise it does not seem to explain the cost explosion in recent years
- An increased load factor has emerged in recent years. Can it be explained by a higher tendency and improved means to validate tickets?
- The poor quality and reliability of some of the input data, sometimes even from official government agencies, call for improved data reporting and collection procedures
- More research needed on conflicts related to contract interpretation