THE POTENTIAL FOR REGULATORY CHANGE IN EUROPEAN BUS MARKETS

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1. INTRODUCTION

Market regulation typically arises when government feels itslf unable to achieve its objectives while the market is free. So it sets up political, administrative and regulatory structures to achieve those objectives. Economic agents adapt their behaviour to the regulation, and economic performance is the outcome. The longer a regulatory regime is in place, the greater is the possibility of regulatory failures associated with distorted inducements and regulatory capture. Demand for regulatory reform thus tends to arise from changes in the perceived balance between the opposing dangers of market and regulatory failure. This simple paradigm suggests that regulation can best be judged in terms of the specific objectives of government and the history of the regulatory environment.

This paper reviews from that viewpoint current attitudes to deregulation in ten Western European countries. It is based primarily on the results of structured interviews with operators, administrators and transport researchers. In section 2 we analyse the current situation in ten nations, taken roughly in the date order of their most recent major regulatory change or review. For each country we first identify the legal and institutional basis of the regulatory regime. Then we describe who are the operators, how they have been organised (with particular reference to employment of labour), and how they have performed (with particular reference to costs of production and innovation). Next we consider the structural potential for competition either in current competitive experience (for example, in contract or scheduled express markets), or in the existence of profit-seeking companies already within the industry. Finally we discuss any recent changes in the regulatory regime, and assess, in the light of the observed national philosophy on bus transport, the nature and extent of likely future change.

In section 3 we compare British experience and that of other countries, using the same basic structure and finally attempting to explain why other countries have been so reluctant, or so tardy, in following the UK pattern. A number of definitional issues complicate the comparisons. Cost covering ratios are quoted in terms of locally applying conventions, which may vary substantially (for example, in the treatment of capital costs or of the administrative costs of co-ordinating

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authorities). We have not attempted to standardise those measures. In discussing the way in which subsidy is paid we distinguish between "pure deficit finance", which is the automatic *ex post* covering of the deficit accrued, "norm-related finance", which is subsidy related to some general and *ex ante* norms of performance, and "contract-related finance", which is subsidy based on the contractual outcome of an *ex ante* but specific negotiation or competition. When we refer to a "commercial company" we are simply implying the application of the normal national conventions on accounting forms and obligations, and not that the company is necessarily privately owned or profit seeking. Finally, when we refer to a "monopoly franchise" we mean the grant of exclusive rights to operate; these may be on either a route by route basis or an area basis, and are not necessarily either subject to any initial competitive bidding or subsequently saleable.

2. THE CASE STUDIES

Eire

Bus services in Eire are still provided under a national licensing law of 1932, with no localised discretion in application. Most local bus operation is undertaken by the two bus subsidiaries of the semi-state company CIE: namely, "Dublin Bus" in the capital and "Bus Eireann" in the other cities and rural areas. These companies have an effective monopoly in urban services, as applications for licences from the private sector are usually opposed by the state company, and few have been issued. However, despite the licensing system there are about 40 private operators competing with Bus Eireann in the inter-urban market, sometimes without having been licensed. Rural school transport services are also provided predominantly by very small private operators under contract to Bus Eireann, but competitive tendering is not used. Variations of routes and fares are initiated by the operators, but increases in fares have to be sanctioned by the Ministry of Transport, which has had a strong moderating influence, and the state companies are deficit financed.

The state companies are 100 per cent unionised; two main unions accounting for most of the bus crew. Bus crew earnings are estimated to exceed the average earnings of male industrial workers by between 5 and 10 per cent, and the same wages are paid to female crew. It has been asserted that cost savings could also be achieved through improved work practices and reduced absenteeism. The small private companies are mostly not unionised, and their wage rates appear to be lower.

Standard double-deck vehicles dominate urban operations, and coaches are used on all inter-urban routes. A small number of minibuses (3 per cent of the fleet) have been introduced in Dublin in the last three years. The Dublin network has been revised substantially in the last three years, but local service networks are generally very stable.

Revenues cover 83 per cent of costs for Dublin Bus and 96 per cent for Bus Eireann, but these proportions include direct state compensation for free travel for pensioners and subsidies for school transport. There is no institutional co-ordination between public transport and other urban or local planning functions, and, because of the absence of overlapping operations, little in the way of multi-

mode or multi-operator ticketing. The only element of inter-operator co-ordination that would be vulnerable to competition is that a competitive bus industry might set out to compete more fully with the Dublin Area Rapid Transit urban rail system.

Existing licensing powers could be used to allow new entry, though more complex tendering systems would probably require new legislation. A transport bill is now being prepared, and bus regulation is being actively considered. The centre-right coalition government has a general predisposition towards liberalisation, but free entry is not considered likely.

West Germany

Entry to the bus industry is heavily restricted in the Federal Republic. The relevant level of government has power under a law of 1961 to grant licences of unlimited duration and to determine routes and fares.

In urban areas the general rule is to have one main municipally owned operator. Some are comprehensive public utility companies practising internal cross subsidy between electricity and public transport. Sometimes routes licensed to the municipally owned companies are sub-contracted to private operators, or some vehicles are rented from private operators.

In more rural areas many services were provided by the *Geschaftsbereich Bahn-Bus* (GBB), which was owned and deficit financed by *Deutsche Bundesbahn.* Many GBB services were replacements of rail services. GBB has recently been split into 25 regional companies to receive fixed, lump sum grants. Private sub-contractors provide 9,000 of the 13,600 buses operating GBB services; private operators also operate in their own right, though there is no commercial competition for licenses.

In the long-distance market the Federal Ministry of Transport as licensing authority has consistently refused any applications to compete with the national rail system, except for an international bus network in which the Federal railway company is itself a main shareholder.

The essential feature of the system at all levels is thus not public ownership of operations but tight administrative control and co-ordination of routes, fares and timetables. That tight control is formally the responsibility of the municipality, but one of the best known features of public transport in Germany is the co-operation between companies to exercise that control themselves through self regulation.

Commercial co-operation can range from agreements between companies to market each other's tickets to the adoption of a common pricing system for a group of companies (*Tarifgemeinschaft*). Joint network planning and timetabling may be undertaken through a transport community (*Verkehrsgemeinschaft*). If a specific organisation is set up to perform these functions it is usually called a transport union (*Verkehrsverbund*). In such a case the regional (urban) network of DB is usually associated to it. This last form of co-operation is typical for larger urban areas or conurbations. If the chosen legal structure of the union is that of a private company, the labour unions are usually also associated in the management board of the company.

These transport communities can be organised on the initiative of local govern-

ments (municipalities, *Länder,* or other local authorities), but also on the initiative of transport companies themselves (as in Hamburg). Attempts are now being made to develop similar forms of co-operation in more rural areas, in order to enhance integration and to increase responsibilities at the local level.

There is no great variety in the sizes of vehicles used. Articulated buses are used on heavier routes, and touring buses in some rural areas where operators combine scheduled and occasional transport services. The composition of the fleet has not changed significantly in recent years.

Local transport under this regime has been very stable; existing operators are rigorously protected against new entrants. The industry is strongly unionised, with a high level of employment protection. There is one labour union, which makes separate national agreements for private and public sector operators; supplementary agreements are reached at the local level, taking wages substantially above the nationally agreed floor. Wages and operating conditions differ substantially between the public sector companies and the private sector companies. Within the publicly owned sector, the specialist public transport companies are thought to be more efficient than those which are part of more general municipal utility companies. It is therefore possible that the introduction of competition could lead to substantial reductions in labour costs.

The proportion of costs covered by direct sales revenue varies between about 60 per cent for the urban operators and 80 per cent for the regional operators. The responsibility for deficit funding of the municipal bus operators is shared by the municipality, the *Land* and the Federal Government, and part of the fuel tax is earmarked for the support of public transport and channelled through municipal authorities. At present, the Federal Government would like the *Länder* and the municipalities to meet more of the deficits.

In return for supporting the Kohl coalition, the liberal FDP extracted an agreement that economic deregulation should be systematically examined; an interim report of the deregulation commission on the bus industry, to be published in spring 1990, is likely to conclude that the protection of DB in the long-distance market is unacceptable and that the Federal Ministry should prepare for transition to total long-distance deregulation, albeit phased over a number of years. For local bus services it is more likely to recommend movement towards supply side competition within comprehensive tendering.

Italy

In Italy local public transport services are provided under the terms of a Regional Transport Plan Act of 1981. Under this act the region acts as the licensing authority for local public transport services, granting monopoly franchises of long duration, for which there is no commercial competition. In the larger towns the monopoly is usually granted to the municipally owned public transport company, but in rural areas the concessions may be granted to public or private companies. Longer-distance services are also the subject of monopoly franchising, without any formal protection in cases where local and longer-distance services overlap.

Co-ordination of transport services within a region is provided for in a regional transport plan. Operators can propose changes in services and fares but all changes must be approved by the licensing authority. Only 50 per cent of the total costs

(including investment expenditures) are met from farebox revenue; financing of the deficit is shared between the region and the municipality.

Within this system labour is strongly unionised. Four major unions operate in both public and private sectors, making agreements at the national level. Multi-operator ticketing systems are rare, though their introduction is now being considered.

The Italian system is thus another highly regulated system, with urban operation almost exclusively in the hands of municipally owned companies. There is some current discussion of liberalisation, but little experience of competition in the transport sector, and few obvious sources of competitive initiative in the industry.

France

The organisation of public transport in France, outside Paris, is based on the arrangements of the *Loi d'Orientation des Transports Intérieurs* (LOTI) of 1982, which allocates responsibilities between the various tiers of local government. At the highest level 22 regions have some responsibilities for regional rail transport, but effectively no responsibility for bus transport.

At the next level the 96 *départements* are normally responsible for bus services outside urban areas. These are secured through monopoly franchise contracts, mostly on a route-by-route basis, often with small private operators. It is possible for subsidised contracts to change hands, but patrimonial rights attach to unsubsidised operations, which are often closely integrated with other local business activities. There is strong administrative co-ordination of services and no direct competition, despite the large number of relatively small operators. School services and medical and works contracts are also organised by the *département,* frequently on the basis of competitive tender.

Public transport within the *périmètre d'agglomération* of urban areas is controlled by an *Autorité Organisatrice* (AO), formed by an association of the communes within the area. The AO normally enters into a single area monopoly contract, within which it determines service structures and fares levels. The contract, which may be for between five and nine years, may formally require the operator to supply only management expertise without taking any risk, or may involve both cost and revenue risk. Within the urban areas there are normally no special school services. The land, garages and vehicles are normally owned by the AO. Moreover, the operating staff normally have security of employment, so that in the event of a change of contractor both the physical and human operating assets are transferred to the new service managers. Even the management contracts appear to change hands infrequently, so that contracts confer secure long-term monopoly rights. For both fares and service structures there may be consultation with operators. Fare levels are constrained by a national government guidance, which in many cases is a binding maximum limit; many AOs would like to increase prices more than the framework allows.

Four major groupings control almost the whole of this market. Although over half of the business is formally in private company hands, all face the same unions and the same working agreements.

In areas with a population of more than 30,000 a special tax earmarked for public transport support, called the *versement transport,* is charged on all business

establishments with more than nine employees. Outside Paris municipal operations are on average financed about 50 per cent from the farebox, with 30 per cent coming from the *versement transport* and 20 per cent from other local sources. The farebox proportion varies from about 80 per cent in the smaller municipalities to only 30 per cent in Paris.

About 60 per cent of the workforce is unionised, with the same unions facing both private and public sector operators. There are three or four general unions operating on a national basis, but there is no closed shop and the unions are relatively weak. There is a national wage negotiation, adjusted substantially by local agreements. There appear to be both productivity differences and wage rate differentials of 10 to 15 per cent between operators in larger and smaller cities, reflecting differences in cost of living and tighter labour markets in the large cities as well as the bargaining power associated with the broader monopoly.

The bus industry was considered to be poorly paid until the seventies, but average earnings of bus crew now appear to exceed average industrial earnings by up to 20 per cent. This relative change has been attributed to the support arising out of the *versement transport,* though there does not appear to be any pressure to enlarge this differential. The bus industry in France, unlike that in some other countries, appears to be the preserve of the indigenous male, with little female or immigrant labour.

At the moment the national rail company, SNCF, is protected against bus competition in the inter-urban express market. That may change as it concentrates increasingly on the long-distance and international market and is less inclined to defend all parts of its inter-urban monopoly. There are, however, many private local bus operators outside the urban areas, even though there is no multiple operation on routes or current competition. There is also a large contract and touring market, and many of the operators outside the urban areas are involved *both* in scheduled and in contract businesses. Even within the urban areas there is some subcontracting. So competitive potential exists.

Technical innovation has centred on specific cities, particularly in LRT and larger vehicles. Articulated vehicles make up 10 to 15 per cent of the fleet; only about 2 per cent of the fleet consists of smaller vehicles, and these are mostly demanded for topographical rather than for competitive or cost-minimising reasons. Service innovation is also limited. In the mid seventies there was a fear of ossification of route structure, and many authorities undertook radical redesign of networks. But it is now estimated that no more than 10 per cent of services change substantially each year, in a well recognised process concentrated at the beginning of the school year.

An increasing number of urban systems are multi-modal in character. Where there is more than one operating company (for example in Lille or Grenoble), there is strict administrative co-ordination between the modes, as well as multi-modal ticketing systems. In Paris bus routes typically cover shorter distances and are co-ordinated with rail networks, including those of SNCF, though in other areas there is less conscious co-ordination of buses with SNCF. When there is over-running of shorter and longer distance routes there is strong protection of the more local services.

The 1982 law reflected an increased commitment to public transport, and to

local political responsibility and discretion. At the moment no further change is under active consideration for the urban areas, though outside the urban areas the *départements*, which can afford it, are tending to seek firmer control through increasing subsidy rather than through public ownership of operations.

In summary, the current French system involves strong local political control of monopoly operators, some of which are private in legal form and some public. Wage rates in the industry appear to be above what would be free market rates, despite a relatively weak union organisation, and potential entrants do appear to exist. A substantial injection of competitive pressure could probably be achieved within the existing legal situation, if the will existed. There is little sign that that is likely. Partly that is because the distributional consequences of reduced real wages in the bus industry are not desired, but above all because of the strong, and commonly held, philosophy that public transport is a matter for the control of the local public authorities.

Spain

Urban and interurban transport in Spain is regulated under a framework contained in the Transport Act, 1987. The relevant local authorities – the municipal councils in urban areas – are responsible for determining both route structures and fares. The law requires transport to satisfy community needs at a minimum social cost, but also requires that special attention be given to the needs of low income groups, elderly and disabled people, and those who live in rural areas.

Operation of the scheduled network is performed under an area monopoly franchise, which may be given for a minimum of eight or a maximum of 20 years. School journeys may be provided by charter companies under a competitive tendering system, but there is no suggestion that this might be extended into any other part of the scheduled service market. Of the 185 companies operating urban bus services in Spain, 28 are municipally owned, three are labour co-operatives, and the rest are privately owned. Private companies operate in 129 out of 134 towns with population below 100,000, but in four of the five cities of over half a million population transport is provided by the municipalities. Services in medium sized cities are fairly equally divided between public and privately owned companies.

Public transport employment is highly unionised, with two main national unions and a number of smaller local unions involved. National wage agreements are the basis for locally negotiated amendment. Wages appear to be higher in the larger cities, but public ownership also appears to have an independent influence in explaining high wage levels and low crew productivity.

In most areas urban, suburban, school and charter services are provided by different companies, overlapping in area but not competing for scheduled service. There is no competitive long-distance bus sector. Revenue to cost ratios for medium-sized towns vary between 60 and 90 per cent; in Madrid and Barcelona they are lower. Both private and publicly owned operators receive deficit finance on a network basis under the terms of their franchise. There is variety in sizes of vehicles, but in recent years there has not been much change in the composition of the fleet.

Only the local planning authorities of Madrid and Barcelona practise co-

ordination between public transport modes, with multi-operator and multi-mode ticketing systems, pooling of revenues and central planning of services. The local authorities determine when services are to be modified; this happens seldom, and information is provided by the operators.

The transport regulation system was reconsidered and modified as recently as 1987, and the socialist government has clearly no intention of moving to a more competitive regime. Though alternative governments might be more liberally inclined, the organisation of public transport has not been a prime issue of public concern. There is relatively little discretion available to local authorities to introduce competition within the existing law.

In summary, there appears to be some evidence of inefficiency associated with monopoly franchising. Except for Madrid and Barcelona there is little in the way of system co-ordination to lose, and there do appear to be enough existing operators for competition to occur if it were encouraged. But there is little political pressure for change.

The Netherlands

The basis for regulation and financing of the bus industry in the Netherlands is the 1988 Passenger Transport Law. For all public transport services a licence is required. For urban transport the licensing authority is the municipality; for inter-urban transport it is the Ministry of Transport.

There are nine municipal transport operators owned directly by the municipalities. A further 45 municipalities act as controlling authorities but obtain their services by contract from the 16 regional bus companies. These were formerly owned by the Dutch National Railway but were sold out in 1982, mainly to a state-owned holding company, which owns 80 per cent of the regional bus operation.

Fares are strictly controlled by the government on a national tariff which supports a nationally available multi-ticket system (the strippenkart). Service levels and structures may be proposed by the companies but are determined by the licensing authorities, ostensibly in order to keep supply roughly in proportion to levels of demand on a route-by-route basis. About 25 per cent of the costs of urban companies and 40 per cent of the costs of regional companies are covered by ticket revenues. Municipalities owning their own companies control route structures directly. Change is administratively difficult, and route structures are very ossified. Until 1988 pure deficit financing applied, but since then the levels of service and of subsidy are determined in advance in order to give some inducement to efficiency.

Although in principle municipalities are able to contract with a number of different companies, in practice they normally contract for long periods with a single contractor. Given the common ownership of the regional companies (which enforces a policy of non-competition) and the absence of either a large domestic coaching section or any inducement to enter, there is little effective competition. Only in a few places (for example, Haarlem) has there been some attempt to provide competitive services with small buses and taxis.

More than 50 per cent of staff is unionised, with separate unions for the regional companies (two different unions) and the municipalities (part of a general union). The municipal general unions typically lead the wage settlement,

with the transport unions trying to follow the settlement closely. There is also a separate union active in the coaching sector. Wage structures are very complex. Average earnings in the regional companies are, however, higher than in the municipal companies. Both in the number of direct productive hours per driver employed and in the proportion of paid hours driven there is a difference of about 30 per cent between best and worst performers. Absenteeism and sickness rates also seem very high.

There is very little scope for independent initiative. Most educational transport is undertaken on normal public transport services, and the costs of the concessions are included in the general subsidy payment. Free public transport for students in higher education is about to be introduced, and the costs will again be consolidated into the general support system. Only transport for disabled students and long-distance schooling movements have specific scholar services which are contracted by the municipalities, sometimes with private companies. About 1 per cent of service is subcontracted from the regional operators to the private sector. This proportion is increasing slowly. The private coaching sector is predominantly engaged in the international touring market.

The bus fleet is very standardised. Vehicles are mostly modern and well equipped, particularly with radio systems to activate priorities at junctions. Some subcontracting of scheduled services to small vehicles has started recently, and at the beginning of 1990 a two-year experiment was started to provide local distribution from railway stations by shared taxi at a low fixed supplement on the rail fare.

Despite the opportunities for municipalities to introduce some competition wihin the existing law, the Netherlands remains an uncompetitive, high-cost regime. That appears to be a consequence of the existence of the national fares scheme with its associated national financial support. The emphasis in controlling subsidy costs is presently directed towards the payment of subsidies based on cost and revenue norms, rather than as pure deficit financing, leaving any residual deficit to be covered by the local authorities out of their general revenues. This may encourage authorities to look at subcontracting to lower-cost private operators, and at controlling fare evasion. Transport policy in general, and public transport policy in particular, is very high on the political agenda, but deregulation is not.

Belgium

Under the regulatory system which existed till 1990, monopoly rights in urban public transport in six of the largest cities (Brussels, Ghent, Antwerp, Charleroi, Liège and Verviers) were granted to local, publicly owned companies. Bus services in rural and smaller urban regions were by law provided by regional operating units of a nationally owned bus company. About 40 per cent of the services of the national bus company were subcontracted to private operators on a standard contract specifying the service to be provided, the fares and the rates of remuneration, leaving them little freedom or risk. Subcontracting is of minimal significance in the main urban areas.

Fares are fixed by the public transport companies subject to ministerial approval. The cost-covering ratio was around 30 to 40 per cent for the urban bus

companies and between 25 and 55 per cent for the various regional sub-units of the national bus company. In 1987, in an attempt to reduce the cost of subsidy, the government introduced a system of compulsory annual adaptation of average fare levels, but operators were allowed to decide how the changes should be structured. The urban companies used this freedom to encourage greater use of multi-operator travelcard schemes.

Union membership is high, and, though there are separate negotiations for the different sectors, settlements appear to be very similar. Furthermore, the national bus company was legally compelled to assure the same status for its personnel and that of its sub-contractors by the inclusion of a special clause in all sub-contracting agreements. Labour unions are also represented on the *conseil d'administration* of the urban companies, though since 1987 this has ceased to be the main management board.

On 1 January 1989, as part of the federalisation of the national political structure, responsibility for the regulation of bus transport was transferred to the three regional governments of Flanders, Brussels and Wallonia. The Flemish arrangements are expected to be quite similar to those for Wallonia, discussed below.

The Walloon part of the national bus company and the urban public transport companies of Wallonia (Charleroi, Liège and Verviers) will be merged into a quasi-commercial regional company, owned by the region. Five non-overlapping local operating subsidiaries will be created, with area monopoly powers granted under *contrats de gestion* for between four and six years. The regional public transport company will determine levels of fares and allocate subsidies to the operating companies, whose activities they will co-ordinate (common ordering of vehicles, promotion of a common statute for the personnel, common services between operating companies, etc.). The operating companies will determine timetables and are to be allowed to sub-contract their operations.

The arrangement in Brussels is likely to be quite different. The Brussels regional government will probably take all strategic powers over fares and service structures, to be administered in co-ordination with the regional urban planning department, and give all operational responsibilities to a restructured publicly-owned monopoly operating company.

The essence of the current reforms in Belgium is thus a move towards increasing the planning responsibility of local government (both regional and municipal), while giving the companies a little more entrepreneurial freedom in operation by giving them a more commercial form. However, despite the continued use of sub-contracting to the private sector, there appears little role for real competition. The wish to reduce subsidy has had little effect in attempts to reduce costs through any effective pressure on labour costs; both unions and the centre-left government are against any greater participation of the private sector in bus operations.

Denmark

Before 1978 bus services in Denmark were licensed by the municipalities for intra-municipal transport, by county councils for inter-municipal transport, and by the national passenger transport council for inter-county transport. Since 1978

any county council, with the agreement of one third of its municipalities representing at least half the population of the county, has been able to create a regional transport company to manage all regular public transport operations within the county. All councils except Fyn and Aarhus have done so.

In principle the public transport company has the power to take over all installations, vehicles and services. Personnel then also have to be taken over, and have the right to retain existing conditions of employment. The licensing power is also transferred from the municipalities and the county council to the (politically constituted) board of the transport company. If there is no public transport company, the regional council can require municipal authorities to change the licensing conditions in the interests of better co-ordination of transport within its area. Railway companies can also request the licensing authority to take co-ordination requirements into account.

In practice these regional companies have usually planned and marketed services, but have generally licensed other (mostly private) companies to operate. Licences are granted for five to eight years and specify route, timetable, fares and other operating obligations. However, these licences are not subject to competitive tendering, and standard cost contracts are normally used, so that some cost risk is carried by the operator. Revenues go to the regional transport company, and its deficit is financed by the local authority responsible for public transport. Several different operators are thus usually operating within any area under a tight co-ordinating control, integrating the network and using multi-mode and multi-operator ticketing systems.

Under this regime most workers are members of one or other of the two main general unions, though unionisation is probably lower in smaller private companies. A biennial general agreement on wages and working conditions applies on the national scale to both public and private operators, but it has recently tended to define only a minimum, supplemented by local negotiations. Wages in the industry do not appear to be considered high.

Special regular transport services (for schools, workers, etc.) are also generally provided by private operators under licence. Private companies can vary greatly in size, and are frequently also active in the tourist sector. Cost comparison between private and public sectors is difficult, as most operators outside Copenhagen are private, though in Copenhagen bus services are mostly produced by the public company. Though Copenhagen has some special characteristics (for example, generally higher wages in the capital, more night driving, etc.) which could explain some cost differences, private companies do claim they could produce bus services at 60 per cent of the cost of a public operator. There are also about 10 long-distance bus services, though the three main operators have created a common marketing company, DanBus, to co-ordinate their operations.

The vehicles used in local bus service are mostly "standard" single-deck vehicles. Articulated buses are used on trunk routes; some minibuses are used for some specific services (local or for disabled people). No important change in the total fleet has been observed recently, though from 1 January 1991 all new vehicles will have to be equipped with lifting devices to enable wheelchair users to enter the buses.

Transport in Copenhagen has a history remarkably like that of London. Public

transport inside the Capital Region (which is composed of several counties) has been provided by the Capital Region Public Transport Company, which owns its own buses and sub-contracted only a small part of its operations (about 18 per cent, to 17 bus operators on a five-year contract basis). About 1,400 of the 3,400 buses in Denmark are used in Copenhagen. Very recently, however, the Copenhagen Capital Region Council has been abolished and the co-ordinating regional plan suppressed. A new law on the Capital Region public transport company has applied since 1 January 1990.

Under this law, the Capital Region public transport company is charged with general transport planning, preserving network and fare integration in association with the railway companies. The company is required to put out at least 45 per cent of the bus services on competitively tendered long-term contract by 1 April 1994. About 20 per cent was put to tender by 1 April 1990. Revenues for the system are shared between the transport company, the State Railways and the private railways, and the deficit of the public transport company (about 50 per cent of its costs) is recovered from the municipalities. Further proposed measures now before the parliament, would increase the freedom of the statutory public transport companies in respect of both the services they provide themselves and their licensing function. Under these proposals all licensed operators would be obliged to respect the general agreement on wages and working conditions for drivers. The private sector appears keen to enter a more deregulated environment, but the most likely outcome is the extension of competitive tendering in what is already, outside Copenhagen, a largely privately-operated industry.

Sweden

In Sweden an Act of 1978 transferred responsibility for local and regional law services from a national licensing authority to newly created county transport authorities. The authorities were to determine service levels and structures, fares, and subsidies. Services would be operated either by municipal companies or by private companies under contract. Fares covered only about 30 per cent of costs.

The functions of the county authorities were increased by an Act of 1988, which gave them the power to operate services themselves, abolished all existing licensing rights, and extended their powers to local rail services. In Stockholm responsibilities had been centralised in a county council since 1971, and nearly all services were operated by the publicly owned Stockholm Transport. The recent legislation has, however, separated strategic planning (which remains centralised), service planning (which is delegated to five area units), and operations (which are split into 25 smaller units). Under the regime introduced in 1988 more authorities use competitive tendering for at least part of their service requirement, and it is estimated that cost reductions of between 5 and 15 per cent have resulted, with many changes of selected operators. However, there is no forced uniformity of approach, and both private and municipal operators provide services.

The essence of the recent changes has thus been to strengthen the planning powers and responsibilities of the local political authorities, but to make it possible to discipline the operators by competitive tendering.

Portugal

Portugal is, after the UK, the most extensively deregulated country in Western Europe. A new law of March 1990 displaces a regime which had been in operation since 1945. Under the old law a centralised national licensing authority exercised extremely detailed control. Initially services were operated by private companies, but after the revolution of 1975 the major companies were nationalised, and the new state holding company operated a fleet of 3,500 vehicles. The publicly owned companies covered only about 60 per cent of operating costs from revenue, and were subsidised by central government. There also remained a fringe of unsubsidised private operation, even in large cities like Oporto. Within the metropolitan areas there has been little service integration, though smaller urban markets have typically been protected against longer-distance regional operators within the municipal area. Within the metropolitan areas multi-operator, multi-mode, travelcard systems operate. All operators are required to offer concessionary fares to old people without specific compensation.

The two main trade unions (divided on political grounds) are very strong within the public sector, and there is a history of strikes. The private sector is more weakly unionised. Wage negotiations are at company level. There does not appear to be any large difference in pay rates between private and public sectors, but the fringe benefits are more generous in the public sector. Bus industry wages are thought to be relatively high in comparison with those for work of similar skill.

It is formally prohibited to set up a long-distance bus service where the railways can provide an equivalent service. Yet there has developed in recent years a very active, effectively free-entry, long-distance market operating under the guise of tourist services.

The law of March 1990 distinguishes between the metropolitan areas (Lisbon and Oporto) and the rest of the country. In the metropolitan areas commissions have been set up with the task of establishing and implementing a public transport plan and determining procedures for the regulation of the system. The present state ownership of the publicly-owned operating companies is to be transferred to the municipalities, which appear rather reluctant to receive them. A "London style" system could emerge.

For the rest there is to be complete deregulation, subject only to a qualitative licensing system for operators. The state retains a power to constrain maximum fares, and the municipalities will have the right to supplement the commercial network by contracting for subsidised services. The conditions applying to this aspect of the system have not yet been decided.

3. THE COMPARISON

The similarities of the new British and Portuguese regulatory systems are very striking. So were the similarities in the prevailing circumstances before deregulation, with a very conservative regulatory regime; strong unions in the protected, publicly-owned parts of the industry earning relatively high wages; and a buoyant private sector in the express, tourist and fringe stage markets offering the possibility of an effective competitive threat. But Portugal is the exception rather

than the rule, and it is the more general unwillingness to introduce total deregulation that we have to explain.

Initial regulatory regimes

The original institutional regime in the UK was one of local monopoly franchising, ostensibly on a route-by-route, but effectively on an area-wide, basis. The formal regulatory body was a quasi-independent authority, with no direct links with the local planning authority. In practice, increased dependence on subsidy from the local authorities meant that real control had already progressively moved to them. In the metropolitan areas that was formally recognised in the powers and duties of the PTEs after 1968. In some respects, however, the pre-deregulated UK situation was already relatively liberal: there were low levels of subsidy in the shire counties, and operators were able to make initiatives to improve their finances or their market size with little hindrance from either the licensing or the political authority.

In most other European countries the regulatory regime also seems to have produced *de facto* area monopolies, whether the licences were formally route-specific or not. A striking difference, however, is that the licensing responsibility was in all other countries more directly executed by a political authority than in the UK. In most countries, moreover, this power was decentralised to the most localised level of political authority appropriate. Indeed, much recent reforming effort has been directed to extending this local political responsibility, with inducements to efficiency built in through the arrangements for financing support.

Structure of the operating industry

Before deregulation services in Britain were predominantly provided by municipally-owned companies in the major urban areas, and by the subsidiaries of a nationally owned company for the rest. The private sector was involved in local scheduled service only in rural areas and in fringes of the urban areas of little interest to the major incumbents. It did have, however, a large share of special contract services, and, after 1980, freedom of entry into the express sector.

For the major urban areas public ownership was also the norm in most other countries: in municipal hands in the larger countries and in regional or national operating company hands in the smaller. Only in the French system was there a substantial private sector. Outside the major urban areas several countries had private operators licensed to operate local scheduled services either in their own right (Spain, France) or under subcontracts from public companies (Belgium, Denmark). Maintenance or extension of the role of the private sector appears to have been incorporated in recent reforms, without any necessary association with a commitment to free entry, or even competitive tendering. Moreover, the public ownership of buses and infrastructure, and the legal commitment for new management contractors to continue the employment of existing staff, may further weaken the effect of private management and of apparently competitive processes.

Productive efficiency

The operational indicators of the cost problem in the UK were low levels of physical productivity (in bus kilometres per employee) and high relative wage rates (a high ratio between average earnings of bus employees and employees

in manufacturing industry, and large disparities between private and public sector bus operators). Some other countries in our sample show very similar performance problems, and are seeking policies to overcome them (for example, the Netherlands, Sweden, Eire). Others recognise the phenomenon but do not appear to be pursuing any structural or regulatory policies to eliminate it (for example, Italy, Spain). A third group apparently do not regard it as a substantial problem, either because they have a private sector which is already playing a substantial role (for example, Belgium, France), or because in view of the union position it is not believed that changing the structure will substantially change operating arrangements or costs.

The labour market

The institutional indication of the potential for reduction of labour cost in the UK was the juxtaposition of a strongly unionised labour force and a subsidised monopoly operator. Cost reductions have arisen mostly from increases in labour productivity and from reductions in real unit labour costs. Both have been achieved because the power of organised labour to sustain conditions and rates above free market rates was weakened by a political environment in which concern about the effects of union power was not restricted to the extreme right, and by an economic environment of high unemployment. Those conditions seem to be most closely mirrored in Portugal, where full deregulation is being introduced outside the metropolitan areas.

In several countries it is believed that comparable reductions in real labour cost are unobtainable. This may reflect historically weak unions which could not fully exploit the protected product market (for example, the Netherlands), unions exercising leverage through legal powers within company management (West Germany), much tighter labour markets, particularly in metropolitan areas (France), or even a strong political commitment to prevent competition from the non-unionised sector (Belgium, France, Denmark). Whether or not those countries are right in perceiving that their labour cost position is more favourable than that of the UK is more difficult to judge.

The role of subsidy

Bus services in the UK were normally supported by direct subsidy from the local authorities, usually on the basis of deficit support of a network operation. Global deficit financing has also been the rule in most other countries, though with variations in both the proportionate extent of subsidy and its source (municipal, regional or national). As in the UK, subsidy has typically been increasing, and has appeared as a problem to the political authorities.

A number of avenues have been explored. *Ex ante,* norm related, budgeting of support, accompanied by more local financial responsibility, is replacing pure deficit finance in the Netherlands. In Belgium and in non-metropolitan Denmark, the combination of budget constraints on the public operating company with a freedom to subcontract creates some inducement to find scope for lower-cost private operators, without formally abandoning the monopoly planning powers of the public sector operator. Competitive tendering has been introduced in Sweden and in Copenhagen, and appears to be under consideration in Eire and

in the Federal Republic of Germany. Only in non-metropolitan Portugal has complete deregulation been seen as a desirable solution.

Potential competition

Particularly if the market is not considered to be inherently highly contestable, a necessary condition for competitive pressures to bind in a deregulated regime is the prior existence of some credible competitive threat. Although few private companies were active in local bus operation in the UK before deregulation, there were several important potential sources of competition and competitive experience. A large, competitive non-scheduled coaching sector had already shown some willingness to enter into a deregulated scheduled express market; school services were already widely subject to competitive tender and contested between public and private sectors; and municipal and non-municipal operators overlapped considerably and jealously. The existence within the National Bus Company of a decentralised management structure also made it relatively easy to fragment as a further stimulus to competition.

The situation in other countries was very different. In several (France, Belgium, Spain) a substantial role had already been found for private companies within the regulated regime, so that their vested interests were in the retention of licensing controls.

Moreover, overlaps of operations were usually within a strictly planned environment. There was thus typically little experience in competition between private and public sector operators, even in the schools transport market. Nowhere was there a formally deregulated express sector, though it is significant that in both Eire and Portugal, where a degree of *de facto* freedom of entry had been established in the express market, there have been pressures to extend that area of freedom to provide a role for competing private sector operators in the local scheduled market.

Innovation

Inadequate innovation was perceived in the regulated regime in the UK. Deregulation has seen increased use of smaller vehicles, often associated with new routes providing better accessibility. Few other countries appear to view innovation in the same light. Minibuses are often viewed as irrelevant to metropolitan transport, and the level and frequency of service adjustment in the UK is regarded as one of the costs rather than the benefits of deregulation. The preferred indicators of technical innovation are higher quality (usually large) vehicles and associated control systems, and product innovation is more highly regarded in the form of promotional ticketing and other devices yielding gains in consumer surplus rather than producer surplus. Competition is viewed as inimical rather than favourable to innovation.

The framework of urban and regional transport co-ordination

In the shire counties in the UK the framework of co-ordination, both with other transport modes and with other aspects of urban and regional policy, was historically very weak. In the metropolitan counties co-ordination was formally better provided for, though in many cases it was effective only within public

transport rather than in the broader field of regional land use and transport planning. Deregulation coincided with the reduction of local government autonomy, particularly through the abolition of the metropolitan county governments.

In most European countries exactly the opposite applies, and conscious policies of decentralisation are pursued. In some (for example, the Netherlands) attempts are being made to reduce the extent of subsidy to public transport, but only in the UK is it strongly perceived that the elimination of the local political interest will be a major contributor to that end. The more general view is that political control over price levels and service levels and structure (to be exercised, particularly in the case of structure, at the local planning level) is an essential requirement of a local transport regime.

The main problems that have been perceived in the UK have concerned the undermining of various aspects of co-ordination between operators and modes, particularly in metropolitan areas. Tyson has found earlier in this issue that at least some of the aspects of co-ordination thought to be in jeopardy have in fact survived (for example, multi-mode ticketing systems and modal service co-ordination), and that it is probably in service stability and in availability of information that the enduring (and possibly inherent) problems of deregulation have arisen.

In most countries the controlling authorities in urban areas have enforced relatively simple fare structures – to the extreme extent of nation-wide availability of tickets in the Netherlands. That would certainly make it difficult to accommodate complete market freedom, but seems to be quite irrelevant to the argument for supply side competition. Nevertheless, there appears to have been little systematic examination of the range of possible forms in which some competitive impact could be obtained.

4. CONCLUSIONS

Our enquiries have shown that local bus services are operated under monopoly franchises in most of the countries we have examined; only Denmark, Sweden and Portugal appear to be to any significant degree competitive. Moreover, all those local monopolies have been in existence for many years; so the *a priori* expectation would be that regulatory capture has occurred, and that in the context of the more liberal spirit of the age there would be strong pressure for liberalisation. In the event, there has been little move in the direction of free entry, even where liberal or conservative parties have been in power (West Germany, the Netherlands), or where regimes have recently been reformed (France, Denmark, Belgium, Sweden). Our concluding objective is to try to explain that paradox.

Differences in the perceived performance of the system is a partial explanaton. Hardly anywhere is a lack of innovation in public transport perceived to be an issue. In countries where there is already a substantial private sector component in supply, or where (as in France) the power of trade unions is not strongly expressed through the collective bargaining process, high costs are not perceived to be a serious problem.

But in many countries the indicators of excessively high costs are plainly to be seen, yet this does not lead to deregulation. The most plausible explanation is that public transport is seen primarily as an element of a locally planned social infrastructure, which requires direct local political control. The implementation of regional or (in the Netherlands) national fares systems, often applying to all modes, is perceived (perhaps incorrectly) to be incompatible with a deregulated market. There is a more general commitment to using local transport policy as an instrument for the achievement of broader goals, and particularly to providing substantial autonomy for the selection of those broader objectives at the local or regional level. The greatest emphasis is thus put on maintaining effective leverage. Total commercial freedom for operators is seen as the antithesis of this. Thus even where services are provided by private companies, as in France, or through competitive tendering, as in Sweden, there remains a commitment to planned integration of public transport and to local autonomy in application.

Finally it should be noted that in our enquiries we found that the perceptions of British experience with deregulation were largely unfavourable. In many cases these perceptions appeared to be based on scant information, either of the complicated nature of the British package, or of the different experiences in different locations. There was no recognition of the possibility that integration was not really in jeopardy, or that it could be protected by reliance on the more limited measures of comprehensive competitive tendering. Even in the most radically intent countries, competition had to be limited either to areas where no integration issues were perceived to arise (Portugal) or to supply side competition within a largely planned system (Sweden and Denmark).