

Regulatory Reform in European Public Transport: What Can We Learn?

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1. INTRODUCTION

Public transport has been evolving rapidly in the past several decades. In European countries, public transport organizations are somewhat unstable due to the fact that regulatory reform perpetually creates new forms of organization with diverse objectives. For instance, the bus industry before privatization comprised State-owned companies that were aimed at providing public transport services as a social service. However, the privatization and deregulation of the bus industry, which brought about competition, created authorities aimed at controlling the competition between operators. Further, these measures induced the establishment of private operators whose purpose is to generate profits as commercial organizations. These changes have had a direct impact on the organizational structure of the public transport industry.

The main reason for regulatory reform is to reduce government involvement in public transport services. Governmental response to public needs is ineffective and counterproductive for a number of reasons (Berechman 1993). First, government (organization) is inefficient and costly. Second, it does not encourage the personal initiative of individuals and organizations. Third, private-sector operations outperform the public sector since they are more sensitive to economic incentives. Fourth, it does not follow that a service not provided by the market must be provided by the public sector. If the public sector wants this service to be provided without actually producing it, the public sector can finance its provision (through, for example, outsourcing). Such an ideology calls for reforms that are aimed at less government involvement and increased roles for market forces (Savas 1987).

What is important here is not only the types of reform, but also the process through which reform is implemented. The regulatory reforms in the sector have radically changed the industry structure. We have seen many new organizational forms, both public and private,

that have emerged. That phenomenon is partially due to the fact that the privatization process creates many new public and private organizations. For public organizations, we see the establishment of a public transport authority that is responsible for the tendering process. For private organizations, the evolution inside the firm has been considerable, as a new type of division is initiated in the firm in order to be competitive in the market.

This article reviews the regulatory development of the public transport sector in Europe. It focuses on the issue of organizational change in an environment of regulatory change. The article first describes the recent regulatory reform of local public transport in European countries. Then, two case studies, the British and Dutch cases, are analyzed to illustrate the organizational response to the regulatory changes. Finally, the article provides an analysis on what could be the potential implications for Thailand in learning from the European regulatory reform process.

2. REGULATORY REFORM OF LOCAL PUBLIC TRANSPORT IN EUROPEAN COUNTRIES

The regulatory framework of the European public transport sector has changed significantly over the last 15 years. The move toward the Single European Market (SEM) within the European Union (EU) is a particularly important catalyst for this acceleration (Button and Costa 1999). The SEM was a necessary condition for the creation of liberal transport markets to meet the overall objectives of exploiting national comparative advantages in the production of goods and services within Europe. Additionally, it compelled the coordination and planning of transport infrastructure provision. The EU recognizes the importance of the public transport sector, and it is attempting to increase the efficiency of the system through the introduction of competition. The public

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transport sector, including buses and railways, has gone through radical changes in terms of its organizational structure.

There is a variety of regulatory frameworks for local public transport in European countries. The different local public transport modes (e.g., bus, tram, or underground railway) also have different organizational structures. Preston (2001) proposed a simplified classification of three broad types of regulatory and organizational structure in public transport usually found in European countries. The first category is regulated, publicly-owned monopolies ("the classic model"). This was the dominant organizational form in Western European countries. However, there may be some cities that have variations on this regulatory structure. Moreover, more and more countries have opted to move toward the second model, the tendering or limited competition model. There are a number of variants in this category. The two most common are the Scandinavian model, based on minimum cost tenders at the route level; this is the dominant form in Sweden, Denmark, and Finland, and the French model (outside Paris), based on network management contracts (Preston 2001). The third category is a deregulated, free-market model. This is the dominant form in the United Kingdom outside London.

The MARETOPE Project (2002) surveys recent developments in the regulatory system of local public transport in European countries. The project observes four main groups of countries that share common characteristics with regard to the transition stage and political targets. The first group is a highly deregulated and privatized market. The United Kingdom is the only country in this group. The second group comprises countries in transition toward competition by public tendering. Countries in this group are the Scandinavian countries, the Netherlands, France, and Italy. The third group consists of those countries with a mixed public/private regime without public tendering. Countries in this group are Germany, Belgium, Luxembourg, Greece, Portugal, and Spain. The final group is made up of countries in the process of decentralization and privatization. Countries in this group are mostly in Central Europe, such as Hungary, Poland, and the Czech Republic.

In historical perspective on regulatory reform of the bus industry, the United Kingdom led the way in significantly deregulating the urban and rural public transport market when it introduced the 1985 Transport Act (Button and Costa 1999). This act established the following objectives for the local bus service in Great Britain: to abolish quantity controls (road service licensing) on local bus services outside London; to restrict subsidy payments in support of public transport for local services to unprofitable routes required to meet social needs; and to make fundamental structural changes in public-sector bus ownership (McGuinness et al. 1994). The most vital aspect about this regime was that the

operators could determine fares and services on a purely commercial basis, with the exception of those areas that were not commercially feasible, and where socially necessary services were needed.

There are a number of studies that discuss the effects of deregulation in the United Kingdom. The main effects of deregulation have been excessive capacity, decreased quality of bus services, and increases in real fares (White 1995). It was the lower quality of services and the increases in real fares that resulted in the sharp decrease in bus ridership. The increase in bus-kilometers seems to have had very little effect on demand (White 1997). There are several service dimensions, not only the subsidiary service, but also infrastructure and vehicle investment, in which both the operators and local authorities have had to take responsibility (Mackie 1999). Investment in bus infrastructure dropped dramatically in the year after deregulation as a result of both "the effective divorce of bus operation from social planning and reforms of funding mechanisms by government" (Huntley 2001). Thus, there was an effort to stimulate investment in this gap. After several years, trial projects had been introduced and the Quality Bus Partnerships (QBPs) or Quality Partnerships (QPs) scheme emerged.

The concept of the QPs was introduced in the early 1990s. Since then, QPs have been widely accepted by local governments. In this scheme, QPs exist through partnerships at the local level involving bus operating companies, and local authorities, as well as the Passenger Transport Executives and Authorities (PTE/PTA). There are two different types of QPs: QBPs and Quality Contract Schemes (QCSs). The difference between these two is that QBPs are based on voluntary partnerships (i.e., they do not legally bind by any legislation), whereas the QCSs are based on statutory contract, which ensures that both the authorities and the operators are legally responsible for any commitments that are made under contract.

In terms of the effects of deregulation on innovation, Sumet and Geerlings (2006) observed that deregulation in the United Kingdom presented a radical movement of innovation. Deregulation had profound effects on all three innovative capabilities, i.e., infrastructure, vehicle and service operation. The innovation in infrastructure and vehicle development seems to have had negative effects, such as a lag in investment in infrastructure and a decrease in the average age of vehicles. However, the result of that lag in investment led to the introduction of the QBPs in order to improve the infrastructure and quality of vehicles, as discussed previously.

Another approach discussed previously is the competitive tendering approach. Scandinavian countries commonly use the competitive tendering approach for their bus services, or the so-called limited competition approach. In Sweden, before deregulation in 1989, it was compulsory for the authorities to allow the scheduled bus services to be provided by those bus

companies that had exclusive licenses to operate certain routes (Alexandersson et al. 1998). Bus companies faced no competition on their routes. Deregulation came into force in 1989, when all earlier road licenses were abolished. This reform opened up the opportunity, but not the obligation, for each local authority to promote competition among the bus companies by purchasing public transport services through competitive tendering. It should be noted that the Swedish reform, especially when compared with British deregulation, was less radical (Alexandersson et al. 1998). The Swedish reform was designed with the main purpose of making it easier for the local authorities to coordinate and restructure their bus services and to bring down their costs. Most importantly, it is still not possible for bus companies to start up their services wherever they wish – neither on new routes nor on parallel routes competing with existing ones.

Another remarkable organizational development in the public transport sector in recent years is the multinational public transport operator companies. Arriva (a company of British origin), Connex (a company of French origin), and Keolis (also of French origin) are operating throughout Europe. These companies operate not only internationally, but also multimodally (i.e., operating both bus and railway services). For example, Arriva in the Netherlands operates both bus services and railways. This trend seems to be increasing currently in European countries. As new organizations have emerged, (traditional) national operators, such as Deutsche Bahn (DB), the national railway operator in Germany, and Nederlandse Spoorwegen (NS), the national railway operator in the Netherlands, compete wherever possible. Without a doubt, they have benefited from this development by intervening in the operations or by acquiring participation in new markets, either in their own countries (e.g., RATP, the urban transport operator in Paris, in Mulhouse and Clermont-Ferrand) or in other countries (such as NS, through its daughter company, NedRailway, which has won a contract for urban railway transport in Liverpool) (European Commission 2005).

In sum, there is a great deal of variance in the way each country implements regulatory reform in public transport. Also, the implementation of reform evolves over time. Thus, the organizational responses to deregulation are also diverse. In the next section, we focus on two specific cases: the British and Dutch cases, to analyze the organizational responses to the regulatory changes in each country.

3. ORGANIZATIONAL CHANGES IN PUBLIC TRANSPORT: A RESPONSE TO REGULATORY CHANGE

In this section, two cases are presented to compare the effects of regulatory reforms on the

organizational changes, namely the British and Dutch cases. This section concentrates on the transitional process whereby the organizations (both the public authority and the private operator) change and develop themselves under the new regulatory environment.

The British Case

The breakthrough in public transport regulatory reforms came as a result of the British deregulation case, specifically the Transport Act of 1985, which established local bus services in Great Britain in order to do the following: to abolish quantity controls (road service licensing) on local bus services outside London; to restrict subsidy payments in support of public transport for local services to unprofitable routes required to meet social needs; and to make fundamental structural changes to public-sector bus ownership (McGuinness et al. 1994). The essential element of this regime is that the operators can determine fares and services on a purely commercial basis, except for areas where it is not commercially feasible to do so and socially necessary services are needed.

It was anticipated that deregulation would have a number of consequences. It was contended that, through a process of deregulation, new operators would be able to enter the market and incumbent bus undertakings would be transformed into more innovative, market-oriented and commercial companies (McGuinness et al. 1994). With respect to innovation, Mackie et al. (1995) revealed that established firms have been quite willing to develop new service patterns, and to switch from big bus operations to mini- or midi-bus operations. They concluded that a large, well-managed incumbent had sufficient sources of competitive advantage to successfully deter the entry of competitors, or at least to restrict the competitive fringe.

In an early evaluation, McGuinness et al. (1994) studied the organizational responses and found that the bus companies had three strategic responses to the competition created by deregulation. The first strategic response is defense. This strategic response is based on protecting core activities and averting risk whenever possible. The second strategic response is sensitivity to the market, which is based on promoting a corporate image, improving service quality and innovating services. The last strategic response is commercialization. This strategy is based on a financially sound and cost-conscious business operation, confronting competition (real or imagined), acquiring competitors and bus-related business activities and diversifying into other business areas (McGuinness et al. 1994).

In general, in the early days of deregulation, from 1985 to 1993, most companies concentrated on a defensive strategy, by limiting their risk, especially in terms of new investment in new vehicles. However, the second wave of strategy followed very quickly, which is the third strategy (commercialization), in terms of the

merger and acquisition of the bus companies. In fact, one of the biggest changes in the industrial environment has come in the form of the merger wave and market concentration (Mackie 2001). In the bus sector in the United Kingdom, the big five companies control more than two-thirds of the national market (Sumet 2006).

The Dutch Case

Prior to the year 2000, local and regional public transport in the Netherlands historically was based upon the principle of market initiative, but it de facto moved gradually away from that principle, giving a great degree of stability to incumbent operators, which were mostly authority-owned (Velde and Leijenaar 2001). Although it was legally possible for private operators to make new entries, such action hardly took place in practice. Nevertheless, there was a discussion on reform from 1992 to 2000, and two experiences with competitive tendering (with mixed results) took place in 1994 (Velde 2003).

The major development in Dutch public transport in recent years was the introduction of the Passenger Transport Act 2000. The aim of this reform was twofold: more attractive public transport services (especially in areas worst affected by congestion) and an improvement in cost-recovery ratios (Velde 2003). That act decentralized power to provincial and regional authorities, and the competitive tendering of public transport services for concessions was introduced gradually. Additionally, authority-owned local transport companies were put at arm's length or privatized. The process of reform was set to be complete by the year 2006. However, there was to be a "go/no go" decision to move 100 percent in 2006 after a parliamentary evaluation (based on passengers, quality, and costs) by the end of 2004. In an early assessment of this reform, Hermans and Stoelinga (2003) studied potential impacts of the reform in three aspects: service level, patronage, and cost efficiency. The results were positive, yielding an increase in the service level, patronage, and cost efficiency, although some barriers still remained.

In terms of organizational response, Sumet (2006), based on three case studies showing that the tendering process took place between 2002 and 2004, found that the competitive pressure from the tendering process leads to situations in which the operators must innovate in order to be competitive in the market. One common development that he found is the use of a tender team, which could be considered as an organizational innovation.

An Analysis of Innovative Capabilities

The two cases above illustrate two different regulatory regimes that create different organizational developments. This sub-section presents an analysis of the innovative capabilities of each system. Using the definition of innovative capabilities developed by Sumet

and Geerlings (2006), we can analyze the innovative capabilities of each case as follows.

The British case seems to present a radical movement of innovative capabilities. The deregulation affected all three innovative capabilities, i.e., infrastructure, vehicle and service operations. The innovation in infrastructure and vehicles seems to have had negative effects, such as a lag in investment in infrastructure and a decrease in the average age of vehicles. This led to the introduction of the QBPs to improve the infrastructure and vehicle qualities.

In contrast to the British case, the Dutch case seems to be less radical. Generally, the innovative capabilities in infrastructure and vehicles are invariable. Much of the innovation was in the hands of the authorities or at their initiative. Development occurred mostly in the service operation aspect. The Dutch case has gradually changed and any significant indication can hardly be identified. The change process is still taking place in many areas. Although the tendering process seems to be finished after a concession has been awarded, adjustments are made afterward. These adjustments can be seen as learning elements of both the public authorities and the operators.

In sum, the British case, in the deregulation scheme, shows changes in innovative capabilities in all aspects (both negative and positive), whereas the Dutch case shows changes mainly in the service operation aspect. Although White (1995) suggested that imitation of deregulation would be unwise and he recommended that competitive tendering be conducted within a coordinated network model. The British case shows, in the long term, that radical change brings more innovation to the systems, not only the service operation, but also the development of innovation in infrastructure and vehicles.

4. PUBLIC TRANSPORT POLICY IN THAILAND: HOW SHOULD WE PROCEED?

The prospect for public transport in Thailand is rather limited. Apart from a few initiatives of new transport systems, such as new metro systems and bus rapid transit (BRT), the role of public transport, especially that of the bus system, remains overlooked. In fact, there is hardly a coherent policy on public transport. This might be due to the fact that a large number of agencies are in charge of transport. For example, 27 agencies are in charge of transport in the Bangkok Metropolitan Area (BMA) (Halcrow Fox 2000). This might be a barrier to the formulation of a centralized policy on public transport. The situation is further complicated when each agency competes against one another in the initiatives, which in turn creates wasteful competition within the public transport sector *per se*. Furthermore, informal or illegal public transport is also another non-regulated mode that contributes to

the complications in public transport planning in Bangkok. This creates unbalanced competition between the regulated (i.e., bus) and the non-regulated (i.e., unlicensed mini-bus and taxi motorcycle) modes.

Clearly, Thailand needs a radical change in the public transport sector. Although it is an impossible task to get things organized overnight, especially when the system is so complicated and involves a lot of agencies which have no incentive to give up their responsibilities, some actions are needed in order to create incentives to improve the quality of the public transport services. It is necessary to reorganize the public transport services in a way that will enhance efficiency improvement as well as quality improvement. One possible option is the tendering scheme used by many European countries. Competition will ensure efficiency and quality improvement, while excessive services will not be created. However, as we learned from the examples above, the change process requires time. It took more than five years for the authority and operator to fully participate in the new regulatory environment. The Dutch case shows that they can utilize the process and achieve better quality public transport services within a short time (2-4 years). Within this changing period, clear objectives are needed, and the time frame of the transitional period has to be clearly identified. Given this example, the bus transport system in Bangkok could be revitalized and be made more effective.

What is vital for Thailand is the organization of the public transport systems. We see that the European countries have a well-organized public transport system, which is the result of a well-designed regulatory framework. We need to address the issue of the organization of competition with the public transport sector. Rather than competing within the public transport sector (i.e., buses competing with mini-van services), we need to organize public transport so that it could (probably) compete with cars. This issue concerns the integration of the services between modes, and one possible way is to initiate an integrated ticketing system. This would also improve the quality of public transport services.

Finally, transport policy, transport pricing and public transport policy must be integrated. What we see now is unbalanced transport pricing, where the formal (bus and metro) and informal (mini-van and taxi motorcycle) prices are not consistent. It is essential to make these pricing policies coherent. It was suggested by Agachai et al. (2003) that the misleading cost structure for transport services leads to the problem of market failure. In order to prevent this problem, these policies must be realized. Furthermore, we need to put more emphasis on the role of public transport in transport policy, so that public transport could make a significant contribution to mobility in Bangkok. To do this, again, radical change in the regulatory framework is needed.

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