

Bus Competition

1. Introduction

When considering the options for introducing competition into non-urban bus services, at least three options could be considered for the continuing responsibilities of government:

- planning services and various operational functions such as ticket selling, scheduling and bus station services (as occurs in Mongolia and CIS countries),
- planning services only, leaving the operators free to collect revenue and provide passenger services at bus stations,
- ensuring only that services, planned by operators, meet safety requirements.

The first option prevents responsibility for bus planning from being given to operators and does not encourage development of new routes or service features, nor efficient administration. The task of planning routes is a considerable burden on government and diverts it from the task of regulating safety aspects. There is a danger that government may use its commercial role in ticket sales to finance its general road transport regulatory activities, which would be an unjustifiable burden on the bus passenger that would encourage use of private cars rather than public transport.

The second option would still not give bus operators any incentive to innovate, and would continue to incur all the costs of assessing and forecasting demand, planning routes and perhaps timetables, advertising and awarding tenders, and monitoring all the services. It might also require government to estimate and set fares. This would involve a considerable staff of government bureaucrats and planners, which would increase fares and discourage public transport use.

The third option would allow operators to compete freely subject to minimum safety standards. This gives operators the incentive to plan services effectively and adapt services to passenger demand, often resulting in a choice of service types and levels (different types of seating, air conditioning, special features etc.). Under such competitive conditions there should be almost no need for any fare controls (only if monopolies develop). Government would be free to concentrate on regulating safety and competition. Intervention in service planning and provision by government would only be required where service levels fall below socially acceptable limits, possibly in remote rural areas. In these cases the government can pay for additional services through awarding contracts to operators on a competitive basis.

The third option appears to offer the best range of services at minimum cost. It is a workable option which provides a range of services and fare levels in countries such as the Philippines, Chile and the UK, where regulatory controls allow service innovation by the operator. Where the other two options have been tried in developing countries or transitional economies, problems have been experienced in achieving truly competitive tendering procedures with sufficiently transparent processes that ensure fairness. These options may be retained as only interim

measures until further market reforms are introduced. Until the success of these approaches has been demonstrated, the third option remains the best choice.

2. Bus Station Policy

In non-urban bus transport, serious problems over bus stations arise from government intervention in provision and use of bus stations which are not required by passengers nor operators. Indeed it appears in some cases that the main purpose of the bus station is to raise local taxes rather than to serve passengers.

The problem stems from a misguided planning approach that places the bus station at the center of the passenger transport system and organizes bus routes around them. In fact, to provide efficient and demand-responsive passenger services, planning should follow the following process:

- firstly identify the passenger demand pattern,
- then plan bus routes that can best serve that demand pattern, and
- only then identify the need, if any, for bus stations where passengers need to board and alight.

In accordance with this demand-based planning approach, the bus stations are considered last. Assuming that bus operators are responsible for planning their routes, this implies that in principle bus operators should (a) have the choice whether or not to use bus stations and (b) be allowed to develop their own bus stations, or facilities within existing bus stations.

In practice there can be urban planning issues which may prevent such choices to be made in some towns: limited road capacity may make it difficult or even dangerous for buses to stop on the street rather than use bus stations (especially if there are substantial amounts of luggage to load and unload). There may be insufficient land to develop bus station sites in the ideal places.

There may be competition issues too. A bus station in an attractive location may be owned or controlled by one or more operators, giving them a dominant marketing advantage on certain services, which prevents effective competition.

To help deal with these issues, the local government should be given a clear responsibility to provide land for bus stations in accordance with passenger demand and the wishes of bus operators. They should work with bus operators to identify the best way of providing these stations. In general, the costs of bus station provision should be paid by the users. If provided by government, this implies that charges should cover the provision cost and be set in a way that encourages efficient use of the bus station. However many bus stations have been provided as a public amenity, without taking into account their cost-effectiveness. It is possible that even the operations and maintenance costs cannot be met from user charges without significantly increasing bus fares (by more than, say, 10%). This can place a serious burden on bus passengers and deter use of formal public transport - it is not uncommon for bus companies that use bus stations to face competition from operators of cars and buses that use informal sites outside the bus station. To avoid discouraging use of public transport, the government should seek other sources for financing bus stations, through encouraging commercial development. This can be done initially by giving existing bus station management the powers to enter into commercial businesses. Eventually the

government can award contracts for private bus station managers to take over the task for a set period. In either case, the government should consider whether or not there is a need to keep controls on access by operators to the bus station, to ensure competition, and whether or not there is a need to control bus station charges, to avoid bus station managers abusing monopoly positions.

To ensure that bus operators have a choice whether or not to use bus stations, the conditions for issuing route licences should be carefully reviewed to make sure that operators are not obliged to use bus stations and that the powers of local authorities to refuse licence applications are strictly limited to safety matters, rather than extending to other matters such as choice of bus station.

3. Monitoring Services

Bus services are subject to competition even under heavily regulated circumstances: private cars are often available to carry people between cities, and trucks carry people in remote rural areas. It is not uncommon for illegal bus operations to appear if the regulated bus service does not meet passenger needs. This is one reason to avoid systems of regulation that prevent operators from adapting service levels and fares to suit passenger demand.

Monitoring competition, not just between public transport services but also between public and private transport, is important in checking effectiveness of policy measures towards public transport in order to establish if

- safety standards are being achieved, through maintaining records of accidents,
- if bus services are meeting passenger needs.

Even under liberalized regulatory regimes there is a continued need for government to monitor competition in order to identify anti-competitive behavior through practices such as

- restrictions by operators on access to public bus stations, often with the tacit support of local officials who gain financially from the arrangement,
- restrictions by operators on dispatch of buses from bus stations, forcing all operators to join a queue, which reduces utilization and discourages investment in new buses,
- aggressive pricing for limited periods of time by dominant operators to drive out competitors, and
- aggressive on-the-road competition by large operators to drive out smaller competitors, such as scheduling additional buses which operate just ahead of competitors.

Little routine information is needed for monitoring of bus service competition beyond that normally available from route licensing or registration systems, namely the pattern of service provision of each operator (or group of operators) and the fares charged. Such information, combined with reports of anti-competitive or monopoly behavior from other operators or passengers (for example, higher than expected fares), offers a starting point for more detailed investigations that may be required from time to time.

What action can be taken depends on the state of anti-monopoly legislation and the powers of the transport regulator. In some countries anti-monopoly legislation is not well developed and so

action may be limited to that possible under transport regulation (usually just safety issues but it may extend to more general fitness conditions for operators).

Two alternative approaches could possibly be adopted, perhaps in combination, to combat monopoly behavior: sanctions against the monopolist or actions to reduce entry barriers and encourage alternative services. Adopting the first approach may be controversial and risk causing disruption to services. The regulatory agency may be reluctant to take such action because of the time and effort involved, and the potential side effects. The second approach can be pursued through

- ensuring suitable provision of bus stops or station facilities for alternative operators,
- removing unnecessary entry barriers to the business, such as complicated procedures for granting route licences,
- ensuring that operators of non-scheduled coach services can compete with operators offering scheduled services (especially where these are dominated by one operator).

This approach could be easier to take, especially if government has already established a dialogue with the bus industry and has gained its support for bus policies and the principles on which regulation is based.