Transport Policy 56 (2017) 50–62

Contents lists available at ScienceDirect

Transport Policy

journal homepage: www.elsevier.com/locate/tranpol

Should I go by bus? The liberalization of the long-distance bus industry in France

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ARTICLE INFO

JEL:
L43
L91
G38
R40

Keywords:
Transportation services
Deregulation
Bus industry
Loi Macron
Intermodal competition
France

ABSTRACT

The opening up of the French long-distance bus industry is one of the outcomes of the *Loi Macron*. In this study, we build a unique data set of several representative bus routes and show that the effects of the liberalization have been encouraging in terms of fares, new entry, higher frequency, and higher quality. First, with regard to international routes that used to be under cabotage, we find that relaxing quantitative restrictions has led to the expected results on the Lyon–Torino and Paris–London routes. Second, with regard to domestic routes newly created from the *Loi Macron*, mostly all procompetitive expected variations in the variables have been observed, except for fares. Indeed, we show that bus operators used an initial aggressive pricing strategy to induce demand for the new services and then increased fares once customers became accustomed with the service.

1. Introduction

In summer 2015, the French government opened up the country's long-distance bus industry to competition.[1] This action was part of a set of measures proposed by the former Minister of the Economy, Industry, and Digital Affairs, Emmanuel Macron, aimed at fostering "growth, activity and equal economic opportunity"[2] (hereafter termed the *Loi Macron*). The main purpose of the reform was to provide a low-cost alternative to rail and thus create new demand for those who would not have opted for rail otherwise. According to a 2016 study by German bus operator GoEuro, France is the fifth most expensive country in Europe for rail.[3] The figures from August 2015 to June 2016 confirm the success of the government's objectives. During that period, bus services allowed 3.4 million passengers to travel. Nonetheless, the bus remains far behind other modes of transportation in terms of market share, accounting for only 2.5% of long-distance travel compared with 67.7% for car, 17.3% for train, and 9.3% for airline.[4]

The proposed reform followed the general move within the EU and United States towards the liberalization of network industries. For instance, regarding transportation in Europe, the first rail liberalization directive was proposed in 1991, while the final air transportation liberalization package was adopted in 1992.[5] Another example is the electricity sector for which liberalization and restructuring have also dominated EU energy policies since the mid-1990s. In comparison with the rail and air transportation service sectors, little European

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[1] Long-distance bus services include regular and scheduled passenger transportation services–also called express buses or intercity coaches–which satisfy transportation needs outside urban agglomerations, often between cities. The transportation means is usually coaches rather than buses, although no distinction is typically made between buses and coaches in many European countries.

[2] See Loi No. 2015-990 du 6 août 2015 pour la croissance, l'activité et l'égalité des chances économiques. Alongside the liberalization of the long-distance bus industry, the law also included, among other things, the reform of regulated professions, extension of Sunday and evening trading, and simplification of redundancy rules.

[3] For this study, more than 300 million domestic trips made in 40 countries between April 2015 and April 2016 were studied and their cost reduced to a distance of 100km. http://www.goeuro.com/transportation-price-index.

[4] With respect to the total number of trips made in 2014. See "La mobilité longue distance des Français en 2014", *Chiffres* & *statistiques*, 693, Commissariat général au développement durable–Service de l'observation et des statistiques, November 2015.

[5] On January 1, 1993, the third package of measures for the liberalization of the Community's airline market entered into force. See Burghouwt and de Wit (2015) for an analysis of the EU airline market.

http://dx.doi.org/10.1016/j.tranpol.2017.03.004
Received 29 February 2016; Received in revised form 25 February 2017; Accepted 5 March 2017
Available online 12 March 2017

legislation applies to the bus market; hence, there are significant differences between the regulatory environments within member states.

The French situation is specific for at least two reasons related to its policy choice and the particularities of its transportation network. First, over time, France has developed a dense rail network. In 1948, France decided to favor long-distance rail passenger transportation and gave SNCF, the national rail operator, the monopoly for rail transportation services. For occasional trips, implementing bus services for long-distance services was free, but subject to authorization for regular services that could reduce the attendance of existing railway connections. Therefore, a dense network of regular passenger rail connections was developed. In 1981, the country became the first in Europe to invest in a high-speed rail network (i.e., the TGV). This resulted in the second largest rail transportation network in Europe with 30,000 km of rail services including 2024 km with high-speed rail capacity.[6] Second, the transportation network has a star-shaped configuration centralized around Paris, which is a legacy of its development in the 19th century. The main routes connect the capital to the north (Lille) and south (Marseille). Therefore, some East-West connections are highly expensive, either by train or by airline. Indeed, some connections do not even exist without passing through Paris. Paris also has the largest French airport, Roissy–CDG.[7]

Until 2011, long-distance bus services were restricted to regional services. For instance, each *département* had the responsibility of organizing intercity bus services within its area (e.g., school transportation). Through a public service delegation contract, a bus operator could be found. International services including operators such as Eurolines also existed but without the possibility of serving domestic cities. In 2011, cabotage was introduced, which allowed international operators to serve domestic passengers, albeit under some quantitative restrictions. Since the enactment of the *Loi Macron*, which removed these regulatory constraints, the popularity of long-distance bus trips has taken off and new market entry has occurred. According to Autorité de régulation des activités ferroviaires et routières (2016), bus services connect 193 French cities, with 261 stops and have an average occupancy rate of 41%.

Based on an original data set that includes nine representative routes over nine months, the initial results show that the procompetitive effects of the *Loi Macron* have been encouraging in terms of lower fares, new entry, higher frequency, and higher quality. With regard to international routes that used to be under cabotage, relaxing the quantitative restrictions has led to the expected results on the Lyon–Torino and Paris–London routes. Second, with regard to domestic routes newly created from the *Loi Macron*, most of the procompetitive expected variations in the variables have been observed, except for fares. Indeed, we show that bus operators used an initial aggressive pricing strategy to induce demand for the new services and then increased fares once customers became accustomed with the service.

Our work relates to several strands of the literature. First, there is a stream of the theoretical literature on public economics and regulation in transportation industries (Kahn, 1988; Hensher, 2007). The latter has been characterized by relatively strong levels of state intervention in the functioning of markets because of previous market failures (e.g., natural monopolies, information asymmetry) and dissatisfaction with the market outcome from a socio-political point of view (e.g., minimum transportation standards, social justice, geographical distribution, difficulties in coordinating different transportation modes). Second, a number of recent studies have examined the empirical effects of past deregulation experiences in network industries (e.g., the seminal work of Morrison and Winston (1986) for airlines), particularly in various long-distance bus markets in Europe (e.g., White and Robbins (2012) for the United Kingdom; Dürr et al. (2016); Dürr and Hüschelrath (2015); Dürr, NS (2016); Knorr and Lueg-Arndt (2016) for Germany; Alexandersson et al. (2010); Aarhaug and Fearnley (2016) for Norway; and Beria et al. (2015) for Italy). Liberalization has often had positive effects on potential passengers by improving the supply of bus trips in terms of fares, frequency, and innovation. However, in some cases, the industry has consolidated through external growth, and few firms have emerged and progressively dominated the market (see Cowie (2002) for the United Kingdom).

The rest of the paper is organized as follows. Section 2 summarizes the regulation context and progressive liberalization of the intercity bus industry in France. Section 3 describes the empirical strategy, hypotheses, construction of the data set, and results. Section 4 concludes and discusses the future research agenda.

2. Liberalization of the long-distance bus market in france

As mentioned in the Introduction, the French long-distance bus market used to be highly regulated. In this section, we briefly describe the evolution of regulation in this market and proactive role of the competition authority (Autorité de la concurrence, ADLC hereafter) in fostering competition. We then discuss the enactment of the *Loi Macron* and role given to the transport regulator with respect to routes under 100 km. Finally, we present the economic environment and largest bus operators.

2.1. Regulatory background

Before 2011, most long-distance transportation services were either forbidden or strictly con- trolled with the only intercity bus transportation services those contracted by the transportation authorities (see Autorité de la concurrence (2014) for a thorough history of the intercity bus services market in France). These services included i) intercity connections established by *départements* or *régions*; ii) replacement services for intercity trains to neighboring *régions*, subject to agreement between two neighboring regions; and iii) routes described as of “national interest,” i.e. where the state was supposed to be the organizing authority but which were delegated based on agreement between and to the benefit of other transportation authorities (this affected only three routes: two between Picardy and Roissy airport and the link between Beauvais airport and Porte Maillot in Paris).[8]

In 2010, following the application of the 2009 EC regulation on bus services,[9] French legislation integrated the possibility of cabotage. The EU defines cabotage as.

> “the picking up and setting down of passengers within the same EU country in the course of a regular international service provided that

[6] See http://www.sncf-reseau.fr/fr/a-propos/presentation/reseau-ferroviaire. The first European train network was in Germany, with 41,000km of track.

[7] In our study, airlines are not considered for several reasons. First, airlines amount for a relative low number of domestic passengers compared to other modes of transportation (9.3% of the total domestic traffic). Second, the low-cost carriers (LCC) for domestic connections in France are not much developed, contrary to what can be observed for intra-European connections. Third, the routes considered in the empirical analysis do not have direct airline connections. Fourth, with regard to cost, apart from the routes served by LCC (2 out of 9 in our study), the average revenue per passenger-kilometer (pkm) varies from 0.2€/pkm to 0.7€/pkm (0.1€/pkm for connections served by LCC). Clearly, this mode of transportation is not a close substitute to bus or carpooling in France.

[8] In France, a transportation authority is a public authority to which the LOTI law for inland transport No. 82–1153 of December 30, 1982 entrusted the task of defining the service policy, namely the pricing policy of passenger transportation. In general, the transportation authority entrusts the operational mission to a private or a public transportation company. For instance, since 2001, *régions* have become the public transportation authority for regional rail passenger transportation. The regional rail service is provided by SNCF in return for financial compensation from the *région*.

[9] Regulation (EC) No 1073/2009 of the European Parliament and of the Council of 21 October 2009 on common rules for access to the international market for coach and bus services, and amending Regulation (EC) No 561/2006 (OJ L 300, 14.11.2009, pp. 88105).