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Workshop 7 report: Market initiative: Regulatory design, implementation and performance

John Preston ^{a, *}, Didier van de Velde ^b

^a University of Southampton, United Kingdom

^b Delft University of Technology, Faculty of Technology, Policy and Management, Section Policy, Organisation, Law and Gaming, Delft, The Netherlands

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ABSTRACT

This workshop reviewed recent good and bad practice with respect to market initiatives in public transport, with consideration of express coach, rail, local bus and unconventional modes. The options for market-led initiatives, and the associated regulatory requirements, were re-assessed with a new model posited, inspired by the ski-lift industry. It is recommended that more pro-active development (by operators, authorities and third parties) of new measures is required, particularly to permit service coordination and fare, ticketing and information integration.

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1. Aims of the workshop

This Workshop focuses on a theme that dates back as a Workshop to Thredbo 11 in Delft (Van de Velde & Beck, 2010) and that was developed further in Thredbo 12 (Van de Velde & Preston, 2013) and Thredbo 13 (Van de Velde & Augustin, 2014), but arguably as a topic dates back to at least Thredbo 5 in Leeds and the concept of light touch regulation (Carr, 1997). As in these previous conferences, this workshop discusses the current functioning and regulatory options for public transport regimes where autonomous market initiative¹ plays a role. This could be the main institutional feature of public transport organisation (deregulated regime) but discussion could also include hybrid regimes where market-initiative constitutes a marginal or additional feature to a market organised by contracting/tendering.

The workshop started by examining recent case studies provided by the workshop participants and discussed whether these

could be considered good or bad practices in both market initiatives and hybrid regimes. On that basis, the workshop first considered whether new ideal-typical regimes had emerged, compared to the main options for market-initiated regimes outlined by Van de Velde and Beck (2010) during the Thredbo 11 workshop. The workshop then moved to discussing the regulatory requirements for alternative regimes to function. This included the need for co-ordination between services and the extent to which the regimes considered delivered this. The discussion also covered the scope for industry concentration encountered in the various regimes along with the observed impact on competition both in the market and for the market.

Given the above, the outline of this workshop report is as follows. In section 2, we review some case studies, looking for examples of good and bad practice. In section 3, we go on to summarise the workshop discussion, covering the main setups for market-initiative regimes and discussing associated regulatory requirements. We finish by drawing some conclusions (section 4) and making some recommendations for future conferences (section 5).

2. Review of evidence and discussion of good and bad practices

The evidence base drew on the presentation of 12 papers (listed in the references) and the discussion drew on around 20

* Corresponding author.

E-mail addresses: jpreston@soton.ac.uk (J. Preston), d.m.vandvelde@tudelft.nl (D. van de Velde).

¹ The main characteristics of market initiative regimes are that entrepreneurs in these markets are expected to decide autonomously about entry into the market and service supply in the market. Decisions are made on a commercial basis and are as a matter of principle not subjected to a prior ordering by a transport authority (see Van de Velde, 1999 for a further discussion of these concepts).

participants (see acknowledgement) from 12 countries.² These presentations focused on three conventional modes. Firstly, there were presentations on express coaches where there had been some de facto coach deregulation in Brazil, at least in terms of fares (de Aragão), some very real deregulation in Germany (Knorr) and deregulation about to start in France literally as the workshop convened (Guihery). Between 2012 and 2014, the coach market in Germany grew rapidly from around 2 million to almost 20 million passengers per year. Similar growth is anticipated in France. In Germany, this period of growth has been accompanied with rapid concentration, with one firm currently controlling around three-quarters of the market.³ The response from the incumbent rail operator (DB) has been muted until 2015, although that might change in the next phase of competition.

Secondly, there were presentations on rail including a productivity study of European operators (Bougna), an assessment of the business structure of private railways in Japan (Song) and reviews of development in Sweden (Alexandersson, Andersson). Song demonstrated the inter-relationship between rail-related businesses and other businesses (e.g. leisure, property, retail) for Japanese train operating companies, which complicates regulation of these firms. Bougna found that competitive tendering had a greater effect on productive efficiency than other reforms (such as open access competition and vertical separation), with Andersson highlighting issues in Sweden with transition costs, transaction costs and misalignment costs. Alexandersson has noted that tendering of rail services in Sweden has reduced the need for operating subsidies and has reduced costs by over 10%. Open access competition has been permitted on rail routes in Sweden since 2011 and major competition has emerged between SJ (18 trains a day) and MTR (8 trains a day) on the Stockholm – Gothenburg route.

Thirdly, there were presentations on local buses in Sweden (Wretstrand and Danielson) and Wales (Preston). In Sweden, contracting-out was moving away from pure cost-based models to patronage-based models – the so-called Verified Passenger Boarding (VPB) model. In Wales, the market has been deregulated since 1986, but devolution in 1999 has seen the Welsh Government attempt to exert some control through its subsidy policy, particularly so as to encourage community-based initiatives.

In addition, there were presentations on other, less conventional, public transport modes. Emerson studied ski lifts in the Dolomites (Italy) and compared the arrangements there with those for ski lifts in Austria, Australia and New Zealand. Mbara examined tuk-tuks in Johannesburg in South Africa, a form of paratransit that seemed to have found a niche as a feeder mode to informal mini-bus services.

3. Synthesis of workshop discussions

The workshop discussions were organised around two main themes. The first was that of the institutional setups encountered or envisaged in market-initiative regimes. The second was that of the regulatory requirements associated with the functioning of these regimes.

3.1. Options for market-initiated regimes

The discussion on the main options for market-initiative regimes was framed by the options outlined by [Van de Velde and](#)

[Beck \(2010\)](#) and illustrated by the three first regimes included in [Table 1](#).

It should be noted that this framework initially looked at the prospects for introducing market initiatives into public transport markets that are predominantly shaped by authority initiatives. This is because authority initiatives are the predominant market form at least for local public transport in developed countries. However, this workshop is also interested in authority initiatives in predominantly market initiative regimes, such as local buses in Great Britain outside London and express coaches in Germany. Indeed the on-going liberalisation of long distance public transport markets in the European Union has given some impetus to regimes of this type.

There was particular interest from this and past workshops in the development of regime 2 but progress has been limited. New Zealand has shifted to contracting rather than this regime, whilst the Swedish pseudo-deregulation seems – so far – to have been something of a damp squib. In both New Zealand and Sweden there may be an issue with sequencing. In these public transport markets, authority initiatives and subsidised services pre-dominate, with commercial services effectively crowded out. There has also been little development in regime 1 (multiple contracts) or regime 3 (negotiated contracts with competitive entry threat), although the [Competition and Markets Authority \(2015\)](#) seems to be proposing something akin to regime 1 for rail franchising in Britain. Furthermore it seems to be suggesting another option akin to regime 4 as well, though without the same level of exclusivity.

The discussion initially focussed on the case study of the ski lifts, not least because this seemed to suggest an additional regime 4 in [Fig. 1](#) that is associated with Individual Line Ownership (ILO). The key features of the industry organisation of the ski lifts in the Dolomites indicated a market initiative with exclusivity based on payment per passenger carried. There was integrated network level ticketing and pricing, which was by the authority organisation, or Community Franchisor in the case of Dolomiti SuperSki, although this role could in other contexts be played by an operators' association. Ownership rights induce a focus on longer-term developments with related businesses (the skiing leisure industry) – which has some parallels with the set of incentives encountered in the private rail industry in Japan.

However, there were some concerns that the putative regime 4 could be a case of 'back to the future'. There were clear elements of pre-deregulation licensing, as existed for example in Great Britain between 1930 and 1986, and Route Associations, such as the *Collectivos* that dominate urban bus transport in parts of Latin America. Moreover, there may be irreversibility once property rights are assigned and there are also the dangers associated with grandfather rights, with monopolisation likely if there is no competition of any kind. In the case of ski lifts, there is some competition in terms of the technology offered (e.g. tow bar, chair lift, gondola, etc) and in the quality of service (e.g. heated seats). For urban and inter-urban public transport intermodal competition is important, not least because of the car, whilst there may also be alternative routing options through the network.

3.2. Regulatory requirements

The discussion of regulatory requirements was framed around the pyramid of regulation put forward by [Van de Velde and Preston \(2013\)](#) and illustrated by [Fig. 1](#).

The view of this workshop was that there is a need to focus, both in terms of research and actual regulation, on the middle layer of the pyramid. In particular, there is a need to detect and disseminate examples of clever guidance and rules of the game. At the base of the pyramid, it was felt that the rules of law are generally well

² Australia, Brazil, Cameroon, Chile, Finland, France, Germany, Japan, the Netherlands South Africa, Sweden and the United Kingdom.

³ Following the merger of MeinFernbus and Fixbus.

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