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Workshop 3 Report: Institutional and operational reforms within different socio-economic and cultural contexts

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ABSTRACT

The discussion and conclusions of Thredbo's Workshop 3 are summarized. History and the socio-economic environment is a condition that should be considered as a most important fact when moving into planning public transportation. Contradictory targets should be identified and avoided *a priori*. Income distribution and spatial segregation should be taken into account, together with the necessary transparency and responsibility of parties involved.

1. Introduction

The participants of this Workshop had a clear objective which is motivated by more than thirty years of worldwide reforms in many directions to increase efficiency and control costs. Public transport markets present a variety of arrangements regarding operations, control and ownership that are amenable to improvement. Therefore, in this workshop we examined the contextual economic, political, cultural and social factors behind the many different cases that can be observed around the world. Factors such as income distribution, habits and traditions, institutional arrangements, entrepreneurial behaviour or non-declared goals, emerged as quite relevant for public transport planning. Through a better understanding of such factors, we studied the options regarding competition and ownership for regulated (public) transport markets, taking full account of local contextual factors.

In this report we describe the way the workshop was organized, we highlight the specific issues addressed in the presentations that fed the discussion and we synthesize the agreements and recommendations reached on the many aspects that emerged.

2. Organization and brief overview of the content of the workshop

The discussion of the nineteen participants from ten countries was developed in two steps. First, thirteen papers were presented and discussed in detail. As a result of the substantial diversity of modes, cultures and aspects analyzed in each paper, we organized the presentations around four main topics and subsequently clustered into four sessions. Second, we integrated all issues and the findings of each topic into a general discussion aiming at consensus on what were considered the most relevant points and potential solutions/recommendation.

The four topics identified were reforms in public transport in different socio-economic contexts, normative views regarding reforms, organization of the industry and institutional issues. The following paragraphs provide a brief summary of the content and main points present in those four topic sessions.

2.1. Session 1. Analyzing reforms in different socio-economic contexts

This session was kicked off by Jackie Walter's presentation on the role and responsibilities of government in support of public transport services in South Africa. He particularly focused on the

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South African bus contracting systems and their effects in time and also discussed the role of organized labour (tendering seen as privatization) in great detail. One of the key findings of his paper is that difficulties with global public transport reform are not only caused by cultural aspects but often also a result of financial issues and unwillingness of provinces and regional/local government bodies to take on an active public transport authority role. Particularly in South Africa affordability and complexity appear to be the key reasons for the reform not being more successful so far. Sotaro Yukawa then took the discussion to a totally new level given cultural background, by looking at what occurred when the government recognized the responsibility for regional public transport in Malaysia and comparing the experience with Japan. A key concern of his paper, and something that we agreed on later to be similar with a lot of cases globally, is the problems resulting from fragmentation in administration and funding in public transport. Seidel and Vakkuri found similar issues when applying institutional theory (large variety of models, such as contracting in, contracting out, competitive tendering) and transaction cost economics (cost of running and administrating transit) with a focus on bounded rationality in their comparison of public transport reform in three pairs of cities in Finland and Germany. While all these cities were very specific in their characteristics (e.g., Wuppertal and its suspension railway), which may be an excuse for in-house provision, their study found two commonalities across the six different cases. One is that in all cases the reforms replaced old problems with new ones, and the second and more encouraging one is that in all cases customer orientation has improved, which is usually seen as an important outcome. In the final paper of the first session Paget-Seekins et al. took the discussion again to a different cultural environment by revisiting the regulatory reform of bus operations in Latin America (with cases from Santiago, Bogota and Mexico City). A key finding of this descriptive analysis of pre-post reform states is that there appears to be, despite all socio-economic and cultural differences (for example family business driven bus operations in Santiago with two buses per operator not being unusual pre-reform, or a key characteristic of Mexico city's reform being to accommodate for the fact that their users hated transfers) across Latin America (and we would say even globally) a reoccurring regulatory cycle (primarily from public provision to competition in the market to competition for the market).

2.2. Session 2. Analyzing reforms: normative views

The first paper in this session by Gschwender et al. focused on the normative question of whether feeder-trunk or direct lines would be more appropriate when determining the optimal structure of transit services. For their case example in Santiago, Chile, they were able to show that feeder-trunk is inappropriate for the levels and structure of demand experienced in that type of city. While the feeder-trunk system benefits from economies of density and high frequencies on the big avenues, it is associated with the problem of mandatory transfers and not offering many direct trips, which affects negatively users' cost. Holmgren's paper then looked beyond network design and discussed strategies for increasing public transport market share with examples from Sweden. Interestingly, the key finding of this paper is that Swedish transport policy did not implement a model that would have maximized social welfare. Holmgren's model offers an alternative normative model and illustrates what a welfare maximizing policy would look like in terms of fare and supply levels (vehicle-km) in regional public transport and the impacts on patronage. Specifically he showed that by increasing or reducing public transport fares in different counties patronage would grow significantly and additional subsidies would be needed.

2.3. Session 3. Organization of the industry

Merkert and Hensher's paper on open access for railways and transaction cost economics examined whether the European approach is appropriate for all of Australia's train operations. It shows that it is important for public transport provision and regulation to focus not only on the regional context but also on the structure of the relevant industry, in their case railways. A key finding of their paper is that one has to examine the entire transport value chain in order to make efficient decisions on how to organize and regulate freight and passenger transport. For regional or dedicated lines (such as iron ore lines in Australia) that are not connected to the main network or any public transport operation, a federal regulatory system of open access is perceived (by senior rail management) as counterproductive albeit those lines being very different to the rest of the network both in terms of value chain organization and operations. Santa found similar issues when looking at the last twelve years of rail reform in Italy. While his paper highlighted a number of achievements, the key problems were related to institutional arrangements and the fact that regional rail operators are not connected to main lines, and hence only governed by regional laws but not by EU directives. Aarhaug's paper then took the discussion to a mode that had not been discussed so far: taxi operations. In his detailed study of taxi service reform in Norway (including a comparison with Sweden and Denmark) he established that competitive tendering seems to be working in large cities (where prices have dropped and level of service increased as a result of introducing competitive tendering) but in regional areas it has not, largely because competitive tendering is less efficient in entry regulated markets. In that sense Dementiev's paper offered a complementary perspective by discussing the Political economy of ownership change in suburban railway transport in Russia. His game theoretical analysis of Russian Railways as a regulated monopoly and public transport authorities potentially entering public private partnerships for the provision of suburban railway services, offers both sides an optional choice for more transparency (paid by a share in the venture).

2.4. Session 4. Institutional issues

In his second paper Dementiev discussed the relationship between social capital (including trust) and public transport based on the example of Moscow students, and hence focused on the case of an economy in transition, where competition is assumed to be imperfect. De Sousa and Orrico's paper took the discussion on imperfect competition further by analyzing the Brazilian bus transportation networks. Their findings suggest that bus contracts in Brazil are currently too large and long (10–20 years) and that more competition, particularly in the operation of a corridor would be beneficial. Their preferred model would be the introduction of on street competition on common corridors (two franchises/lines that somewhere overlap on a common corridor), which in our view may bring complications in addition to the presented benefits. In the final paper of our session, Spandou and Macario presented a detailed description and institutional analysis *of urban public transport systems with a focus on the case of New York City*. They highlight that it is not only relationships but also financial flows between the involved institutions that matter.

Besides the main authors of each paper, participants included CEOs and directors from public transport corporations and authorities in South Africa, senior transport consultants from Europe as well as senior academics from Oxford University (TSU), Tampere University (Finland) and the Federal University of Rio Grande do Norte (Brazil).