The re-regulation of public transport: alternative approaches to planning in Chile and Britain

La réintroduction de la réglementation du transport public: le contraste d’approche au Chili et en Grande-Bretagne

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ABSTRACT: The principal objective of this paper is to review recent efforts to restore regulation to the previously deregulated public transport markets of Santiago (Chile) and the English Metropolitan Areas (Britain). It proposes to briefly analyse the impacts of deregulation on key stakeholder groups, such as operators, users and authorities, and to identify the key reasons for re-introducing controls. In addition, this paper will track the evolution of new programmes and identify some of the strengths and weaknesses of each approach.

RÉSUMÉ: Le but principal de ce rapport est d’examiner les efforts récents pour restaurer la réglementation dans le secteur du transport public de Santiago (Chili) et dans les agglomérations urbaines anglaises, qui ont été auparavant déréglementées. Il propose d’analyser brièvement les impacts de la déréglementation sur les groupes concernés comme les conducteurs, les passagers et les autorités locales. De plus, il essaie d’identifier les raisons principales en faveur de la réintroduction de ces contrôles. Ce rapport expliquera également l’évolution des nouveaux programmes et identifiera les avantages et les inconvénients de chaque approche.

1. INTRODUCTION

In response to the deregulation of public transport in Chile and Britain in the 1980s, many experts have argued that whilst these policies reduced government spending on transport and promoted innovation, they also resulted in the deterioration of systemwide service planning (Nash 1988, Darbera 1993). Most private operators in these countries reduced unit costs and raised kilometer-miles served; however, very few chose to participate in coordinative efforts with other bus or rail operators, and due to a lack of price competition, fares actually rose in real terms (White 2002). In Britain, a rising proportion of frustrated passengers switched modes, from public transport to private vehicle, prompting a rise in vehicle use and emissions. In an attempt to reduce auto dependency and improve air quality, both governments implemented key regulatory reforms in the 1990s.

Despite past similarities in regulatory policy, in most cases, these countries pursued different approaches to public transport management and regulation. In Santiago, all bus services were restructured under a competitive tendering system (“competition for the market”), initially in the downtown area, but later, covering most of Greater Santiago. In contrast, in the English Metropolitan Areas outside of London, many aspects of the deregulatory system (“competition in the market”) remained, however, metropolitan authorities were given legislative powers to fully promote integration and to develop Quality Partnerships, i.e., agreements in which the authorities were to provide infrastructure improvements to private operators in exchange for improvements in service quality. Clearly, each country has attempted to make modifications that will increase the attractiveness of public transport.

This paper seeks to provide insights into some of the inherent differences that exist between these approaches. It will begin by briefly describing the results of past deregulation policies in Santiago and the English Metropolitan Counties. Next, it will look at the regulatory changes introduced in these cities, and their apparent impacts on systemwide planning and service provision. Finally, this paper will draw conclusions concerning the direction of public transport in each of these countries, suggesting ways of guaranteeing system planning and coordination.
2. AN OVERVIEW OF DEREGULATION

In the 1970s and 1980s, there were concerted efforts around the world to reduce government expenditure on public transport through privatisation and in a few cases, deregulation. Often, the argument was that publicly owned and operated public transport systems had been allowed to become large, wasteful monopolies, insulated from competition and/or pressures to improve service quality; and thus, were unable to adequately respond to user needs (Hensher and Brewer 2001). Furthermore, it was pointed out that the only way to reverse the trend toward increasing government subsidy of public transport was to open up the transport markets to greater competition (Cervero 1998). Whilst privatisation can take many forms (e.g., from public-private tendering of specific service features to complete control on the part of private sector companies), in such countries as Chile, Sri Lanka and Britain, free market economists successfully argued that regulatory controls simply prevented private operators from running their services as a business. Regulation was seen as a failed attempt to predict the market, preventing the private entrepreneur from responding to market forces.

In Chile, where some regulated public transport services were already operated by private sector bus companies, the military government of Augusto Pinochet (1973-1990) embarked on a free market campaign to privatise as many urban services as possible, in order to rid the government of excess burden. In the area of public transport, this meant the lifting of most regulatory controls, such as the setting of fares, or limits on the number of operators serving a specific corridor. It was argued that the free market would allow for greater creativity among operators and that this would eventually translate into better and more responsive services for the consumer. Deregulation would also allow operators to set prices closer to real costs, lowering fares and eventually, forcing inefficient bus operators out of the market. Thus, over a period of four years, the state-run bus company was allowed to collapse and most regulatory controls were removed. Policy proponents argued that the public transport system would be “self-regulated” by the route associations, powerful operator groupings that provided support to members.

Similarly, in Britain the conservative government of Margaret Thatcher (1979-1990) began a wave of market privatisations aimed at reducing government burden. Legislation in the early 1980s paved the way toward the privatisation of inter-city and eventually, urban bus services throughout Britain. The Thatcher Government argued that bus patronage had continued to decrease in the 1970s and 1980s, despite a substantial rise in government subsidies for these services. This policy shift, away from public sector planning and operation of services to a free market system, culminated in the 1985 Transport Act, which effectively deregulated urban bus services in areas outside of London, i.e., severely limiting the powers of the metropolitan authorities or Passenger Transport Authorities (PTAs). Under the 1968 Transport Act, these Authorities were given powers to oversee the planning and the contracting out of transport services. After 1986, the PTAs were reduced to contracting out only the “socially necessary” services (10 percent of the market) and to providing local information and planning guidance. Only in Greater London were public transport services regulated through a competitive tendering programme.

3. THE IMPACTS OF DEREGULATION

In both Chile and Britain, public transport deregulation had a number of negative impacts on overall public transport service quality. Whilst deregulation did produce some positive effects (including a significant reduction in government spending on public transport and an increase in the number of services on the most profitable routes), it also brought about a significant rise in real fares, an oversupply of public transport service in central areas, and very limited route and fare integration. In each case, a decade of deregulatory practices had resulted in negative externalities, prompting the newly elected governments to consider new forms of public transport regulation.

In the Chilean case, most of the deregulated services passed through the centre of Santiago, creating a chaotic situation throughout the downtown area. Free market transport policies resulted in an oversupply of bus services, where many operators altered their routes so that they could pass through the centre of the city, i.e., where the highest level of demand was concentrated. Not only did the addition of buses produce traffic congestion and promote cutthroat competition between operators (supported by their route associations), but it also contributed to a decline in air quality conditions. By the late 1980s, stricter areawide measures had to be taken to control vehicle emissions in this environmentally sensitive area, particularly in the downtown area. In addition, deregulatory policies in the public transport sector had resulted in wasteful competition and vehicle safety concerns. For example, along certain routes, bus operators ran parallel routes to the publicly owned Santiago Metro.
In contrast, in the English Metropolitan Counties, concerns with deregulation were not only related to the environment, but also to a further decline in public transport patronage. This drop in use has been attributed to a number of key factors, including, a rise in real fares, a lack of service dependability, and limited access to integrated fares and information. In time, most of the remaining users did in fact, become familiar with bus services, however, many authorities and users claimed that operators were not receptive to user needs (e.g., effectively excluding a significant sector of the population). In response to these concerns, the newly elected Blair Government introduced reforms to improve the provision of bus services outside of London.

4. POLICY REFORM IN THE CASE CITIES

Deregulatory policies in Chile and Britain were vigorously defended for more than a decade, however, in the 1990s, newly elected governments attempted to regain control over service quality through transport policy reform. In both cases, a liberal government was elected to replace a conservative one, setting the stage for the introduction of measures that could mitigate the negative impacts of deregulation and restore consumer confidence in public transport.

In Santiago and the English Metropolitan Counties, local planning efforts focused on redefining the responsibilities of operators and transport authorities in the efficient provision of services. The following sections summarise existing conditions and recent institutional changes in Santiago and Manchester.

4.1. Santiago

Santiago, the capital and principal commercial centre of Chile, lies 1,100 kilometres west of Buenos Aires. It is the sixth largest urban area in South America, with almost six million inhabitants (see Table 1). In recent decades, Greater Santiago has seen substantial expansion. It currently encompasses an area of over 600 square kilometers.

The average population density of Greater Santiago is more than 90 persons per hectare, comparable to densities in some cities of Western Europe. This particular pattern of development has resulted in high average trip lengths and greater dependence on the auto. In fact, despite the historic predominance of public transport, motorisation rates have increased rapidly, particularly in the middle to high-income residential areas east of the downtown. Whilst the downtown is still a major centre of economic activity, infrastructure investment (e.g., construction of ring roads) has recently supported an overall trend toward commercial and residential decentralisation.

Currently, the public transport network consists of bus services, shared taxi services, a heavy rail metro system and local rail (urban segments of the national network). The road-based systems are privately operated, whereas the rail-based modes are run by the public sector. Collectively, the local transport system carries over five million daily passengers: 80 percent by bus, six percent by shared taxi and 14 percent by rail (see Table 2). As in many developing countries, most public transport services still extend from the urban core to outlying suburbs (Rivasplata 2000).

Table 2. Travel Characteristics of the Case Cities, 1998

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Santiago</th>
<th>Manchester</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily Trips (thousands)</td>
<td>16,300</td>
<td>6,300</td>
</tr>
<tr>
<td>Daily Mode Split* (percent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auto</td>
<td>35</td>
<td>85</td>
</tr>
<tr>
<td>Public Transport</td>
<td>65</td>
<td>15</td>
</tr>
<tr>
<td>Public Transport Modes (percent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rail</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Bus</td>
<td>80</td>
<td>87</td>
</tr>
<tr>
<td>Shared Taxi/Minibus</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>
*motorised modes

Sources: Malbran et al 2003, Sectra 2001, DETR 1999

After more than a decade of bus deregulation, the newly elected Aylwin Government quickly developed regulatory strategies that would restore order to the bus sector in Santiago and mitigate the negative impacts associated with bus deregulation, such as traffic congestion and air pollution. In the early 1990s, a competitive tendering programme was developed by the government in an attempt to carefully regulate supply levels and service features (e.g., routings, safety). Tendering was seen as a regulatory option for providing some entrepreneurial autonomy to operators, whilst at the same time, allocating industry resources to areas of proven travel demand. Local transport planners established a network of key public transport routes, based on the outputs of an elaborate
equilibrium demand-supply model for Greater Santiago, ESTRAUSS (Sectra 1991). Once these routings were developed, optimal route frequencies and other service specifications were developed.

In 1991, the initial tendering process was embraced by a small number of operators, but was opposed by a wide spectrum of operators and associations. Many feared that tendering would impose unfair conditions upon individual operators, forcing them to accept a prescribed set of operating conditions and preventing them from maximising their profits and re-investing in the market (Figueroa 1992). After an extended period of negotiation with private operators, a formal tendering process was begun in the downtown in 1993.

Currently, the Santiago-based Commission for Transport Infrastructure Planning (Sectra) is charged with designing the tendering system, although the local office of the Transport Ministry actually implements the programme. Over the past decade, at least three major schemes have broadened the geographic limits of bus tendering to include most areas within Greater Santiago. Initially, tender requirements focused on estimated costs, vehicle age, and use of street facilities, however, they have been expanded to include other service aspects, effectively broadening public sector control (Malbran et al 2003).

Future tendering will seek to improve system efficiencies through the re-organisation of surface public transport in Santiago. For example, Sectra’s Urban Transport Development Plan set intermodal fare integration as a goal for 2005, responding to the widespread need for seamless connections in the region (Sectra 1995). It is expected that the upcoming tendering process will include provisions for ensuring formal integration with the metro (e.g., through a restructured Metrobus system).

In addition, the upcoming tendering process will effectively implement structural changes introduced under Transantiago, a regional plan for organising a network of surface modes. The new plan includes a strategy for developing a system of rapid bus services, patterned after Bogotá’s Transmilenio Project (Malbran et al 2003).

4.2. Manchester

Greater Manchester, which includes the central city and nine surrounding districts, is located in Northwest England, 300 kilometres north of London. It is currently the second largest urban area in Britain (tied with Birmingham), with more than 2.6 million residents (see Table 1). It serves as the commercial and administrative centre for the Northwest. Clearly, its strategic location, near the geographic centre of Britain, has made it an attractive city for business.

The population density of Greater Manchester is far lower than that of Santiago, averaging about 20 persons per hectare. As a result, whilst Manchester is one of the most populous cities in Britain, it is also one of the most auto-dependent. Prior to 1990, the absence of a rail link across the central area inhibited development of a fully integrated public transport network. This deficiency probably contributed to a meteoric rise in auto ownership in the 1980s and 1990s, as average trip distances increased and consumers lost faith in the bus system.

Over the past decades, Manchester has witnessed a significant rise in congestion, as motorisation has increased. For example, between 1986 and 1998, the average number of autos per resident increased by more than 60 percent. In 1999, 75 percent of all journeys were by auto, up from 51 percent in 1981; whilst only 13 percent were by bus or train, down from 25 percent in 1981 (DETR 1999). See Table 2.

Greater Manchester’s transport system currently consists of three principal modes: bus, tram and local rail (urban segments of the national network). As in other Metropolitan Counties, the bus is still the most frequently used mode of public transport in the Greater Manchester area, capturing over 80 percent of the market. The area is presently served by at least 50 individual private operators, however three large operators clearly dominate the market, collectively carrying more than 75 percent of all bus journeys.

On the eve of deregulation, the PTA operated 95 percent of all public transport services in the county, however, privatisation effectively curtailed the role of the local authority in Greater Manchester. Today, the local tram system, Metrolink, is the only transport service directly managed by the PTA. Since its inauguration in 1992, local planners have sought funds to develop and expand Metrolink throughout the County. The PTA has envisioned developing the metropolitan rail network (comprised of tram and local rail) into the central spine for public transport services in the County (GMJTPT 2001). Clearly, this spine would feature links to bus services at strategic points.

In the early 1990s, as transport markets were deregulated and many public transport users shifted to the auto, a series of reports in Britain focused concern on the environmental impacts of increased motorisation. These reports led to an anti-car movement in government.

In 1997, the newly elected Blair Government introduced transport reforms aimed at reducing auto use and encouraging the use of public transport and other alternative modes. However, in contrast to the Chilean experience, these reforms did not involve
imposing a new set of regulations on operators. Instead, the Blair Government chose to promote collaborative service planning through the formation of public-private partnerships. This policy allowed operators a degree of commercial autonomy (e.g., setting of fares), but required that they be more accountable to the public transport user.

By the mid-1990s, most operator wars and mergers had taken place and few markets were truly contestable (e.g., scarce head-to-head competition). For example, in Manchester, the three largest operators established sub-markets, effectively preventing small operators from competing in these areas. In turn, this pattern led to fewer operator innovations and a rise in fares.

Rather than introduce competitive tendering, local authorities were encouraged to enter into Quality Partnerships with operators, offering infrastructure improvements in exchange for service improvements. In addition, the government strengthened the role of the PTAs in regional transport planning and amendments were made to the 1998 Competition Act to allow for regional fare integration.

Thus, in Greater Manchester, as in most other Metropolitan Counties, operators continued to compete in the market. It was clearly local government’s role to work with operators and other local groups to improve services, either through voluntary partnerships, or if warranted, through statutory “Quality Contracts” for low-performing routes (TAS 2001).

5. ASSESSING THE CASE CITIES

A comparative analysis of these two cities indicates that whilst both have introduced policies that encourage public sector involvement in the design of services, each has taken a very different approach to ensuring that public transport services (supply) respond to user demand. In both cases, policy decisions were made in response to market conditions and the political will of the government to impose regulatory controls on private bus operators. Clearly, another consideration for authorities was the perceived cost of implementing specific strategies.

In Santiago, the local and national governments chose to restructure the provision of bus services around a formal tendering process, ensuring that a set of operating standards were met. Under this approach, government assumed responsibility for all public transport route and service specifications, as detailed in service tenders. Since 1991, government has adjusted service specifications in certain corridors, in response to transport conditions and patterns. The Santiago system has yielded positive results over the past decade. A substantial number of old, polluting buses were retired from the fleet and the total supply of service was reduced to better reflect true demand. This action reduced the number of buses operating in the downtown, and consequently, brought a drop in diesel emissions. In addition, the ongoing tendering of services established an industry standard for maximising vehicle efficiency and providing an improved level of customer care.

Public sector planning of services has allowed government to take a key role in ensuring service dependability and safety, and to provide new services and infrastructure. This has allowed the regulator an opportunity to review a number of service issues, including minimum frequencies, mainline and feeder routes, designated bus stops, regionwide smart card fare media.

Similarly, a successful programme of competitive tendering was established in London (Kennedy 1996). Proponents there successfully argued that deregulation would negatively impact systemwide planning and that it would cause widespread confusion among residents and visitors. The conservative governments ultimately decided to allow for regulation in London. Since the mid-1980s, that tendering programme has yielded positive results: a 20 percent rise in bus mileage, a 40 percent drop in cost per bus mile, and a 27 percent drop in total network costs. In addition, the total number of passenger journeys in Greater London has increased, despite the fact that it has continued to decrease in most areas of the U.K. (DETR 1999).

Nevertheless, there are those that argue that tendering jeopardises the role of the operator as an entrepreneur and innovator of new services. Some point out that tendering favours the large operators, i.e., companies serving numerous urban markets in Britain, and that some service requirements are too prescriptive and do not allow for operator innovation. On the first point, large operators often can afford to invest in vehicle improvements and route coverage, giving them a competitive advantage over the small operators, which often provide limited services (e.g., socially necessary routes).

In response to the second point, in order for it to be successful, competitive tendering must be structured so that it preserves the commercial integrity of private operators. A key drawback with route tendering is that the operator lacks a direct profit incentive for providing an appropriate level of public transport service (Powell 2001). Normally, the regulator (public sector agency) predetermines service patterns for tendering, adjusting service specifications to fit long-term assumptions. However, some experts argue that
regulators do not have the ability to respond to market demand, and often, misallocate resources.

Furthermore, whilst route tendering can both promote private enterprise and provide for a coordinated network of public transport services, its success is dependent upon two key factors: competition between bidders, and a transparent system for objectively selecting the most cost-effective tender offer (Powell 2001). Whilst Santiago and London appear to have sufficiently addressed these two factors, for many other cities, these may prove to be insurmountable obstacles.

Meanwhile, in Greater Manchester and the other Metropolitan Counties, local authorities, primarily PTAs and District Councils, developed bus strategies as part of the Local Transport Plan (LTP) process. In the Manchester case, implementation of the local bus strategy involved the establishment of public-private partnerships between operators and authorities. The former assumed responsibility for providing public investment in local infrastructure along key “Quality Corridors” (e.g., exclusive bus lanes), in exchange for a commitment from the latter to improve service quality and integration in these areas.

Whilst authorities in Greater Manchester and the other Metropolitan Counties are encouraged to form Quality Partnerships through formal or informal agreements, Quality Contracts can be instituted in special cases. Where operators do not meet the standards established, they can be excluded from using the infrastructure provided under the agreement (Preston 2003). However, the decision to use these contracts is at the discretion of the Ministers, and will only be taken if the government concludes that the Quality Partnership model is unsuccessful. Even if they were instituted, these contracts would take 21 months to implement in England and Wales. The implications of such a move have not yet been fully addressed, however, some industry insiders believe that it would prove to be both costly to government, and perhaps detrimental to the small operator.

For now, it appears as though most Metropolitan Counties will probably rely on Quality Partnerships to improve public transport services. For example, there have been calls from within the Manchester area to adopt Quality Contracts, however, it seems unlikely that this will occur in the short-term, given the relative success of the area’s Integrate Project, a broad-based partnership focused on improving quality of service (GMPTE 2000). Nevertheless, if these partnerships do not produce tangible results in the near future, pressures to adopt some form of tendering will continue to grow. Whilst tendering may indeed offer significant system benefits in the long-term, we may need to take a closer look at the economic and political costs that such a decision would incur.

6. CONCLUSION

This study has reviewed attempts to reverse past government policies supporting bus deregulation. In Chile, a return to democracy ushered in a programme of transport re-regulation in Santiago, in which the public transport network was entirely restructured and new routes were exclusively tendered through a formal bidding process. In Britain, the Labour Party did not impose tendering, but rather introduced a set of transport reforms that effectively devolved planning powers to PTAs in the Metropolitan Counties, promoting greater public participation in the planning and operation of public transport services. Metropolitan Counties, such as Greater Manchester, took advantage of the opportunity to solicit the formation of Quality Partnerships along key transport corridors throughout the County.

In Santiago, as in London, the fact that tendering was phased-in over a period of time may in part explain the general success of these programmes. In both cases, the government provided outreach to the operators, preparing them for the transition to tendering; however, in Santiago, initial resistance on the part of operators prompted authorities to conduct ongoing negotiations prior to the first successful round of bidding in 1992-93. The government wisely tendered successively larger areas of Greater Santiago, beginning with the central core of the city. This allowed operators on the periphery ample time to modernise their operations. Clearly, this form of regulation can be instrumental in achieving a desired level of service, as long as the regulator incorporates specific provisions into the bidding process. Nevertheless, regulators do still run the risk of becoming too prescriptive.

In Manchester, local authorities sought creative ways of establishing Quality Partnerships, improving on national guidelines. Unfortunately, at first glance, it appears that these directives were weak and incapable of achieving the level of system planning and service quality expected. At this point, it is difficult to fully assess the performance of this system of collaborative planning, as most areas, including Greater Manchester, have only had this system in place for three years. There has been limited evidence of public transport patronage gains in Manchester over the past few years however, these cannot be directly attributed to the local bus strategy.

Importantly, many areas have not yet witnessed a
large volume of partnership proposals, leading many to believe that there is a lack of interest amongst members of the bus sector. This may be due to the fact that partnerships require good relations between authorities and operators, particularly where public-private tensions persist (Preston 2003). Nevertheless, if Quality Contracts are enforced at a later time, authorities can expect to receive widespread resistance from private operators.

Thus, when we compare the Chilean and British cases, it is easy to identify the numerous benefits that the tendering process brought to Santiago. Whilst some operators were probably marginalised from the process at the outset, the region has certainly seen some improvements in the quality of service and level of congestion. In the case of Manchester, it is still early to say, however, preliminary indications are that benefits may be somewhat limited; however, it is not clear that a nationwide switch to competitive tendering would necessarily be the solution. Some form of deregulation has been in place now for almost 20 years, and any structural reorganisation would surely cause havoc, much as it did when services were originally deregulated. Perhaps, a phased-in approach to limited tendering would be appropriate.

Where transport operators agree to support efforts to introduce tendering or Quality Contracts, it is important that the process be administered by an independent transport agency, capable of maintaining a high level of objectivity in the selection of operators, and charged with ensuring that operators work cooperatively for the collective good of the transport system. The establishment and regulation of tenders should focus on improving overall service delivery.

In order to remain competitive, however, operators must be granted some degree of autonomy to set their own timetables and fare structures, consistent with network standards. Perhaps, a committee comprised of key public transport stakeholders (e.g., representatives of user groups, operators, and both regional and federal authorities), could be created to develop acceptable standards for all.

Regardless of whether tendering is fully adopted or not, if reforms are to seriously address service quality and system integration, they must involve collaborative planning between authorities and operators. For a programme to succeed, operators must feel as though they have gained something from the discussion, and that they have a vested interest in providing the following:

- punctuality and reliability;
- improved physical access to services;
- reasonable fare structures; and
- participation in network planning.

In sum, this paper concludes that public transport re-regulation is a complicated issue that requires further study. Each city must identify its long-term objectives, weighing the costs and benefits of the strategy that is chosen. On the one hand, regional transport planning is essential; in order for a system to be sustainable, operators must strive to collectively provide the consumer with a safe and efficient service that can compete with the auto. However, in order for the private operator to survive, economic incentives must play a key role in the achievement of local service objectives. Thus, system planning must involve not only local authorities, in their capacity as planners; but also, private operators, as service providers and innovators.

7. REFERENCES


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