

Social quality standards versus tariffs – what a negotiation!

J.A. Manaus Corrêa

Herjack Engenharia, São Paulo, SP, Brazil

ABSTRACT: This paper shows a conceptual model of “negotiation field” that intends to expose and explain the relationships between quality, tariffs, the user and the service supplier of the public transportation services, mainly those operated by buses. The model allows some interesting analysis about the State intervention and the results over the original relationship between buyer (user) and the service supplier.

RESUME : Cet exposé présente un modèle conceptuel de “champ de négociation”, qui vise à exposer et à expliquer les liens entre la qualité, les tarifs, l’usager et le prestataire de service public de transport, principalement pour les services de bus. Le modèle permet une analyse intéressante de l’intervention de l’Etat ainsi que des conclusions relatives au lien particulier entre l’acheteur de services (l’usager) et le prestataire.

1 INTRODUCTION

Does the public transportation as a public service ask for the State regulation? As a matter of fact, yes. This regulation could be taken under several shapes and degrees of intervention and enforcement.

Does this intervention represent the best result for all the players? In what conditions is this more or less true?

Our conceptual model starts with the concepts and definitions of players and follows with the overall negotiation game played, presenting the negotiation field of each player both at bilateral or multilateral negotiations.

Many of the conflicts we have observed, in a wide way, could be better understood considering this analysis and we expect it will be a significant aid to managing real negotiation situations in conflicting environment, mainly those conflicts referred to quality and price of the transportation services when regarding the low income people access to the service.

The text brings some conceptive ideas we have developed, raised from works and studies in Latin America, mainly Brazil, and we hope that it can be helpful in some way for other realities.

2 THE PLAYERS

2.1 *The User*

The one expected to pay for the transportation service. The user can be classified by income, tariffs affordability, trip mode, region or other. To our model concerning it is not necessary any previous classification.

2.2 *The Supplier or Operator*

The one expected to operate the service and get revenues and profits.

2.3 *The State*

The Federal, State or Municipal govern, by means of specialized Bureau, Office or Secretary dedicated to transportation affairs.

2.4 *The non User*

The one that does not use the service but is affected by subventions based on taxes paid by the public budget and even by the conflict in the general urban traffic.

3 THE NEGOTIATION SCENARIO

Despite the differences between every country, the core conflicts are almost the same and affect all governments and market attempts to negotiate and determine tariffs.

In the case of Brazil, we are used to the State interference in the definition of the tariffs, with the usual supplier claim. To other South American countries that interference could vary and not be so strong, but it is always present.

Does this intervention represent the best result for all the players? In what conditions is this more or less true?

Some of these questionings are necessary and relate to the demand, quality and price for the service.

They are related to the capacity and doubtful excellence of the State to define the tariff value, or to inspect efficiently the quality of these services.

They are related to the reach of the tributary question involving operators, users and the State.

They are related to the socialization of the infrastructure costs (roads and permanent infrastructure), not usually included in the tariff definition.

They are related to the conciliation of the public needs with the maintenance of an attractive market, in terms of profit and risks, to the private companies.

They are related to the growth of the non regular suppliers and the slump of the demand for bus transportation in Brazil.

We will expose a way to view the negotiation, with the purpose of shaking up established ideas and collaborate for a better understanding on the subject.

4 TERMS DEFINITION

4.1 *Tariff or price*

Despite the fact that in the periodical battles and fights concerning public transportation tariff definition, where visibly or not a lot of terms and concepts have been used for price, quality, tariff and others, it is quite common to find differences in the use and definition of these terms.

Primarily we ask ourselves: "At last, what is the transportation price? To what and to whom does it serve?"

The end of the proposed question ("to whom does it serve?") obliges us to consider the reference to position the definitions. From the point of view of the operator, of the State and of the user would it be wise to impose a single definition for the price?

Regarding the operator, the price certainly would have a definition such as "the value in which the service can be sold to result in maximum profit with minimum risk".

Even in this case, it is necessary to highlight terms such as cost, risk and profit, whose common comprehension is simple but whose valuation may

be difficult for the entrepreneur if we consider, for instance, the feasibility of a tender proposal at own risk.

Regarding the user it is possible to define tariff as: "that price which someone is obliged to pay to achieve his desires, such as to buy transportation services in this case".

We also point out other terms that demand some careful consideration: quality, price and payment capacity.

When the state owns the fares from the user and pays a different amount per passenger or another concept to the transportation supplier, then we have a situation of price and tariff differentiation.

This case means that the State negotiates prices with the transportation suppliers, and mostly for social reasons settles other prices or tariffs to the user.

The State could take different attitudes when settling or negotiating tariffs, and we could find a wide range of them, as for instance:

- 1 The Liberal State - "A price to be referred to the market in a free competition among the entrepreneurs, in liberated routes and quality standards".
- 2 The Arbitrational State - "A price to be defined and inspected by the State regarding public desires, attending routes and quality standards also defined by the State".
- 3 The Social State - "A price defined according (2), however subsidized by the State in order to soften the situation of the low income user".

For our purposes, in this paper, tariff or price is what has to be paid by the user to get the service.

4.2 *Quality*

To the public transportation we are referring here, quality is the set of several attributes like: availability, trusty schedule, comfort, travel time, safety and so on, attributes that can be ranked in a single scale that considers the holistic evaluation of the user or buyer of the transportation service.

We can argue that the concept could be different if we do consider different views, for instance that of the transportation supplier or even the public authority in charge.

We do prefer to stay with two quality evaluations:

- 1 The user one, due to the fact he is the final consumer and represents or should represent the market and
- 2 The non user evaluation, due to the fact he has to pay for subsidies and shares the urban traffic problems caused by public transportation pollution and right of way requirements.

In fact, both evaluators are often represented at the negotiations by the State, claiming even more for the transparency of the public actions and for increasing social participation.

5 THE NEGOTIATION SPACE

We start the space definition with a theoretical and illustrative figure (Figure 1) that relates tariff and quality, in a single and proportional relationship. The assumption is a common sense, “To a better quality corresponds a higher tariff”.

The negotiation has a fair line that can be seen like a reference. This line defines the expected result in case of a perfect market behavior.

The non user in our model will be represented by the State, who is supposed to submit its decision to a community through its representatives.

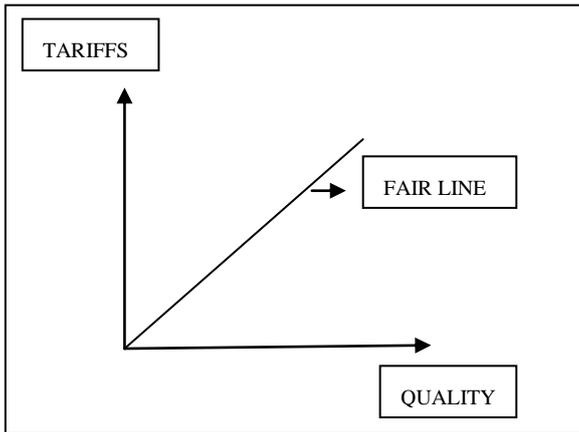


Figure 1. Quality versus Tariffs

When we took the user and do consider the decision he has to take to choose the pair price versus quality, we found out that his correct place is under the fair line.

This space obviously must bring, in free conditions, a range of quality versus price options adequate for the users. We are aware to the fact that their decision to buy is not only affected by price and fixed quality standards, but also by capacity and willingness to pay better prices for better quality and the circumstances involved in the buying act (emergency, inevitability, fate), once there are some occasions when poor people take cabs and rich people (hardly ever) take buses.

We show, at the following figure, the shape of this space, resuming the set of pairs matching the user satisfaction.

To a given transportation quality, he accepts to pay a maximum price, or others below.

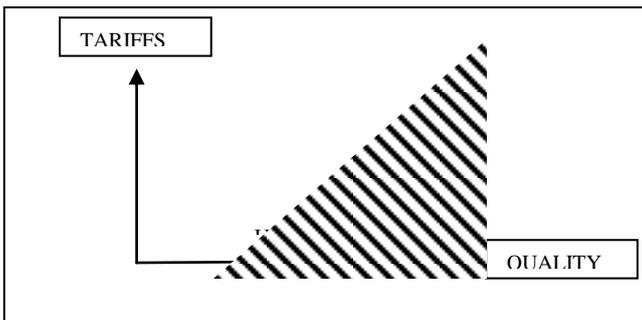


Figure 2. The user space.

The next step is to add the operator space, which we place opposite to the user.

The operator selling logic is to provide at the fixed price, with as minimum quality (or costs) as possible.

This behavior puts the operator at the upper area, as shown next in the Figures 3 and 4, in a symmetric and opposite position, when referring to the user space.

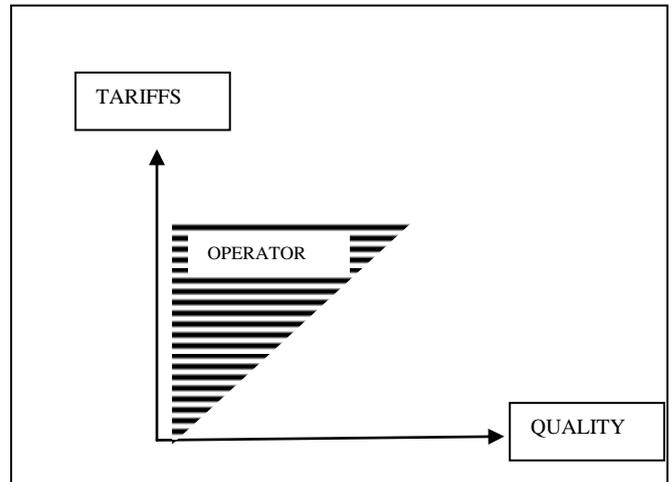


Figure 3. The operator space.

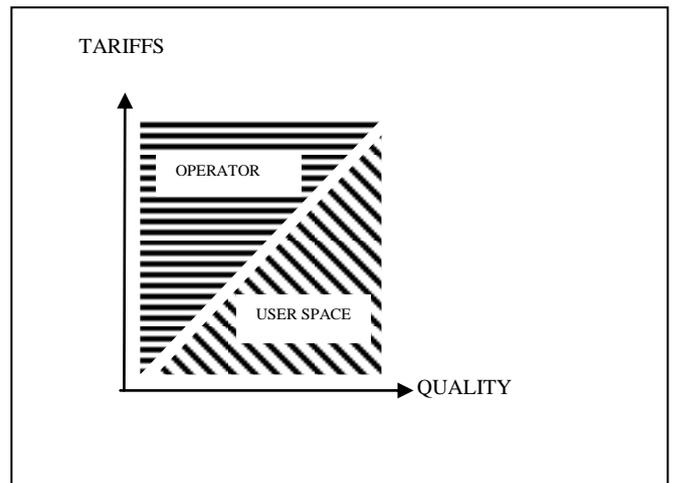


Figure 4. The bilateral negotiation scenario.

The user representative presence is a problematic issue. The State intends to act in behalf of the user, but we know that is not enough.

We can define the state intervention, like a third player, seeking for:

“A minimum quality standard and a maximum tariff allowed”

To reach this pair he could adopt a wide range of strategies and negotiation arguments, usually supported by tariff calculation methods, using cost and productivity parameters calibrated by averages. The results of these methods are a technical tariff.

But the tariff negotiation is not so smooth, it is usual to obtain different tariffs calculations. The State could face other calculations such as: the “operator tariff”, the “press tariff”, the “user association tariff”, and so on. The final “State tariff” usually comes after a negotiation process.

The key question is:

How far this “State tariff” could be of the fair line?

As a matter of fact we can quote several situations where the strongest position of operators could move the result to their side, frequently using the State - intentional or no intentional partner - to do that.

This partnership is due in several cases to elections support, weak or corrupted enforcement, imprecise tariff calculation method and the absence of the user at the “negotiation table”.

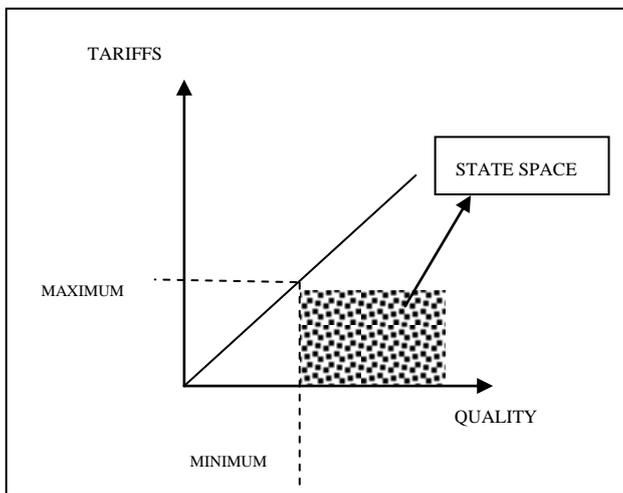


Figure 5. The State role.

We now have to ask about the non user of a kind of public transportation we have in mind, who has to pay for the gap in case the user cannot afford the tariff defined by the public negotiation process.

As we have said, in the negotiation he is more often represented by the State, regarding: urban traffic conflict; environmental quality and subsidies. His space is enclosed in the State’s one.

6 PRICE AND PAYMENT CAPACITY

It is usual the argument that the user can not afford to pay the real tariff or necessary price to the operation of the transport service. The family income related to transport services is not enough.

This lack of payment capacity is related to unaffordable quality standards or to a expensive or inefficient transport system, not linked to the user reality, and raises the question of who pays the

difference between the user payment and the overall transportation costs (including public management and enforcement).

This value usually is charged to the State, which pays subsidies after a system overall accounting pointing to a deficit, using the public budget and charging users and non users.

We mention that several industries or other corporations, who do not have confidence in the public system and are used to rent or own a private service for its employees or clients, are no users too. This causes an increase in its products prices and again the non user and always the user would pay for the bill.

The easiest public decision is to take position in defense of the user but not of the very distant tax payer.

Will it be possible to conciliate social tariffs with minimum subsidies?

It is a hard question, but in an ideal situation we can dream as follows:

Let us suppose for a moment that the State had the capacity to maintain, through a long period of time, a real tariff without subsidies.

Let us suppose that the private companies would be attracted to concession contracts that would support fleet costs and investments in the operation and infrastructure upgrades.

In the same way let us suppose that the revenues should include values such as those related to the sale of sites close to malls and stops or even publicity, and that revenue was significant.

Let us also suppose that the gains in real State properties from infrastructure investments were charged from the owners through a tax related to improvement contribution.

These actions, despite reducing subsidies, do not happen frequently and are examples of possibilities not taken due to the lack of resources or even legal constraints.

7 THE NEGOTIATION AND EXPECTED RESULTS

Does the State contribute or not to the overall efficiency of the public transportation service?

When observing a tariff negotiation, it is usual to obtain different types of tariffs, such as “technical tariff”, “operator tariff”, “mayor tariff” and others, according to the negotiation. All of them have some sort of subsidies that mask the actual conflicts.

These subsidies usually are:

- 1 Privileges given to some passengers groups (elders, military, postmen, students), making workers and low income groups pay for them and yet not paying the operator properly,

- 2 The standard single tariff, in which the short travels compensate for the long ones, causing an injustice to both the user and the operator.
- 3 Quality degradation despite the State enforcement.
- 4 The enforcement degradation itself.

It should be highlighted that the non-regulated transportation without the State presence has failed with quality degradation of the system as a whole.

Then, what is the forecast in this kind of game? The system ruined and the user despised?

Will the user, often captive to a certain operator, be always the looser of this game?

We do not think so and are optimistic about the user role. Our confidence came from the observation of innovations being carried out in Brazil, Colombia and Equator, like the user organizations, the elections and the public promises, the user oriented operation tendency, mainly when we have competition or benchmarks at the concession tenders.

The State understands that its role is not just social or political. It needs to be more of a market player, using market instruments and competition strategies to achieve social goals.

A Porter based competitive model shows some ways to improve a market strategy.

8 DELEGATION, PERMISSION AND CONCESSION

In our concept, the State role has a key dependency of the strategy he could adopt when making the service delegation.

When the State decides to transfer the transport service operation to private companies, usually has to face some aspects:

- 1 The private feasibility regarding business concepts of risk and profitability;
- 2 Get a real competition in the bid process;
- 3 Affordable social tariffs and quality standards;
- 4 Adopt real and measurable quality standards.

The bid process is an important key to moderate the disadvantages of a monopolistic operation and a lot of effort should be made to attract a great number of competitors or new operators.

The State is selling a privilege, and its market price depends upon its attractiveness regarding prices and demand forecasting.

This is crucial when the intention is to transfer to the operators the full risk for the demand and pay only per passenger.

Even in the case that the payment does not consider the full risk for the demand, the operation lines planned must lead the market to be convinced of its value and potential demand.

The transfer of the demand attractiveness to the operator responsibility means a flexibility of managing cost and quality. The freedom degree, in every case, couldn't break certain minimum quality standards dealt with the State.

Some acceptable level of internal conflicts between operators could be a helpful tool to the State management of concessions. We can point, for instance, the conflicts between feeders and structural operators.

The lines planned must consider the user and the citizens concerns, thus leading to efficient urban coverage, travel time reduction by means of improved velocities and the downsizing of the total fleet and cost of the overall system.

How about the user freedom to have some travel choices? The usual is that, in some neighborhoods, the users and the operators, in a free market competition, define the operating conditions, the same occurring in the case of dedicated services to condos or other local situations.

The user has an important role when organized in civil associations and having some legal instruments regarding its rights in the case of claims against the operators and even against the State.

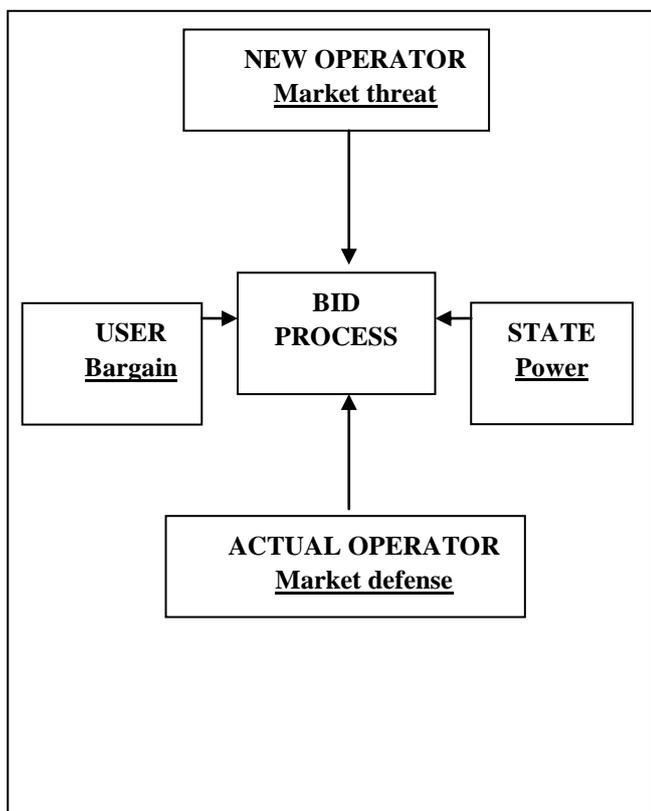


Figure 6. Competitive model

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