

## **PUBLIC OWNERSHIP OF LOCAL PUBLIC TRANSPORT VS. PRIVATE COMPETITION**

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### **ABSTRACT**

*Currently, value added and employment in the public transport sector each represent about 1% of GDP, respectively of the total employment of the European Union. Regulation (EC) no. 1370/2007 of the European Parliament and of the Council on public passenger transport services by rail and by road was adopted on 23 October 2007. Regulation (EC) no. 1370/2007, which entered into force on 3 December 2009, aimed at creating an internal market for the provision of public passenger transport.*

*Should the local public transport (buses, trolleybuses, trams or metro services) be owned and run as a public service by the elected local governments? Should the local public transport be privatized by private operators through a competitive tendering system? Who should be the big winner: the citizens, the unions or the private operators? Who will lose who will win?*

*Therefore, an efficient public transport sector is the central element of a social, economic and environmental effective.*

**KEYWORDS:** *citizen, competition, public transport, public service.*

**JEL CLASSIFICATION:** *H54, H71, H72, L33, L92*

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### **1. INTRODUCTION**

In this paper I want to make known to the discussion of questions concerning the regulation and the deregulation of public services in general and those of local passenger transport, especially, by looking on the side of the theoretical principles which justify a certain type of public intervention and on the other hand the reasons that led about contemporary processes of re-regulation observable in many countries.

### **2. SOME HISTORY**

Over time, economists have paid attention to the phenomenon of regulation, among the most important voices counting the founder of modern economics, Adam Smith. In his book "Wealth of Nations" he looked at the problems of regulation in terms of merchant privileges sought but with an emphasis on the factors of impoverishment of the public. Concepts such as regulation, deregulation, privatization and re-regulation are often used when talking to the public service sector.

**Deregulation** is the process of removing or reducing state regulations, typically in the economic sphere. It became common in advanced industrial economies in the 1970s and 1980s, as a result of new trends in economic thinking about the inefficiencies of government regulation, and the risk that regulatory agencies would be controlled by the regulated industry to its benefit, and thereby hurt consumers and the wider economy.

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**The main pros for deregulation phenomenon** were: increasing competitiveness, a higher productivity, more efficiency and lower prices overall. For example, Adam Thierer (1998), having as example the electricity market, wrote, that "the first step toward creating a free market in electricity is to repeal the federal statutes and regulations that hinder electricity competition and consumer choice".

On the other hand, **the main arguments against deregulation** took into account: apprehension regarding environmental pollution (Daly & Goodland, 1994), environmental quality standards and financial uncertainty or constraining monopolies.

Regulatory reform and deregulation have developed at the same time. **Regulatory reform** concerns improvements to the quality of government regulation. At the international level, according to the *OECD Regulatory Reform Programme* it is aimed at helping governments improve regulatory quality, reforming regulations that raise unnecessary obstacles to competition, innovation and growth, while ensuring that regulations efficiently serve important social objectives.

Deregulation can be distinguished from **privatization**, because privatization can be seen as taking state-owned service providers into the private sector.

Liberalization of the transport sector as well as other important sectors such as public gas supply, electricity, telecommunications, social services or the health, to name but a few, accounted for the European Commission a goal since the signing of the Lisbon Strategy in 2000.

Regulation (EC) no. 1370/2007 of the European Parliament and of the Council on public passenger transport services by rail and by road was adopted on 23 October 2007. It repealed the Council Regulation (EEC) No. 1191/69 and 1107/70 (1). Regulation (EC) no. 1370/2007, which entered into force on 3 December 2009, aimed at creating an internal market for the provision of public passenger transport. This objective is achieved by completing the general rules on public procurement.

According to the European Commission communication on the guidelines for the interpretation of Regulation (EC) No. 1370/2007 on public passenger transport services by rail and by road (2014 / C 92/01), Regulation (EC) no. 1370/2007 establishes also the conditions under which compensation payments in contracts and concessions in the field of public passenger transport services are deemed compatible with the internal market and exempt from the requirement of prior notification to the Commission State Aid, with a major importance, also, in organizing and financing public bus, tram, metro and train in the Member States. Following the release "Lisbon Strategy" in 2000, the European Commission in 2000, has submitted the first proposal for a new EU regulation on public service contracts in transportation of passengers by road and rail.

Regulation nr.1370 / 2007 defines "public transport" as "passenger transport services which are of general economic interest provided to the public without discrimination and continuously".

The concept of services of general economic interest ("SGEI") refers in general to services of an economic nature that the public authorities of the Member States at national, regional or local level, depending on the allocation of their powers under national law, they subject to specific public service obligations through a mandate (contract) granted to an undertaking for the provision of SGEI and a criterion of general interest to ensure the provision of these services in conditions that are not necessarily the existing market.

According to the Protocol. 26 annexed to the Treaty of the Functioning of the European Union ("TFEU"), art. 1: *"The shared values of the Union in respect of services of general economic interest under Article 14 of the Treaty on the Functioning of the European Union include in particular: the essential role and wide discretion of national, regional and local authorities in providing, commissioning and organizing services of general economic interest in a way that best respond to users' needs; diversity between various services of general economic interest and the*

*differences in the needs and preferences of users that may result from different geographical, social or cultural; a high level of quality, safety and affordability, equal treatment and the promotion of universal access and user rights."*

The purpose of Regulation nr.1370 / 2007 is to define how, in accordance with Community law, competent authorities may act in the field of public passenger transport to guarantee the provision of services of general interest which are among other things more numerous safer, higher quality or lower cost than those that would have allowed market forces alone.

To this end, it establishes the conditions under which competent authorities, when imposing or contracting for public service obligations, compensate public service operators for costs incurred and / or grant exclusive rights in return for public service obligations

Regulation nr.1370 / 2007 does not include provisions relating to the organization and management of transport services falling within its scope, it is for the Member States.

European Commission vision regarding the public transport was to undergo a process of "liberalization" as indeed many of the other public services such as the supply of natural gas, electricity or telecommunications.

The first written form of a Regulation on public passenger transport services rail and road public questioned by the European Commission was not without echoes among European trade unions involved in the organization of public transport.

According European Transport Workers' Federation (ETF), which represents the transport unions in Europe if the EU Commission's proposal was passed into law it would have forced local authorities to offer out to tender their publicly owned passenger transport operations. The main concerns of European trade unions are considering job losses, lower wages, increased working hours, changes in work conditions. European Transport Workers' Federation (ETF) considered that the prevailing profit motive severely undermined the existing quality and reliability of public passenger transport services.

Some of the amendments proposed by European trade unions at the draft of the regulation were accepted by the European Commission, so that some of them are contained in Regulation (EC) no. 1370/2007.

From the point of view of the European Commission, Regulation (EC) no. 1370/2007 is paramount for the organization and funding of public service bus, tram, metro and train in the Member States, European Commission considering that a coherent and correct application of its provisions is important both economically and politically.

### **3. ECONOMIC AND SOCIAL IMPORTANCE OF THE PUBLIC TRANSPORT SECTOR**

The importance of the public transport sector in EU and worldwide is obvious. In 2009, half of the world's population lived in urban areas. According to United Nations the world's urbanization rate will grow steadily and it will set to reach 70% in 2050, cities becoming ever more crucial for economic development and job creation. Thus the harmonious development of cities critically relies on efficient mobility and high quality public transport.

According to the Report *Observatory of employment in public transport*, in 2009, the public transport sector employed about 13 million people worldwide as follows: urban public transport sector provided employment to about 7.3 million people worldwide, public authorities in charge of public transport at the local level to about 300,000 people worldwide. The rest to about 5 million jobs were involved in the provision of goods and services to public transport operators and authorities.

In the European Commission *communication on the guidelines for the interpretation of Regulation (EC) No. 1370/2007 on public passenger transport services by rail and by road* (2014), in 2014, the

value added and employment in the public transport sector each represent about 1% of GDP, respectively of the total employment of the European Union.

According to the *research* into transport investment as part of the recovery plan in the USA (What we learnt from the stimulus.2010), the investment in public transport produced twice as many jobs per dollar as the investment in roads. Per one billion dollars, about 16,000 job-months were created from public transport investment, while only 8,500 were created from road building.

In the *research* "*The Employment Benefits of Investment Projects*", among others interesting analysis, the experts evaluated the level of direct employment (people employed on the project) generated by the different potential projects investments. According to them, in order to better inform investment decisions, it is important to understand all of the potential direct and indirect benefits of projects.

As you can see in the table below, per 1 billion Euros invested in public transport sector, 8.088 jobs were created.

**Table 1. Direct Employment Effects (for €1bn)**

<b>Crt.</b>	<b>Project type</b>	<b>Direct Employment</b>
1	HSE Capital	12,132
2	National Roads	10,110
3	Prisons	10,110
4	Schools	9,402
5	Housing	8,088
6	Public Transport	8,088
7	Water Services	8,088

*Source:* National Roads Authority apud Department of Finance (2010), Ireland, *The Employment Benefits of Investment Projects, Transportation Research & Information Note*, October 2013

#### **4. RE-MUNICIPALISATION – A REALITY OF OUR TIME**

In our days, there is international evidence on the growing interest in municipalisation of services not only in Europe in water, waste management and energy sectors as well as local transport.

In German and Austrian cities, for example, public (municipal) ownership is the norm and not the exception.

According to the specialists, Taylor I. and Sloman L. (2016), in Germany, 88% of all trips on local public transport (bus, tram and local trains) are on services provided by publicly-owned operators. Private operators are mostly small, and account for only 7% of trips (with the remaining trips provided by operators in mixed public / private ownership). Also in Vienna, the public ownership is the norm and not the exception, the evidence showing that services are high quality and cost-efficient, with investment going into expanding the network. In their research, Taylor I. and Sloman L. (2016) showed that public ownership of buses in Britain, excluding London, would save £506 million per year that could be reinvested in better services and lower fares.

Another examples offered by Taylor I. and Sloman L. (2016) refers to the water in Paris which is now owned and controlled by the city, the energy in Germany which is being generated locally by publicly owned utilities. Also, in the US, a fifth of all previously outsourced services have been brought back in-house.

Another example of re-municipalisation of a public service is presented by the European Transport Workers' Federation in their report "*A trade union guide to the PSO Regulation*": **the urban and inter-city transportation in Toulouse** which covers more than 1,200,000 inhabitants. SEMVAT ("Société d'économie mixte des voyageurs de l'agglomération toulousaine") had been managing the collective transport network in Toulouse and its nearest suburbs since 1973. SEM-WAT was an Institutionalized Public-Private Partnership transport (IPPP) in which 80% of the capital was

publicly-owned and 20% was private (owned partly by TRANSDEV). In 2004, SEMVAT lost the tender which was then won by one single private company called Connex (now part of Veolia). This meant then that the whole network was privatized. But, after a tight political fight between the elected political representatives and considering the pressure of the citizens and the trade unions, from 1 January 2006, an in-house operator was appointed by the managing authority for the whole network.

## 5. SOLUTIONS FOR A SUCCESSFUL PUBLIC TRANSPORT SYSTEM

### 5.1. Management of municipal bus companies

Re-municipalisation or municipalisation of a public service offers no guarantee of success for the local authorities.

When it talks about the **management of municipal bus companies**, Taylor I. and Sloman L. (2016) consider that the efficient operation is determined by an arms-length relationship between the local transport authority and its municipal operator, the operator having sole responsibility for operational decisions and effective cost control. The concept of an **arm's-length management organization (ALMO)** is used in the United Kingdom and is a not-for-profit company that provides housing services on behalf of a local authority, it being set up by the authority to manage and improve all or part of its housing stock. ALMOs are owned by local authorities and operate under the terms of a management agreement between the authority and the organization.

**Strategic control** represents the capacity of the local transport authority to exercise it through a majority shareholding and a deciding vote on the company board.

By financial point of view, a **multi-year financing agreement** between the local authority and the operator is very important because the local transport authority can control the operator by **setting out objectives** and **operational standards**.

Also, to increase efficiency and to support innovation is vital to have an **investment strategy**. Regular use of **benchmarking against other cities** as a management tool for decisions making could be a solution.

Local transport authority could joint purchasing **alliances** with other local transport authorities and operators.

### 5.2. Total Transport Authorities

Another solution which is already applied in Europe is the *Total Transport Authorities* which cover a larger area than most existing local transport authorities and offer responsibility for all forms of local transport.

Integrated urban policies could optimize the benefits of public transport by coordinating the different policies and different modes of transport.

The example of the **Munich Transport Association** shows the benefits of all modes of public transport being coordinated at this larger geographical scale, this Transport Association working to the principle "*One network, one timetable, one ticket*". Munich Transport Association is responsible for managing public transport in the city of Munich and its surrounding districts. It is constituted as a limited company, owned by the city of Munich, 8 surrounding district authorities, and the state of Bavaria.

The attributions of Munich Transport Association are the designing and the development of the public transport network, setting the timetables, organizing a unified multimodal fare system, providing passenger information, selling tickets online, and undertaking marketing and market research. Municipally owned the operator which operates underground trains, trams and bus services within the city and the municipality manages contracts for bus services on surrounding parts of the network that are out-sourced.

### 5.3. Mobility

Is a basic requirement for efficient and modern societies, a public transport system being the key. Public transport is by far the most cost-effective mobility, considering the true cost of mobility to the community.

### 5.4. Favorable business and regulatory framework

According to the International Association of Public Transport (UITP) Study "*Public transport: the smart green solution!*" to offer quality mobility solutions to various market segments it is necessary by a fair and transparent regulatory framework for the sector.

It is a fact that public transport is a net contributor to global and local development economically, socially and environmentally, public transport remaining an important source for sustainable, green, local jobs, and a strong support to local economy. The traditional public transport approach comprises public service requirements and a social function can coexist with the newer mobility services vision of the public transport sector which includes innovative, profitable and diversified business models which will attract entrepreneurship and capital.

5.5. Experts of International Association of Public Transport (UITP) noted in their Study "*Public transport: the smart green solution!*" that "**diversified revenue, stable funding, enhanced efficiency and increased patronage** are the four pillars supporting the financial robustness of the sector and helping reduce dependency on subsidies".

Therefore, they consider that to reach a better cost coverage ratio and raise the financial attractiveness of the public transport sector, without compromising social policy objectives, is vital a more commercial approach to public transport service regarding the problem of delivery and pricing.

### 5.6. Influencing citizens' mobility behavior and encouraging the use of public transport by measures and policies

Taking into account in public transport policy on factors which are independent from public transport policy such as the spatial organization of the city, its socio-economic situation, the space and equipment devoted to each mode of transport (private motorized, public transport, walking and cycling), the tax and pricing regime applied to each mode of transport will help the authorities to influence mobility behavior - in the short and the long term - and increases the demand for public transport.

## 6. CONCLUSIONS

The demand for public transport has been growing and will continue to do so in most parts of the world due to urbanization, energy prices or environmental concerns, expectations from public transport growing, also, in qualitative terms as well (for example, lifestyle).

*The 2014 revision of the World Urbanization Prospects* elaborated by the United Nations notes that, in present, 54 per cent of the world's population lives in urban areas, a proportion that is expected to increase to 66 per cent by 2050, urban population of the world growing rapidly from 746 million in 1950 to 3.9 billion in 2014.

Thus cities are becoming ever more crucial for economic development and job creation, turning into poles of growth.

In present, **green growth** is considered a major factor of economic recovery in developed economies, and a condition for sustainability in developing economies, sustainable urbanization being the key to successful development.

The United Nations report notes that are needed a successful **urban planning agenda** because the cities could offer important opportunities for economic development and for expanding access to basic services, including health care and education, for large numbers of people.

Also, providing **public transportation**, as well as housing, electricity, water and sanitation for a densely settled urban population is typically cheaper and less environmentally damaging than providing a similar level of services to a dispersed rural population.

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