

IMPROVING IRISH BUS MARKETS: BUT NOT BY COMPETITION ALONE

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1. Introduction

When the former British Prime Minister, Harold Macmillan, was once queried as to why he had changed his policies, he justified himself by saying *Events, dear boy, events*. For good or for ill, politicians shape public policy by taking account of both principles and events: and when the balance tilts too much towards the latter, are roundly criticised for choosing the expedient over the principled. Economists would like to see themselves aligned with principle, distilling order from the mass of current events so as to provide better guidance to policymakers in future. But as a social science, economics cannot devise exact laws or principles, as can the physical sciences: in prudence, economists should advise rather than prescribe.

In recent times, economists with a strong competition perspective¹ have prescribed major changes for the Irish public bus market. Barrett (2004) considered that Irish public bus companies operated monopolistically, had captured their regulators and recommended that UK-style bus deregulation be introduced to increase competition. A closer look at the *events* side of the bus equation shows little evidence of monopolistic operation and regulatory capture in the Irish bus market, dismisses bus franchising and bus deregulation as having failed abroad and advises that network management holds out some hope for modernising the Irish public bus system.

BUS PRICING

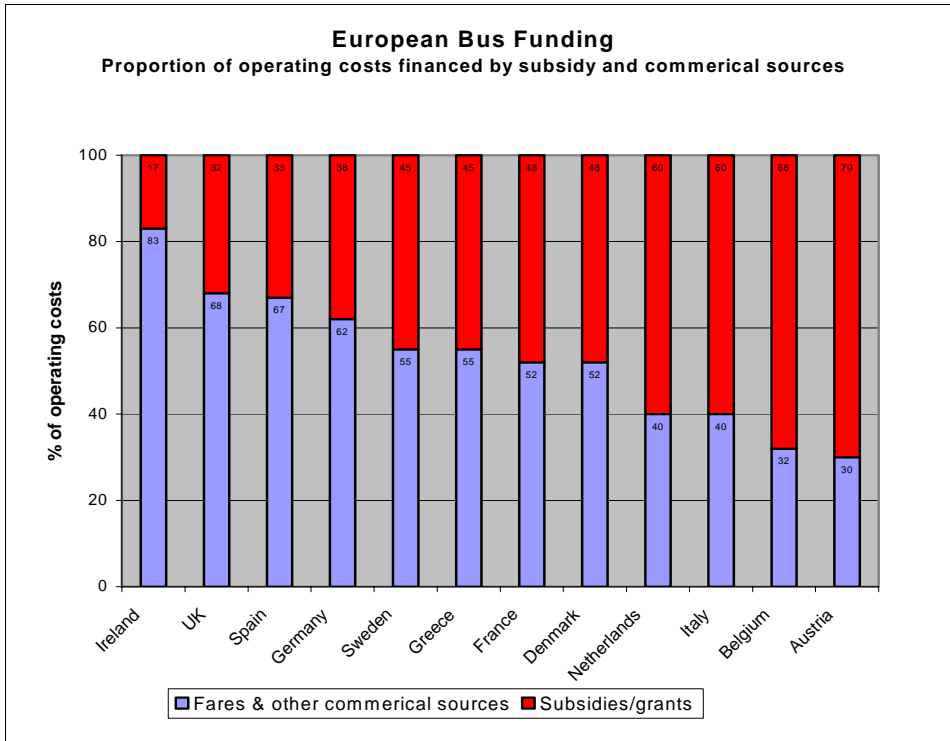
In Ireland, subsidies for public bus operations have historically been low, and this has not changed with recent *Celtic Tiger* prosperity. In 2002, Ireland subsidised 17 per cent of the operating costs of public buses.² This was the lowest subsidy rate in the EU. Again in 2002,

¹ Competition Authority (2000), Barrett (2004).

² Confederation of Passenger Transport (CPT) (2003).

public bus operation in Dublin received a subsidy for 25 per cent of its total costs. This was the third-lowest level of city bus subsidy in the EU, after Glasgow and Oslo. This suggests that, in European funding terms, Irish public bus companies were unable to capture their regulators, either at supervisory level (Department of Transport) or at Exchequer level (Department of Finance).

Figure 1: Funding of Bus Public Transport



Ireland’s low subsidy rate for public buses does not seem to be due to high prices/fares. Exact comparisons of urban bus fares across Europe are difficult because of differences in population density/bus loading, subsidy levels and in congestion caused by inadequate infrastructural investment. Taking a monthly commuter ticket as a fare least distorted by promotional discounts, Irish city bus fares in 2001 were about average for the EU.³ Sharp increases since then have moved Irish urban bus fares above the European average, but they remain substantially below those of UK cities. Overall, there is little evidence that the public bus provider in Dublin has been allowed to extract monopoly rents through high bus fares.

Outside Dublin, Barrett (2004) concluded that bus fares are determined by the extent of specific bus competition on a route.

³ EC DG Energy and Transport (2002). Steer *et al.* (2002) considered that inter-regional fares in Ireland “...appear to represent good value, in comparison with other European countries.”

The reality is more modulated: bus fares are determined (in descending order of importance) by costs (both internal and external), by patronage, and by competition from other bus operators.

Table 1: Bus Éireann Fares Per Mile (February 2005)

| Route | Distance miles | Single €per mile | Day return €per mile |
|----------------------|-----------------------|-------------------------|-----------------------------|
| Length | | | |
| Dublin/Westport | 167 | 0.099 | 0.055 |
| Dublin/Ballina | 152 | 0.105 | 0.081 |
| Patronage | | | |
| Dublin/Castleisland* | 172 | 0.058 | 0.058 |
| Competition | | | |
| Dublin/Galway | 135 | 0.100 | 0.063 |
| Dublin/Waterford | 80 | 0.125 | 0.118 |

* February special offer: any route in Ireland for €10 adult single, €20 return.

Because fixed costs bulk large in bus transport, unit fares fall rapidly with distance/time; thus the longest journeys (e.g. Dublin/Westport, Dublin/Ballina) have among the lowest fares per mile, in spite of the absence of bus competition. Bus loading or patronage is the second most important contributor to profitable bus operation. The need for increased patronage helps to restrain bus fares on all routes to levels which are competitive with car travel,⁴ encourages frequent special offers (as in Table 1) and means that return fares (for all companies) offer substantial discounts on twice the single fare. Having adjusted for bus route lengths and loadings, it is accepted that competitive tension has a beneficial impact on fares and on service levels. But the direct and indirect evidence is weak that Bus Éireann pursues monopolistic pricing policies on its routes. The direct evidence shows Bus Éireann on the contested Galway/Dublin route to be a persistent price-taker rather than a price-maker: initially, Nestor was the lower priced operator and currently Citylink is 3 – 12 per cent lower than Bus Éireann on three typical fares.⁵ In addition, in the 2001 High Court action taken by Nestor against Bus Éireann, Nestor's claim that Bus Éireann was anti-competitive and monopolistic was dismissed by consent,⁶ and costs were awarded against Nestor. Indirectly one would expect that if Bus Éireann had been exacting monopoly rents from uncontested routes, that new competitors would quickly enter these routes. The

⁴ Inter-city rail fares are not price-competitive with inter-city bus, although rail does offer distinct advantages in shorter journey times and in greater certainty of arrival on time. Despite much larger subsidies for rail than for bus, *inter-city* rail fares typically average over twice those of comparable bus fares. This suggests that subsidies for restored rail operations on routes with *low population densities* (e.g. Dublin/Navan, Sligo/Galway) would need to be much larger than those currently provided, if rail travel was to be fare-competitive with car or bus travel on these routes.

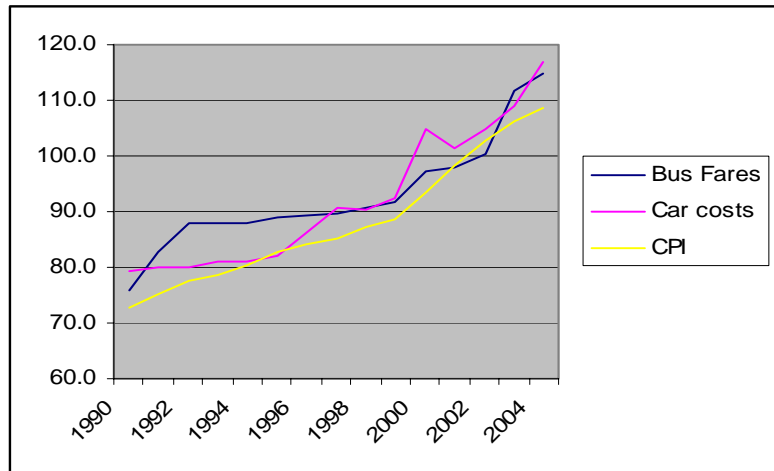
⁵ I.e. adult single, adult daily return and adult monthly return.

⁶ O'Neill, J. (2001).

opposite has occurred, with competitors exiting from a number of routes.⁷

Finally, in relation to the rate of increase in Irish bus fares, CSO indices show bus fares from 1990-2004 rising at an average of 3.0 per cent per annum, broadly in line with car operating costs at 2.8 per cent per annum and with the rise in consumer prices generally at 2.9 per cent per annum. For most of the period (from 1990-2002) increases in bus fares lagged behind increases in consumer prices, but rose by 14.5 per cent in the last two years, see Figure 2.⁸

Figure 2: Bus Fares, Car Operating Costs and Consumer Prices⁹
[December 2001 = 100]



If Irish public bus companies had operated monopolistically and had captured their regulators from 1990-2004, they should have been able to raise prices faster than inflation. The output evidence in relation to bus fares strongly suggests that transport regulators were paying more heed over this period to consumer than to producer interests.

BUS PATRONAGE

Within the EU-15, Ireland in 2001 was among the most intensive *per capita* consumers of bus and coach transport, while *per capita* growth in Irish bus patronage of 50 per cent from 1991-2001 was the highest in the EU.

Topography rather than income seems to influence intensive bus usage, since poor, mountainous Greece just shades rich, mountainous Luxembourg for the first position. Ireland is in a second high bus-usage grouping which also contains Denmark, Italy

⁷ E.g. FS Travel ex Waterford, Carew ex Sligo, Barton ex Ballina, Capital ex Dundalk.

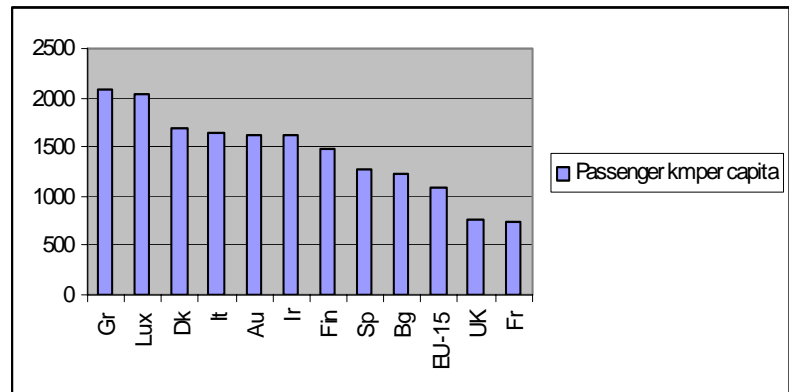
⁸ This reflected the recent Exchequer preference for point charges over central subsidies.

⁹ Central Statistics Office (2005).

and Austria.¹⁰ The UK takes second-last position to France in terms of bus usage *per capita*, see Figure 3.

Figure 3: Passenger Transport by Buses and Coach

[passenger km. per capita 2001]



An *ex ante* view of potential bus patronage in 1991 could not have expected that Ireland would lead the EU in growth over the following decade. It had the lowest density of population in Europe outside of the Scandinavian countries and its publicly-owned bus companies would probably stifle innovation. In fact, product innovation in Dublin has resulted in Quality Bus Corridors and outside Dublin the ailing stage carriage system has been successfully product-cannibalised by Expressway.¹¹ Both are recognised and emulated in the EU as leading-edge products for increasing bus patronage.

BUSES INFLUENCING THE POLICY AGENDA?

In relation to subsidies and fares there appears to be little evidence of regulatory capture by public bus companies. In relation to the major external cost imposed on bus operators by the regulatory authorities – bus speeds/congestion – there is also little evidence that the needs of public bus companies are driving the policy agenda. Peak hour bus speeds in Dublin (13.5 kph) and Cork (11.9 kph) are among the lowest in Europe, see Figure 4.

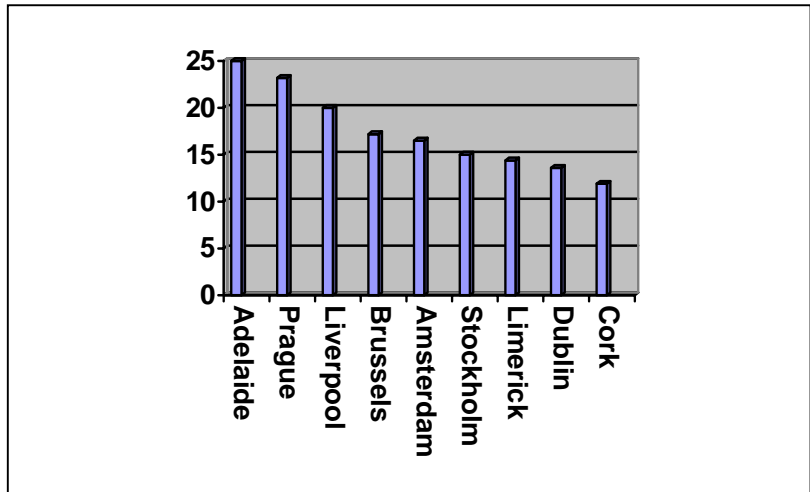
By being forced to operate at slower speeds than their peers abroad, congestion increased Dublin Bus' costs by €49.4 million in 2003 or by 23 per cent of total and increased Bus Éireann's costs by €19.2 million or by 8 per cent of total.¹² Congestion costs for both companies amounted to almost 90 per cent of their Public Service Obligation (PSO) subsidies; this is not an acceptable policy outcome.

Figure 4: Peak Hour Bus Speeds (kph)

¹⁰ Eurostat (2004). Current estimates show Ireland's *per capita* bus usage to be the second-highest in Europe.

¹¹ A decade before Ryanair applied the same pricing principle to budget airline operations in Europe, Expressway set prices to maximise yields per full bus rather than yields per passenger.

¹² CIE (2004), *Annual Report for 2003*.



Source: Casey (2003).

In spite of being the workhorse of public transport, public bus companies' needs are frequently given a lower priority than those of pedestrians,¹³ local traders¹⁴ or fixed-line transport. The policy changes required to improve bus speeds in Irish cities would not be seen as exceptional in other EU countries, but they have not been agreed to, much less implemented in Ireland viz.

- In the medium term, some new administrative/policy arrangement is required to intensify land use and public transport use in Dublin,¹⁵ while for the country as a whole there needs to be a political acceptance of the intensification objective of the National Spatial Strategy. In addition, in all cities, there is a need for grade separation of traffic at major intersections and for more flow-friendly arrangements at other junctions.
- In the short term Irish cities need to discriminate more in favour of buses, perhaps by improving their rollout of reserved bus lanes, by introducing park-and-ride facilities and perhaps by giving buses priority at traffic lights (Casey, 2003).

¹³ In recent years, pressure from community groups has resulted in a sharp increase in the number of pedestrian traffic lights installed in Dublin. Would a cost-benefit analysis of the current density of traffic lights demonstrate that their benefits to citizens as pedestrians outweighed the extra costs imposed on citizens as bus and car users?

¹⁴ Buses were reserved for a Quality Bus Corridor (QBC) in Limerick from the city centre to the University in 2001, but objections from local traders stopped its introduction. Bus travel times on this route had almost doubled from 1991.

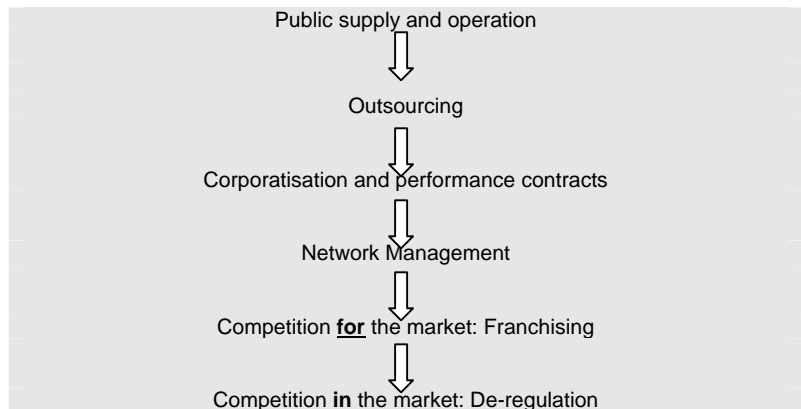
¹⁵ Similar to *New Institutional Arrangements for Land Use and Transport in the Greater Dublin Area*, Department of the Environment and Local Government/of Public Enterprise (2001).

2. Lessons from Abroad

BUS POLICY PRESCRIPTIONS

During recent decades, competition economists¹⁶ were almost unanimous in their prescription as to how the efficiency and the effectiveness of public bus operations could be improved. They assumed that public bus transport passed the privatisation test proposed in 1993 by Stiglitz, i.e., that commercial/profit-related objectives were predominant and that they could be separated from the public interest objectives in a meaningful way. By exposing public bus operations to competition, under a light regulatory regime, consumer surplus and bus output would both be maximised, while Exchequer support would be minimised. Table 2 summarises the World Bank's¹⁷ spectrum of choices – from public monopoly to deregulation – available to policymakers seeking to introduce competition and private participation into public bus services.

Table 2: Forms of Competition and Private Participation in Bus Transport



In Ireland the 1932 Road Transport Act effectively established CIE as a public *monopoly* for the provision of bus services, with a view to protecting the railways from competition, Barrett (2000), p. 2. During subsequent decades there was a gradual move towards *outsourcing* all new bus purchases and some materials and services.

Corporatisation of the public bus market occurred following the Transport Act of 1987 when Bus Éireann and Dublin Bus were established as distinct companies. Annual PSO subsidies to the bus companies are now enveloped in *performance contracts*; however, like all interagency agreements in the Irish public sector, these operate as memoranda of understanding and are not employed as enforceable contracts at law in the event of breach by either party. Empirical studies have shown that, by themselves, unenforced performance contracts add little to performance over time, Shirley (1997).

In the Flemish region of Belgium, the Flemish Government has a contractually-binding arrangement with its publicly-owned bus transport agency (VVM), De Lign (2003). If the government reduces

¹⁶ For examples see UN (2001), World Bank (2002).

¹⁷ www.worldbank.org/transport/urbtrans.

its subsidy, VVM may reduce its route network by a corresponding amount, while if VVM fails to meet its quality targets, its subsidy will be cut. The Flemish Government sets broad transport strategy and VVM is responsible for the implementation of policy at both tactical and operational levels. At the tactical level VVM is responsible for *network management*, technical co-ordination, tariff schemes, itineraries and timetables. At the operational level VVM runs a fleet of publicly- and privately-owned buses, all of which share the same “de Lign” livery. This approach holds promise for developing the Irish bus market and will be examined later.

Finally, on the World Bank’s scale of choices, at the opposite end to public monopoly is privatisation. The two most frequently-chosen methods of privatisation are *franchising* (or competition **for** the market) and *de-regulation* (or competition **in** the market). Under bus franchising, a public transport authority or public bus regulator would seek tenders from private and public bus companies to operate various bus routes to agreed quality standards under contracts for around five years. Ideally, different contract types should yield different policy outcomes under franchising.¹⁸

In 2000, the Department of Public Enterprise proposed the *franchising* of all bus operations in Greater Dublin under an independent regulator and the privatisation of Dublin Bus. Some commentators felt that *de-regulation* (or competition **in** the market) would yield greater benefits: under de-regulation, public oversight would be limited to questions of safety, standards and competition. The Competition Authority (2000) regarded the Department’s (franchising) proposals as ...*a step in the right direction* but considered that ...*they may not go far enough*. For the provision of bus services outside Dublin the Authority recommended deregulation along British lines. This is a view with which Barrett (2004) concurs.

Sufficient time has now elapsed to allow judgements to be drawn on the impact of bus deregulation on bus services outside London and on the impact of bus franchising on London and Copenhagen – the two models proposed for Ireland.

BUS DEREGULATION AND FRANCHISING ABROAD

In the UK, long-distance bus operations outside London were deregulated in 1980 and other bus operations from 1985. Licensed bus operators had to register their timetabled services with regional

¹⁸ Under gross cost contracts the transport authority assumes the revenue risk, with the bus operator concerned to minimise costs. Under a net cost franchise for tendered routes, the operator is responsible for both costs and revenues. Gross cost contracts should prove more efficient for a stable level of passenger demand; but to maintain the effectiveness of the network, the transport authority will face increasing charges from the incumbent operator in order to induce him to change existing routes or to open new routes in response to changing customer preferences. The greater commercial uncertainty associated with net cost contracts usually means that initial tenders are higher under this system. The difficulty in making the bus tender system function as its designers intend is evident in London, which started with gross cost tendering, changed to net cost and changed back again to gross cost tendering.

Traffic Commissioners, but could set their own fare levels. The UK Office of Fair Trading's remit was subsequently extended to ensure competitive practice by bus operators. London adopted a route franchising system – or competition for the market – with franchisees' fares/subsidies and operations regulated by Transport for London (TfL).

Four propositions underlaid the 1984 White Paper "Buses". First, deregulation would produce a competitive market, second, competition would reduce costs and increase efficiency, third, a competitive market would improve the allocation of resources and fourth, there would be no undesirable spin-off effects. Ten years later Mackie, Preston and Nash (1995) judged bus deregulation outside London to have failed and recommended a move to the London franchising model. By 2004 the Commission for Integrated Transport (CIT) had accepted the failure of bus deregulation and, while acknowledging the popularity of the London model with politicians,¹⁹ ruled it out on cost grounds and instead recommended Quality Contracts for bus operations outside London.

Table 3: Bus Deregulation in Great Britain²⁰

| (per cent change 2002/03 on 1984, constant 2002/03 prices) | | |
|--|----------------------------|--|
| Four Propositions | London Franchising % | GB Outside London Deregulation % |
| 1. Competitive market | Increasingly oligopolistic | Increasingly oligopolistic |
| 2. Efficiency | | |
| Operating costs per passenger journey | -7.3 | -1.7 |
| Drivers' wages as % national average | n.a. | -30.7 |
| 3. Resource Allocation | | |
| Patronage – pass. journeys | +32.7 | -35.1 |
| Real fares | +34.6 | +38.1 |
| Real subsidies per passenger | -31.2 | +45.0 |
| 4. Undesirable spin-off effects | Subsidy/Regulatory Costs | Wasteful competition Rural routes Public policy loss |

In a bid to make the UK bus market more competitive, the large public bus companies were broken up into a large number of private companies prior to deregulation. However, the market quickly reverted to oligopoly. By 2002 three operators controlled 52 per cent of the London market while outside London three operators held a 53 per cent market share.²¹ It is almost as though policymakers had attempted to impose a perfect competition template onto the bus market, ignoring operators' potential scale and network effects. The actual market position is even more uncompetitive, since the oligopoly figures conceal *de facto* local monopolies; the House of

¹⁹ A House of Commons Early Day Motion (no. 518 of 6/2/2004) called for local authorities to be given the power to franchise bus operations. It attracted cross-party support.

²⁰ Department for Transport (2004).

²¹ In Scotland, three operators – Firstgroup, Stagecoach and Lothian – accounted for 84 per cent of bus revenue in 2001.

Commons 2002²² report found *...very little evidence of on-the-road competition* and what competition did occur took place at the boundaries of competitors' areas.

Efficiency improved post-deregulation as expected. Real costs per passenger journey have fallen by 2-7 per cent, see Table 3. This was mainly achieved²³ by persistent downward pressure on bus drivers' average earnings – which fell from 100.5 per cent of national average earnings in 1986 to 69.7 per cent of national average earnings in 2002.²⁴ However, with reduced public subsidies and the increasing need to remunerate investment in new buses, none of these producer benefits were distributed to customers in the form of lower fares.

The largest failure of bus deregulation has been the continuing decline in bus' modal share of transport. Outside London and with the exception of Scotland over the past few years, bus patronage since deregulation has declined continuously in Wales, in English metropolitan areas and in English shire counties, with most of the decline occurring during the first ten years (DfT 2004). In addition to the depressing impact of real fare increases on patronage (especially in the metropolitan areas), Mackie *et al.* (1995) considered that route/network instability had caused an inward shift in the demand curve.

Finally, some of its spin-off effects – such as a substantial loss of service in rural areas and at off-peak times – might have occurred even without deregulation. However, almost twenty years after its introduction, two behavioural characteristics of a deregulated bus system are evident. First, in spite of its malperformance, it is proving very difficult to modify. Bus operators opposed the wishes of local authorities and MPs to extend the franchising system outside London, and the CIT accepted the bus operators' arguments. Second, under deregulation bus transport will make no incremental contribution to spatial, social or economic policy, without explicit and substantial subsidy.

With bus deregulation now seen by most commentators as having failed,²⁵ not surprisingly bus franchising is perceived as the

²² Par 28/p. 14.

²³ Deferral of investment in bus renewal also contributed during the early stages.

²⁴ CIT (2004), p. 16. In 2002 and 2003 CIE's Annual Reports show that almost 70 per cent of the total costs of the Irish public bus system were labour costs.

²⁵ For a pro-deregulation view see Hibbs (2003). Further, both the pro-deregulation ideology of the Office of Fair Trading (OFT) and its conduct came in for severe criticism from politicians in the House of Commons Bus Report (2002) e.g. (*re on-the-road competition*) *Mr. Vickers, DG of OFT, told us that competition always generates benefits...He was unable to provide evidence of the benefits of competition in the bus industry.* And (on network co-ordination) *The OFT's position of investigating and approving any form of co-ordination of bus routes is a case of theory running riot over common sense. It is disproportionate for the Office to have to make a ruling on whether the number 12 and 13 buses can agree to run every 10 minutes, yet be able to ignore mergers between companies that are under £70 million in value....The concerns that the OFT has about a loss of consumer benefit that co-ordinated timetables, fares and frequencies will bring are largely unfounded. We cannot see the value of having every such decision investigated and approved by the OFT, nor is it sufficiently staffed or expert to do so.*

next, preferred form of public bus operation in the UK. Elsewhere in Europe, franchising was popular because it promised to avoid the downside of deregulation and also to provide a more stable service level. However, experience of actual bus franchising in London, Copenhagen, Helsinki and Stockholm, is that it comes with baggage.

- The franchising model by no means assures increases in patronage. Copenhagen saw a continuing reduction in passenger numbers following the introduction of franchising. In London, passenger numbers fell for six years following the introduction of franchising. More recently they have grown, not due to franchising,²⁶ but because of Ken Livingstone's freeze on bus fares, large service investments, increased subsidy and congestion charging. But TfL's current funding gap of £500 million+ is unsustainable and UK Treasury pressure will force an increase in fares.
- Franchising increases industry consolidation and oligopoly. Three operators now control 52 per cent of London's market, 75 per cent of Helsinki's, 90 per cent of Copenhagen's and 100 per cent of Stockholm's. Initial cost/fare savings are quickly eroded and costs rise through uncontested franchise renewal bids. To restore competitiveness and to even up information asymmetries, TfL (London) and HUR (Copenhagen) are introducing cohorts of directly-employed buses. The replacement of a public monopoly with a private oligopoly (sometimes also including a price cartel) is not the competitive outcome which advocates of franchising had anticipated. But it has occurred in these four cities.
- Public regulation of a bus franchising regime is costly. In 2000, for an area around Copenhagen with a population of 2 million, HUR employed 300 people at a payroll cost of €24 million.²⁷ In London during 2002/03, TfL employed over 700 in bus planning and tendering and over 1,600 in corporate administration for a payroll cost of STG£214 (or €319 million), Transport for London (2004). If TfL's transport authority functions were scaled per bus to Ireland, they would cost €34 million in Dublin and €16 million outside Dublin. The Transport Authority model used to oversee franchised bus operations abroad would not pass the Effectiveness principle set out in the Irish Government's White Paper "Regulating Better" (2004).²⁸

Experience from abroad strongly suggests that the franchising of bus operations under a transport authority will reduce patronage,

²⁶ House of Commons (2002), *The Bus Industry* par 100/p. 38. *The wide variety of factors that contribute to growth in London bus use...means it is not possible to attribute this growth to the use of a tendered system of bus procurement...The experience in London shows that if large amounts of public subsidy are used to improve bus services, quick and significant improvements can be made.*

²⁷ Figures for HUR for later years are unavailable.

²⁸ In an Irish context, Massey (2004) warned of the danger of sectoral regulatory bodies in telecoms, energy etc. exacting *monopoly regulatory rents*.

3. Towards an Improved Bus System in Ireland

increase public subsidies and replace a monopoly public operator with private oligopolists. More generally, there should now be some acknowledgement by competition economists that their attempt to make one policy instrument (competition) the sole driver for improving bus transport systems, caused these systems to fail: competition is a necessary, but not a sufficient condition, for improving bus markets. Designing improved bus transport systems is difficult, and it requires not only codified knowledge of how bus markets *might* or *should* work, but also tacit knowledge of how they *actually* work. As Macmillan noted, events are important.

One of the best bus systems in the world is in Curitiba, a city with a population of 1.6 million in the south of Brazil.²⁹ Although Curitiba is relatively wealthy and has a high level of car ownership, 75 per cent of weekly commuters travel by bus. A state-owned company monitors and co-ordinates the system, while 16 private companies own and operate the buses and maintain the infrastructure. The system is completely financed from bus fares and there is no public subsidy. For the past thirty years the city administration has pursued a combined spatial and transport strategy, with intensive settlement encouraged along dedicated bus lanes. In drawing up its master plan, Curitiba had chosen buses³⁰ as being much more cost-effective than trams or subway.

In moving towards an improved bus system for Ireland, three broad elements of best-practise bus systems (such as Curitiba's) need to be emulated viz.

- Better integration of spatial and transport strategies.
- Cheap and effective co-ordination of the bus market by the public authorities and
- A strong competitive ethos to reduce bus operating costs in providing market-related services.

In relation to an integrated development strategy, it is too much to hope that Ireland would build dedicated bus ways prior to development occurring.³¹ However, transport policy should have at its centre a modal shift from personal car to bus travel.³² Flowing from that, how should public oversight and competitive provision of bus services be organised? Looking back at Table 2 *Network Management* is operating successfully in Finland and Belgium (Mehta,

²⁹ Friberg (2001) contains most of what follows.

³⁰ Curitiba's largest bi-articulated bus, with dedicated tubes for entry and exit, can carry 270 passengers per journey or 4,000 passengers per day.

³¹ Perhaps downstream of the macro approach in the National Spatial Strategy, a micro approach, as in Flanders, might bear fruit. Here VVM, the public operator, may enter voluntary, but legally enforceable agreements, called "*conventanten*" with local councils. Under these the local councils may subsidise local fares, while VVM can fund "collateral measures" to eliminate bottlenecks in local traffic, giving absolute priority to public transport (free bus lanes, roundabouts, signposting). 92 per cent of the 309 local councils in Flanders have signed a basic covenant with the VVM.

³² The need for a modal shift to bus travel will be reinforced by Ireland's requirements to meet its Kyoto commitments in a world of dearer, scarcer oil.

R. (2004) and Steer *et al.* (2002)). It is a form of Public-Private Partnership under which the private sector provides bus services in conjunction with publicly-owned companies.³³ The publicly-owned operator acts as network manager and lead operator, providing an integrated network through a combination of own and subcontracted private sector services. This introduces competition into the marketplace in a structured manner which is sustainable in the longer term.

Network Management breaches many of the taboos of neo-classical competition theory (regulatory capture, information asymmetries, the principal-agent problem). But it works. Bus patronage has increased in Tampere under network management, following two decades of decline prior to that. In both Tampere and Flanders, transparent benchmarking between public and private operators has increased the efficiency of the public companies: the public subsidy in Tampere has fallen to 26 per cent of costs. Ongoing competitive tensions contain costs without surrendering control of the network to oligopolistic multinational companies. Flanders sets a 5 per cent market share limit on individual private operators; in spite of that it receives an average of 3 tenders per contract – over twice the London experience. Service quality and employee satisfaction are high in both Flanders and Tampere.

Given the characteristics and capabilities of the Irish bus market, the network management approach has much to commend it. An earlier version – Bus Éireann’s network management of the schools transport service – has proved very cost-effective.³⁴ From a user’s perspective, patronage should increase if the system delivers on its promise of network integration and demand-based routes at low cost. The State would retain strategic direction over a necessary piece of physical infrastructure rather than cede it to a private multinational with a contrary development agenda, as occurred with Telecom Éireann: and network management looks like the only system which can provide modal shift. For existing State companies, network management is less unpalatable than franchising, under which they would have been taken over or replaced by multinationals. For small private bus operators, it also offers a brighter future than under franchising. Network management may turn out to be the least unpalatable method of upgrading the Irish bus system for its patrons, operators and regulators.

³³ In Tampere, Finland, the municipally-owned TCT operates 57 per cent of routes, while in Flanders, Belgium, the publicly-owned VVM (branded as “De Lijn”) operates 58 per cent of routes. Flanders is targeting a 50 per cent share of bus provision by SME’s.

³⁴ Steer *et al.* (2002) *School transport organised by Bus Éireann costs an average of €512 per pupil carried. This compares favourably with an average cost of transport per pupil in Northern Ireland of €615, in Scotland €832, and €875 in the English shires. It is also at the bottom end of the American range of €500 to over €1,100 per pupil. Previous reviews of school transport provision – notably by Deloitte and Touche in the early 1990s – concluded that the current management arrangements offered good value for money.*

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