A REVIEW OF THE REGULATORY ENVIRONMENT FOR BUS TRANSPORT IN IRELAND

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Regulatory reform of the Irish bus transport sector has been on and off the political agenda since the 1980s. In 1995, the pros and cons of liberalisation of the bus transport market were discussed in a Green Paper on Transport Policy. In 2000, the Department of Public Enterprise published a proposal for a New Institutional and Regulatory Framework for Public Transport. In November 2002, the Minister for Transport, Seamus Brennan T.D. developed a detailed plan to implement the 2000 proposal: the regulatory and operational functions in public transport were to be separated, franchising was to be introduced in the Greater Dublin Area and the provision of bus services outside the Greater Dublin Area was to be fully liberalised. Following the 2004 Cabinet reshuffle it is unclear whether regulatory reform of the bus transport sector is still on the Government agenda. The definition of the remit of the new Transport Authority for the Greater Dublin Area announced in November 2005 will give an indication of the Government’s willingness to reform the bus transport sector.

The hesitation of successive Governments appears paradoxical: Irish consumers have benefited hugely from liberalisation of many sectors of the Irish economy, most notably the telecommunications, airlines and taxi sectors; in the bus sector itself, passengers have

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benefited hugely from price reduction, increased frequency of service and enhanced service quality where private operators have been able to offer services. Political commentators attribute this hesitation to unions’ power to resist change. Economists have frequently attributed the absence of regulatory reform to regulatory capture by the State owned incumbents (Barrett, 2004, Shinnick and McEnery, 2005). An additional explanation is as follows: successive Governments have let the concerns of the unions and/or the influence of the State-owned companies’ determine the bus transport policy because public opinion has never realised that the regulatory environment harms consumers and tax-payers.

To foster a better understanding of the need to reform the bus regulatory environment, this paper presents the legislation governing the provision of bus services in Ireland and analyses it from an economic perspective. The conclusion identifies a number of directions for reform of the bus regulatory environment.

2. The Bus Transport Legislation

Bus transport in Ireland is governed by three sets of legislation: (a) the 1930s licensing legislation that sets the conditions for bus services operation and (b) the Transport Act 1964 that sets the legislative ground for the allocation of subsidies to CIE and (c) the legislation that defines the mandate and the structure of the main bus companies, Bus Éireann and Dublin Bus in three major Acts,

(i) the Transport Act 1944 that amalgamated Great Southern Railways and the Dublin United Transport Company and incorporated the newly formed private company Córas Iompair Éireann (CIE);
(ii) the Transport Act 1950 that nationalised CIE and,
(iii) the Transport (Re-organisation of Córas Iompair Éireann) Act 1986 that established CIE as the holding company for Iarnród Éireann, Bus Éireann and Bus Átha Cliath (Dublin Bus).

This section describes how the legislation defines who may operate bus services, on what routes, and which bus companies can receive public funding.

2.1. THE LICENSING REGIME

The Transport Act 1932 governs the operation of bus services. Originally, the purpose of the 1932 Act was to offer protection to the railway sector as it was facing increasing competition from road transport competition i.e. transport by bus and transport by trucks. The Minister for Industry and Commerce of the day, Deputy Patrick McGilligan, declared in the Dáil when the Bill was discussed in 1931,

Personally, I would look forward to seeing these people [the independent bus proprietor or company] disappearing by degrees either by process of amalgamation with other companies or by the main companies deciding that their future lay in certain areas in the
country and leaving other areas for exploitation by independent bus owners’. By contrast, a Deputy opposing the Bill stated:

These bus services have been of great benefit to the country in general. They have tapped a great many areas throughout the country that the railways could not tap or never had any inclination to tap.

To pursue this objective, the Act prohibits the operation of scheduled passenger services except those granted a licence by the Minister for Industry and Commerce – a responsibility which currently lies with the Minister for Transport (Section 7). Section 11(3) of the 1932 Act also stipulates that, before granting a licence, the Minister has to consider:

(a) whether the service proposed is in the public interest having regard to the road passenger services and other forms of passenger transport available to the public in the neighbourhood of the proposed route;

(b) whether the proposed service is sufficient in regard to its frequency, daily duration and other respects to meet the requirements of the public; and

(c) whether the organisation and equipment at the disposal of the person making the application are sufficient to enable the operator to carry on the proposed service.

The policy to protect the railway from increasing competition from buses and trucks took a further step with the Transport Act 1933. The 1933 Act fixed the number of buses and road licences, limited the geographical expansion of the existing services and encouraged the railways to acquire their licences of its road transport competitors with compulsory purchase orders, if necessary. In the following years, the number of passengers carried by independent bus operators (i.e., non railway companies) shrank from 34.5 million in 1932 to 1 million by 1938.

In 1950, the Great Southern Railway Company and the Dublin United Transport Company were amalgamated into CIE. The Transport Act, 1958 exempted the Board of CIE from operating under the 1932 licensing regime. The 1958 Act provided that CIE was required instead to seek the consent of the Minister when it

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2 McGilligan (1931), Dáil debates Vol. 40 (2632). During the same debates, Deputy Flynn added …If it is to benefit the railway company the actual number of bus runs on a particular route per day has to be reduced. The actual facilities to the public have to be reduced or the rates have to be raised in order to force the people back onto the railways… it is either by reduction of existing facilities, which the people apparently want and use, or by an increase in the fares which the people are now paying.

3 Dáil debates Vol. 40 (2686).

4 Interestingly, in the US, the railway was expressly restricted from getting involved in competing transport means because of fears of inter-modal monopolisation according to Jakke and Allen (1997).

proposed a service that would compete with an existing licensed passenger road service.\(^6\) In 1986, the Transport Act (Re-organisation of CIE) established three entities – Irish Rail, Bus Éireann and Dublin Bus – and prohibited Bus Éireann from picking up passengers where a similar service is offered by Dublin Bus.

In applying the 1932 Act, the various Government Departments responsible for transport policy granted open-ended licences on a first-come first-served basis. They had a policy of refusing licence applications on routes where CIE or its predecessors were running a bus or rail service or when a private operator was already running a licensed service, unless the applicant could show that the proposed service met a demand not already satisfied by existing (licensed) services.\(^7\) In applying this policy, the Department was mainly granting licences to private operators for the following type of services:

- “feeder services” that provided links to the existing public transport network,
- “orbital services” in major urban areas which linked outer suburban areas to each other, and
- “radial services” on routes not already serviced.

To circumvent the restrictions on entering the market, a number of unlicensed private operators offered “travel club” services on certain inter-urban routes, using the fact that the 1932 Act does not apply to bus services for private hire. At their peak, in the late 1990s, private buses operating under the “travel club” arrangement accounted for approximately one-fifth of all bus services.\(^8\) This practice prevailed until the Department of Transport\(^9\) relaxed its interpretation of the 1932 licensing regime following two Court cases: the “Taxi case”\(^10\) and the “Nestor case”.\(^11\) The 2000 “Taxi Case” raised a significant question mark over the constitutionality, and compatibility with the EC Treaty, of the quantitative restrictions of the 1932 Act. In the Taxi Case, Justice Murphy commented on the significance of EC-based legal arguments in the challenge to the taxi licensing regime in Dublin. In particular, Justice Murphy questioned whether such a licensing regime was compatible with Article 86 EC, which governs the conditions under which the rules of the EC Treaty, including EC competition rules, apply to certain categories that enjoy a privileged status under national law. Subsequently, similar arguments were used in 2001 in the Nestor case. The case challenged the 1932 Act

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\(^{6}\) Section 25 of the Transport Act, 1958.

\(^{7}\) Competition Authority (2001), Report on Bus and Rail Passenger Transport Sector.


\(^{9}\) Then named the Department of Public Enterprise.


\(^{11}\) Unpublished case.
and the incoherence of its implementation. In particular, the plaintiff stated that its application for a licence for the Galway-Dublin Airport route was refused by the Minister between September 1995 and January 1997 on the grounds that the Minister believed that the Galway-Dublin route was adequately provided for by CIE but that, subsequently, in June 1998, Bus Éireann launched a new Dublin-Galway service using sub-contracted private operators. The case was ultimately settled, the Court asking for an end to the “...unlawful favouritism by the Minister for Bus Éireann in refusing licences”.  

In 2001, following the Court settlement, a Ministerial direction required both State-owned companies (Dublin Bus and Bus Éireann) to notify the Department of proposed new services or proposed changes to existing services at least four weeks prior to their introduction. The objective was to ensure “...a level playing field between Dublin Bus, Bus Éireann and private operators in the authorisation of services and also to ensure compliance with Section 25 of the 1958 Act.” The Department now examines whether it is in the public interest, having regard to other forms of public transport on the route, to have more than one licence on a route or part of a route. In examining this issue, an adequacy of supply test is used when considering a licence application. In practice this means that the Department carries out a detailed analysis of the overlap between the proposed service and existing licensed services, or other public transport services (train services for instance) and other applications or notifications received prior to processing the licence applications and CIE’s notifications.

Before making a formal decision to refuse a licence, the Department advises the applicant of the reasons for its intention to refuse. This procedure allows the applicant to make representations and comments. In compliance with the legislation, the Department places restrictions on the licences “...in an effort to avoid direct operational conflicts between operators, while at the same time ensuring the availability of a good range and spread of services to the travelling public” but such restrictions are rare.

2.2. THE ALLOCATION OF STATE FUNDING TO CIE OPERATIONS

As small rail lines closed in the mid-1950s and 1960s, the rationale for retaining the licensing regime and the associated monopolies shifted from the protection of the railways from road competition, to the financing of loss-making bus services by the profits generated on profitable routes. CIE bus services also benefited from the allocation of repeated “once-off” subsidies to compensate its

13 Joint Committee on Transport (2004), Pat Mangan, Assistant Secretary, Department of Transport, Tuesday, 9 March, 2004 – Volume 34.
14 ibid.
15 ibid.
operational losses. As C.I.E losses increasingly appeared to be structural losses, legislation was passed to grant CIE an annual block grant in 1964. The first IR£2 million per annum was granted after ...careful examination of estimates supplied by CIE It represents what the Government considered to be a realistic estimate of the minimum subsidy by which CIE could get by, on the basis of effective management, increased efficiency and productivity, and careful husbancing of resources?.

Under the Transport Act 1964, CIE became the only company entitled to receive direct subsidies. The legislation did not require a link between the subsidy and the unprofitable routes. This absence of link was criticised as a “blank cheque” from the Exchequer to the company by a Deputy opposing the Bill. Subsequently, this shortcoming was repeatedly identified in the 1967 Beddy Report,\(^{17}\) the 1970 McKinsey Report\(^{18}\) and the 1972 National Prices Commission Report.\(^{19}\) The Transport Act 1986, which separated CIE into its three subsidiaries, was another missed opportunity to target the subsidies to unprofitable routes. CIE had, in principle, agreed with targeted funding for loss-making services.\(^{20}\)

Beyond the operational subsidy, the following additional Government funding has been received by Bus Éireann and Dublin Bus over the years:

(a) fuel rebates worth close to €44 million in 2001 (private operators have been able to avail of such rebates since 2001);
(b) funding to compensate for transporting passengers with free travel passes;\(^{21}\)
(c) funding for the School Transport Scheme which has been administered by Bus Éireann on behalf of the Department of Education and Science since 1967 (worth around €110 million to Bus Éireann in 2003). The scheme provides subsidised transport to school-going children in rural areas directly, either with the company’s own buses or indirectly with subcontractors, i.e., private bus operators.
(d) In recent years, CIE’s bus subsidiaries have received significant financial support from the National Development Plan 2000-2006 to replace or increase their

\(^{21}\) The Department of Social, Communities and Family Affairs compensates licensed operators for carrying passengers with a free travel pass. Eligible passengers are disabled individuals, pensioners and their companions.
fleets and finance infrastructure development (€346.8 million to Dublin Bus and €196.9 million to Bus Éireann).

Despite the relaxing of the bus licensing regime in 2001, the regulatory environment is still characterised by restrictions to entry into the industry. This section analyses how, despite the changes in the implementation of the licensing regime and the allocation of State funding, the regulatory environment still penalises existing and potential customers. This analysis is carried out from an economic perspective. It does not examine whether the legislation complies with the provisions of Article 86 of the EC Treaty with respect to the duties of Member States in relation to undertakings with special or exclusive rights or with respect to the State Aid provisions of Article 87 of the same Treaty.

3. The Economic Analysis of Bus Transport Legislation

3.1. THE CURRENT IMPLEMENTATION OF THE LICENSING REGIME

The relaxing of the licensing regime allowed a number of private operators to obtain a license who previously operated a service under the “travel club” arrangement. It also facilitated the increase in the number of routes where Bus Éireann faced competition from private operators which provided well publicised benefits to consumers in terms of price and increased frequency (Barrett, 2004; Casey, 2005 and Shinnick and McEnery, 2005) but the very nature of the licensing regime with an “adequacy of supply test” remains flawed, administratively cumbersome and inefficient.

The “adequacy of supply test” used to apply the licensing provisions of the 1932 Act is flawed: no one is in a better position to assess whether demand for a bus service is adequately satisfied than entrepreneurs willing to risk their capital to offer bus services, yet the Department of Transport may refuse to grant a licence on the grounds that the supply of bus services on the route is considered adequate.

With about 480 valid licences at the beginning of 2004, the licensing section of the Department of Transport employs around 10 full-time staff to renew existing licences and vet new ones. Several months can elapse between the licence application and the arrival of services on the route. The reasons are the following:

(a) If several licence applications are made at the same time, the Department cannot grant the licence on a first-come, first-served basis. The Department has to factor in that the service must be efficiently operated and must satisfy a public interest test. As a result, the Department looks at

22 A number of legal issues emerge following the Altmark judgment – Case C-280/00 Altmark Trans GmbH judgment of 24 July 2003. For further information see Boyd, A. and J. Teal Interpreting the Altmark decision – the challenges from a private practitioner’s perspective -http://www.mcgrigors.com/pdfdocs/pl_state_aid_paper.pdf
23 Joint Committee on Transport (2004), Pat Mangan, Assistant Secretary, Department of Transport Tuesday 9 March 2004 – Volume 34.
the services available on the route and assesses the value added by each service, to choose which operator will be allocated the licence. To do so, the Department looks at the frequency proposed, the times (whether the service is offered at weekends, morning, evening, mid-week and so on) and the nature of the service (whether it is serving the commuter market or the week-end market). If the second applicant offers a “better service”, the Department has to offer a licence to the second applicant.

To offer a new service, applicants face a “chicken and egg” situation. To apply for a licence they need to demonstrate that they have …the organisation and equipment sufficient to carry-out the proposed services; however, the acquisition of new vehicles is only justifiable if the operator has a licence to operate the new service. To accommodate this situation, the Department issues conditional licences, but in practice this process generates unnecessary delays for the introduction of new or additional services.\textsuperscript{24}

When granted, conditional licences are valid for one year. As operators can use conditional licences to curtail the expansion of their competitor by simply applying for a licence the Department of Transport encourages operators to introduce all agreed services within four months. The Department also monitors whether the services are being offered or not on the ground. When the services are not offered, the Department writes to the operators to draw their attention to the situation and asks them to rectify it.

In practice, Department of Transport grants a maximum of three or four licences on a route.\textsuperscript{25} As a result, the licensing regime remains restrictive which leads to inefficiencies. The market structure is, at best, oligopolistic with no threat of entry. As a result, the operators can charge higher prices than those that would prevail with a free entry regime. Some of the operators may settle for a quiet life, with less incentive to reduce their cost base, improve quality of service and innovate than if they constantly faced the threat of entry.

3.2. MONOPOLY, QUASI-MONOPOLY AND CROSS-SUBSIDISATION

The 1932 Act either allocates a monopoly to CIE bus subsidiaries or limits the competition they face. As a result, CIE bus subsidiaries are often in a position to charge monopoly prices. This situation was, in theory, curtailed by the Transport Act 1986, when Ministerial control over maximum single fares was introduced. The effectiveness of such control can be questioned on several grounds:

\textsuperscript{24} Delays in granting the licence also arise because the applicant waits for a road transport operator licence (or its renewal), a public service vehicle licence (administered by An Garda Síochána) or for approval from the Garda for pick-up and set-down points, as specified under the Road Traffic Acts.

\textsuperscript{25} Joint Committee on Transport (2004), Pat Mangan, Assistant Secretary, Department of Transport Tuesday 9 March 2004 – Volume 34.
(a) With bus fares increasing by a lower rate than inflation between 1990 and 2004, it has been argued by Casey (2005) that the bus companies did not use prices to capture their monopolies rent. This argument does not prove the effectiveness of the price control. Price could have been set at a level where marginal revenue equals marginal cost with marginal cost increasing faster than the marginal cost that would prevail under competitive conditions.

(b) The ability of the Department of Transport to exercise effective price control over the monopoly can be questioned. To ensure that prices correspond to the hypothetical competitive price plus a mark-up to fund loss-making routes (the underlying rationale), the Department needs accurate and detailed information on the costs and receipts of each bus route. The Department also needs to establish the hypothetical competitive price. This is an unlikely possibility as there are no legal requirements on CIE subsidiaries to provide the Department of Transport with accurate information on the number of passengers, the revenue generated, or the investment and operational costs of each route they serve. Even if such information was available, effective price regulation would require specific resources and expertise that are not currently available to the Department of Transport.

(c) Beyond questioning the effectiveness of the price control mechanism, it is possible to question the wisdom of imposing maximum fares in a context where competition is emerging. First, effective price regulation (i.e., price set at the competitive level) would significantly deter entry into the market as there would be no monopoly profit. Second, with ineffective maximum price regulation, the monopolist or quasi-monopolist providers have scope to reduce their prices to respond to competition – a concern if profits made on routes where they hold a monopoly are used to fund price reductions on routes where they face competition.

Besides questioning the effectiveness of the price control exercised by the Department of Transport, the substitution of Exchequer funding by cross-subsidisation raises equity concerns: passengers on long distance services, typically from lower income groups, contribute to the funding of rural bus services.

### 3.3. THE ALLOCATION OF EXCHEQUER FUNDING

While private operators have been able to benefit from the rebate on fuel duty, and the free travel pass scheme previously reserved to CIE’s subsidiaries, private operators remain excluded from accessing investment and operational subsidies as well as the school contracts allocated by the State. This discrimination raises a number of issues in terms of equity and efficiency.

Private operators providing socially desirable services – typically rural bus services in low-density areas (e.g., Lough Swilly in Donegal) cannot receive State subsidies. The scale of their
operation as well as the quality and price of the service offered are limited by their profitability constraint. This situation is not faced by rural dwellers served by Bus Éireann as the company can use a portion of its operational subsidy or cross-subsidise the service from profitable routes.

The provision of non-profitable but “socially desirable services” may justify State funding, but the current mechanism for the allocation of the subsidy lacks transparency, and is likely to place private operators at a competitive disadvantage.

(a) Bus Éireann and Dublin Bus have full discretion to determine which non-commercially viable areas they serve and how frequently such routes are served.

(b) In the absence of a transparent link between the “non-commercially viable routes” served and the subsidies received it is impossible to know whether Bus Éireann and Dublin Bus are adequately or excessively compensated for “…the provision of socially necessary services”. Given that the subsidies received by Bus Éireann have often exceeded the company’s deficit, Bus Éireann’s subsidised cost base may place private operators at a competitive disadvantage on profitable routes and/or non-profitable routes. The extent of this competitive disadvantage depends on the number of markets where private and State funded operators have the potential to compete.

The allocation of a subsidy for the provision of “socially desirable services” does not guarantee value for money to the taxpayer. There is no mechanism to ensure that Bus Éireann or Dublin Bus will provide the service with the lowest level of subsidy.

For the provision of school services, private operators who account for 80 per cent of school buses used are sub-contractors of Bus Éireann. There is no guarantee that the school services provided are offered at the lowest possible costs to the Exchequer. Sub-contracting creates artificial barriers between the school market and markets such as the provision of rural routes reducing private operators’ ability to benefit from economies of scale and scope associated with running a combination of school and rural services.

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26 Expression used by Minister for Public Enterprise, Mary O’Rourke T.D. during Dail Parliamentary Questions on June 3, 1998.

27 Between 1990 and 2000, the cumulative deficit of Bus Éireann was £38.6 million, the State grants totalling £59.1 million or 53 per cent greater than the losses over the period. For the following two years, the increased losses (by more than 50 per cent compared with 2000) made by the company were not fully compensated (85 per cent of the deficit in 2001 and 70 per cent in 2002) but the situation reverted in 2003 when operational subsidies exceeded losses by 7 per cent.
Overall, the combined effects of restrictions on entry, price control, discrimination in respect of the allocation of subsidies or contracts in favour of the State-owned companies and the lack of transparency in the funding of non-profitable but “socially desirable services”, generate a number of inefficiencies suffered by existing and potential bus passengers, as well as tax-payers and the economy as a whole:

- Bus Éireann and Dublin Bus face limited incentives to minimise the losses on rural and urban services; this is likely to generate productive inefficiencies;
- The method used to allocate funding to the operators of loss-making routes generates allocative inefficiencies. Cross-subsidisation increases demand on loss-making routes as expected but lowers demand on profitable routes. By contrast, competition for Exchequer funding would have no impact on profitable routes and would ensure that non-profitable routes are produced for the least amount of subsidies.
- Bus Éireann and Dublin Bus may be foregoing more worthwhile investment and innovation to subsidise loss-making routes, resulting in dynamic inefficiencies.

To avoid these inefficiencies, changes to the current regulatory regime are needed.

(a) The Department of Transport’s role as an employer and the shareholder of the quasi-monopolist may conflict with its objectives as the policy-maker and regulator. To liberalise the market these functions need to be separated.

(b) Any bus operator that satisfies minimum quality requirements should be allowed on inter-city routes.

(c) Public funds for socially desirable services – whether they are rural, urban or school services – should be allocated following a competition for exclusive temporary contracts based on specified routes (or bundle of routes) and quality requirements. Such a competition should take the form of simultaneous tendering to allow both operators and consumers to benefit from the economies of scale and scope that can be generated by running a network rather than independent routes.

(d) When specifying the quality requirements that bus operators will have to comply with, the Department should pay particular attention to minimum safety requirements, disclosure of information to passengers and the need to facilitate, and sometimes foster, integration between transport infrastructure.

Such changes are needed to ensure that the needs of passengers – whose demand has supported the growth of private operators’ services – are met in the future. They are critical since buses are to remain the main player in the delivery of public transport services for some time.
REFERENCES


