

# **FROM DOWN UNDER TO OOP NORTH: THE PAST, PRESENT AND THE FUTURE OF THE INTERNATIONAL CONFERENCES ON COMPETITION AND OWNERSHIP IN LAND PASSENGER TRANSPORT**

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## **1. INTRODUCTION**

The aim of this paper is to set the scene for the Fifth International Conference on Competition and Ownership. This is done, firstly, by reviewing the past four conferences in this series. Secondly, we will outline the background to this conference. In particular, we will, in the spirit of the first conference, provide a theme statement and a set of objectives for each workshop. We will also use this paper to examine the current policy background in the area of competition and ownership in land passenger transport, particularly from a European perspective. Thirdly, we will make some tentative suggestions as to the future of this conference series.

## **2. THE PAST**

Details of the previous four conferences are summarised by Table 1. Each conference will be described in turn.

### **2.1 Thredbo #1**

The first conference in this series was instigated by Professors Michael Beesley and David Hensher and held in Thredbo, New South Wales, Australia in May 1989, with the key papers being published in a special edition of *Transportation Planning and Technology* (see, for example, Hensher, Battelino and Beesley, 1991). This conference 'Down Under' focused on bus and coach services. The policy background was dominated by the research emerging from the deregulation of local bus services in Great Britain outside London in 1986 (competition-in-the-market) and the experiments with competitive tendering (competition-for-the-market) in London and a number of US cities. The local context was provided by the findings that Australian private bus operators had lower costs than public operators (Hensher, 1987) and the return of a Liberal government in New South Wales minded towards reform of the bus and coach industry. Some of the major themes that emerged from the conference were:

1. The need to break the nexus between services and subsidy. In particular, the need to move from blanket to targeted subsidies was recognised, as was the need to define the initiating responsibilities for commercial and social services. An ongoing debate was instigated about the extent to which deregulation and decreasing subsidies are separate policies or are inextricably linked policies. It has been argued, by Michael Beesley and Stephen Glaister amongst others, that the main driving force of the reforms to the

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British bus industry in the 1980s was to drive down subsidy, although this was a policy that dare not, at the time, speak its name. If decreasing subsidy was taken into account, deregulation was arguably a success. Evidence for this can be found from an unlikely source (Mackie, Preston and Nash, 1995). However, competition-in-the-market is only a success if compared to the regulated regime, which nobody would now defend (although of course many did so at the time). If compared to the competition-for-the-market of the London model, the results of the British bus deregulation experiment look less promising, although here too there is plenty of scope for the counterfactual. Experience with British Rail privatisation in the 1990s provides a new twist to the story. Here, deregulation (or at least the promise of deregulation) has been accompanied by rising subsidies, at least in the short term. We hope that the subsidy issue is a theme the conference will continue to explore.

2. The assessment of cost savings associated with different forms of market arbitration. Thredbo #1 concluded that savings of 25%-30% were possible, although subsequent conferences (most notably Thredbo #4) have expressed concern that this may be at the expense of quality. Moreover, British experience (unit costs down 44% since 1985/6 - Department of Transport (1996)) suggests that there may be a possibility of costs being reduced too much with implications for service delivery and quality.
3. The role of the minibus as a major technological enhancement. At Thredbo #1 there was some excitement at the way that minibuses were reviving the bus industry in towns such as Exeter and Oxford (Blundred, 1991). The minibus revolutions in Britain appears to be now over. Total registrations of vehicles with 9-16 seats peaked in 1993/4 (Department of Transport, op cit.), with minibuses in local service probably peaking before this date. This may be because minibuses are a victim of their own success. The registration of larger midibuses (17-35 seats) continues to increase. High hopes have been placed on the impact of deregulation on dynamic efficiency and the added impetus to innovation. This needs to be re-assessed as the evidence in Britain and elsewhere is somewhat mixed.
4. The role of competitive contracting and the need for an open book approach. This has been one of the dominant themes of this conference series and at Thredbo #1 a number of recommendations were made including:
  - A two envelope process, with the first envelope a pre-qualification stage based on quality.
  - No (re) negotiation of contracts.
  - For buses, a maximum contract length of five years.
  - A limitation on total market share of 25%
  - Full publication of bids.
  - Tendering authority to be divorced from operators.
  - Serious consideration of a non governmental operated tendering authority.
  - Level playing field in terms of financial status. No hidden subsidy or cross-subsidy.
  - The need for performance bonds or bankers' guarantees.
  - The need for resolution procedures to resolve disputes, with arbitration only as a last resort.
  - Detection of rogue bids.



Since 1989, there has been an undoubted growth in competition-for-the-market for public transport but it is useful to reflect on how many of the recommendations of Thredbo #1 have gained widespread acceptance.

5. The importance of travel cards and other international ticketing. Thredbo #1 noted the establishment of third party agencies to deal with this issue, most notably in Tyne & Wear, with the hope that this might be a way forward for preserving network benefits. Developments in this area require monitoring.
6. Performance and productivity measurement. A feature of Thredbo #1 was two technical workshops on costing and productivity. Thredbo #1 expressed some hopes that cost and productivity indicators could provide a surrogate form of competition in the market - referred to as, competition by emulation or yardstick competition. Although this finding undoubtedly influenced policy (particularly of the New South Wales government), it seems that the benchmarking revolution has passed much of the bus and coach industry by.

## **2.2 Tampere (Thredbo #2)**

The second conference in this series, saw the first move 'oop north' to Tampere, Finland in June 1991 with the proceedings published by Viatek (see, for example, Beesley, Hensher and Talvitie (1992)). With typical Finnish forthrightness (a trait said to be shared by Yorkshiremen), the euphemism 'competition and ownership' was replaced by 'deregulation and privatisation', but a more significant change was that 'bus and coach' was replaced by 'passenger transport'. Rail systems, particularly in Japan, were considered for the first time, as was road pricing and investment, whilst the conference also had a temporary dalliance with airlines. Competition policy (anti-trust to Americans) emerged as an issue and had its own workshop, whilst externalities were considered - not just congestion, but also safety, use and non use values, the environment and impacts of urban form and life styles. The political backdrop of the conference was provided by the collapse of the Soviet bloc's planned economy. Indeed, one paper even included a quote from a then little known Albanian opposition leader, Sali Berisha. There was much interest at the time in the prospects for the reform of the public transport industries of central and eastern Europe. This is an area which the conference series has not followed up as well as it might, perhaps because macro-economic changes in the former Soviet bloc have swamped micro-economic reforms. Further political back-drop was provided by Australasia where the 1990 New South Wales Passenger Transport Act was influenced by the thinking of Thredbo #1.

Of the seven themes that summed up Thredbo #2, two and a half were continuations of Thredbo #1's themes. The discussions on the role of market and alternative forms of interventions and on the progress in contracting and tendering were a continuation of Thredbo #1, as was the discussion of new approaches to encourage competitive efficiency, at least in terms of the functional separation of intermodal ticketing. Other new approaches discussed included property development and value capture, allocations of land/zoning and the privatisation of planning. Ideas concerning tendering for specification (the architecture model) and tendering for planning provision were moved. The other four themes were new to the conference.

- The need to determine the proper role for pro-competition agencies and in particular how to remove entry barriers and introduce credible penalties for misbehaviour.
- The need to establish a framework for modal rivalry and in particular to introduce road pricing and establish, using applied cost-benefit analysis, the appropriate total levels of public transport subsidy. The conference's interest in competition between modes was thus established.
- The need to promote the political acceptability of reform agendas - 'economists are not good publicists' (Beesley, 1992).
- The need to establish better theories of technique and planning practice - to develop a theory of implementation.

### **2.3 Toronto (Thredbo #3)**

For the third conference in the series, we moved west to Toronto (or more precisely Mississauga), Canada in September 1993, with the proceedings published by the Ontario Motor Coach Association (Love, 1994). The policy back-drop to the conference was a highly regulated Canadian surface passenger transport, but with a commitment to reducing the subsidies to the main passenger rail operator, VIA. Radical changes to ownership and competition (we had returned to being coy again) were not envisaged. The conference's coverage of surface passenger transport embraced for the first time taxi, light rail and guided bus.

The conferences familiar themes of the impact of competition and competition policy and of competitive tendering continued to be explored. An important contribution was provided by the workshop on infrastructure policy for roads and railways (Mills, 1993) where detailed recommendations were made concerning the initiation of an infrastructure program or proposal, assessment of that program or proposal, decision making, funding, contract conditions (cost risk, revenue risk, contract duration and extension etc.) and construction. The workshop also considered issues concerning the maintenance of, operation of and access to infrastructure and the role of economic regulation, must notably price capping (RPI-X) and licence conditions.

### **2.4 Rotorua (Thredbo #4)**

The fourth conference was held 'down under' for the second time in July 1995 at Rotorua, New Zealand. The full proceedings were produced by Transit New Zealand (1995), whilst summaries of the conference were published in Transport Reviews (Hensher and Knight, 1996). The policy backdrop for the conference was the liberalisation of the New Zealand economy, referred to as 'Rogernomics'. This resulted in the Transport Law Reform Act of 1989 which (in 1991) deregulated bus and coach services and the privatisation of New Zealand Rail in 1993. Three of the five workshops examined the now familiar themes of competitive models and impacts; regulatory reform and transport policy development; and international experiences in competitive operations. The rail sector had its own workshop as did user requirements.

Thredbo #4 detected an overemphasis on cost-minimisation ('doing the thing right') at the expense of user requirements ('doing the right thing'). Improved understanding of the relationships between contract duration and incentives appeared to offer a prospect of being



able 'to do the right thing right'. Other themes that appeared to emerge from Thredbo #4 were the need to ensure quality and transparency of data (assessment of the New Zealand reforms appeared to be hampered by lack of data), to determine efficient transport prices (and in particular determine the role for congestion pricing and complementary non pricing actions) and to determine the appropriate relationship between infrastructure owners and operators (and especially access and pricing mechanisms). Much of the debate in Rotorua has influenced the conference programme for Leeds and will be discussed in more detail in the next section.

## **2.5 A Unifying Theme**

One of the ongoing themes of the conference series has been described by Hensher and Beesley (1997) as the conflict between the neo-classical and Austrian schools of economic thought. Simplifying somewhat, the neo-classical school can be portrayed as weighing up the balance of perceived market and government failures to determine the degree of government intervention required in the market place. It has probably been the dominant school of thought in this conference series. However, the Austrian School has also been well respected. Here the presumption is against government intervention on the basis that economic information can only be revealed by market mechanisms (associated with Hayeck) and the need for a profit motive to ensure innovation (associated with Schumpeter). An example of this conflict manifested itself at one conference where a (Swedish) public transport planner challenged a (British) bus entrepreneur to a competition to design a more profitable bus network. To our knowledge, this duel did not take place. We would be happy to facilitate such a duel in the future, although we are not sure if the two duellists would be so obliging!

## **3. THE PRESENT**

### **3.1 The Structure of the Leeds Conference (Thredbo #5)**

The conference now moves from 'Down Under' to 'Oop North' for the second time in its existence. The aim of this conference, as with other conferences in the series, is to provide an international forum to examine passenger transport competition and ownership issues. Our principal interest is in land-based public transport (particularly bus and rail transport) but we are also interested in the interaction between public transport and private road-based passenger transport (principally the car). The conference will be organised around a series of plenary papers, which will review recent developments in bus, rail and light rail in Great Britain, as well as providing international reviews.

The conference will also have five parallel workshops, the details of which are summarised in Table 2. The list of objectives is not meant to be exhaustive and it is expected that additions and/or deletions will be made during the conference, particularly as the implications of the resource papers are assessed.

In addition to the information presented in Table 2, the workshop reports of Thredbo #4 have been analysed and their implications for the conference are as follows (see Preston and Roth; Kilsby and Smith; Nash and Dodgson; Michael; and Turley and Talley; 1996).

For workshop one, issues that need to be considered include the ownership and organisational forms that permits operators to have the freedom to respond to diverse and changing markets (including niches) and to prioritise objectives. Separation of commercial and social objectives should be considered, as should the scope for introducing competition into the supply of inputs and the role for benchmarking. The role for informal/non-traditional transport service provision (e.g. taxi buses) might also be considered.

For workshop two, one contentious conclusion of Thredbo #4 was that competition-in-the-market was effective for inter-urban transport but not for urban transport, mainly because of the existence of user economics of scale and the reduced scope for price discrimination in the latter. This conclusion needs to be re-assessed. The impact of competition-in-the-market on innovation also needs re-analysis. The concept of fair competition requires further clarification as does the role of anti-trust legislation to address market concentration. The idea of an ongoing regulatory cycle with periodic regulatory 'booms' and 'slumps' is worthy of consideration.

For workshop three, the range of options for competition-for-the-market should be considered and their implications for contract specification assessed. Is the tendering process effective and how is quality measured in such a process? Does franchising rail services provide greater difficulties than tendering bus services? How can value for money be guaranteed?

For workshop four, the effect of inefficient pricing between transport and other activities needs to be considered. Is transport too cheap? The impact of road pricing on public transport should be determined and appropriate models of competition between public and private transport markets considered. For rail, the thorny issue of infrastructure access and pricing regimes needs to be tackled. Targeting public funds towards into operators or users should also be examined.

For workshop five, the full benefits of public transport, including externalities, need to be considered. Public transport's role in making cities livable needs to be explained as does the link between transport and development. The need for co-ordination between transport providers and government decision makers and for co-operative planning and delivery of integrated transport services should be examined. The effects of reforms on workers ('human capital'), users and the community should be considered and an assessment made of the value users place on stability. Specialist topics that could be considered include the design of appropriate safety mechanisms and accessibility of public transport systems for the disabled.

### **3.2 Policy Background**

At the time of writing, the British General Election campaign is in full swing and the result will be known by the time of the conference. However, it is probably fair to guess that public transport will not feature prominently in the campaign. The key policy commitments that have appeared so far are the Conservative Party's pledge to privatise London Underground and the Labour Party's interest in re-regulation for buses. The Labour party also appears to have abandoned its commitment to restoring British Rail's former services to the public sector, at least in the lifetime of the next parliament, although it would increase the powers of the Rail Regulator and merge the rail functions of the Franchise Director and the Department of Transport.



Rather more certain is the European transport policy back-drop. The Common Transport Policy Action Programme (COM(95)302, 1995) identifies three main objectives:

1. Improving the quality of transport systems in terms of competitiveness, safety and environmental impact. The aim is to promote sustainable mobility.
2. Improve the functioning of the single market to promote efficiency and choice.
3. Broaden the external dimensions by improving links with third countries.

The Directorate General of the European Commission responsible for transport (DGVII) has four main instruments:

1. Directives and regulations that aim at the harmonisation of technical, fiscal and social provisions in member states which affect competition between companies in the transport sector. Particular concern seems to be placed on achieving the three inter: interoperability, intermodality and interconnection, although no one seems sure exactly what these words mean!
2. Guidelines for the Trans-European transport Networks (TENs) and in particular the identification of missing links and cross-border projects.
3. Research and Technical Development (RTD). For public transport, the main concerns are the specification of a European Rail Traffic Management System (ERTMS) and of trains, buses and intermodal technology for the future. Between 1994 and 1998 the European Union will have spent ECU 900 million on transport related RTD.
4. Financing. In the five year period upto 1999 ECU 15 billion has been earmarked for European Regional Development Fund transport projects, ECU 8 billion for Cohesion Fund projects and ECU 1.8 billion for TEN projects. (At the time of writing 1 ECU = £0.71).

An important European principle, especially for public transport, is that of subsidiarity whereby action in a specific field must be realised at the most appropriate level (European, national, regional, local). The most appropriate level for many public transport actions is deemed to be the local level. Nonetheless, we at Leeds are involved in a number of DGVII projects that are looking at competition and ownership issues at the European scale. These projects include:

- Improved Structure and Organisation of Urban Transport Operations of Passengers in Europe (ISOTOPE).
- Strategic Organisation and Regulation of Transport - Inter-urban Travel (SORT-IT).
- Pricing European Transport Systems (PETS).

Three areas of particular interest are provided by Green and White Papers produced by the European Commission. The first is 'Towards Fair and Efficient Pricing in Transport' (COM(95)691, 1995). This paper recommends adjusting the existing tax system to bring transport charges closer to the point of use. Possibilities include electronic road pricing, differentiated fuel and vehicle taxes and differentiated land (air) and access (rail) charges. The Green Paper proposes three principles for establishing a system to change users of transport:

1. Prices should be linked to marginal cost at the level of the individual user.
2. In total, infrastructure charges should recover aggregate infrastructure costs.
3. Prices should be transparent.

The Green Paper has been accompanied by much academic debate on equity issues (in particular, dispensations for rural and peripheral areas), the desirability of infrastructure cost recovery and the use of long run or short run marginal costs. It is hoped that workshop four will contribute to this debate. The role of alternatives to pricing also need to be considered, including licensing, legal regulation and prohibition

The second, 'The Citizens' Network' (COM(95)601 (1995)), suggests that public transport should be a service open to all citizens in terms of accessibility to vehicles and infrastructure, affordability in terms of fare levels and availability in terms of coverage. Instruments to achieve this include the promotion of best practice (including target setting to provide incentives to operators), the re-focusing of RTD on door-to-door services, promoting TENs links which interconnect with local transport systems, the use of the Commission's action plan on the Global Information Society to improve travel information and traffic management techniques and use of the Regional Development and Cohesion funds to promote integrative, intermodal transport systems. These issues may be discussed by workshop five. Perhaps the boldest recommendations pertain to ways in which markets can be structured as 'the Commission believes that the Concession Systems - where services are subject to open tender but within a defined operational framework - is well suited to providing an environment which gives incentives to operators to raise standards whilst safeguarding system integration ... the Commission considers that contracting concessions should be based on transparent, Europe-wide public tendering ...'. This statement could be considered in detail by workshop three.

The third area of interest is the gathering pace of railway reform in Europe. In its White Paper 'A Strategy for Revitalising the Community's Railways' (Com(96)421, 1996), the Commission advocated total open access for freight and long distance passenger services and some form of franchising for other passenger services. Whilst in most countries this is a long way off, change is accelerating, with separation of infrastructure from operations becoming common, privatisation on the basis of open access for freight, franchising of passenger services in Great Britain, franchising of regional services in Germany and the first open access passenger services running in the Netherlands.

#### **4. THE FUTURE**

It is our fervent hope that this Conference will be a success and that the series will continue into the future. We look forward to celebrating the conference's tenth anniversary in some suitably exotic location. We tentatively suggest here five themes, one for each workshop, that might be developed into future conferences.

1. In terms of ownership, a theme that could be developed is that of private-public (or should that be public-private?) partnerships. We will hear at this conference some developments in Britain in the areas of private finance initiatives and quality partnerships. To what extent has there been similar international experience? Under what conditions can such partnerships be effective?
2. In terms of regulation, can open and predictable forms of performance regulation be devised that are fair to consumers and shareholders and which provide incentives for managers to innovate and improve?



3. In terms of contracting-out, can incentive schemes be devised that promote improvements in both quality and cost-efficiency? Other issues that may need to be explored in more depth are the dynamics of tendering and in particular whether over time there will be developments that reduce competition, and the scope for contracting-out the service specifications and detailed planning as well as the operations of public transport.
4. In terms of pricing and investment, are there currently institutional and other incentives in many areas to under price and over invest in transport in general and public transport in particular? Is this part of a wider problem of pricing and investment on utilities (gas, electricity, water, telecommunications) and other public services which has led to sub-optimal urban density and, inadvertently, encouraged decentralisation of population and the flight to the rural-urban fringe?
5. Is the growing demand for car travel going to lead to an environmental Armageddon? If so, can public transport help put off that day, perhaps forever? What are the issues for global equity? May we come to a day where public transport market shares have to increase in the developed world to compensate for the rising private transport market share in the developing world?

We hope that the conference can add to this list and that we will have three days of informative and lively debate.

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**Table 1: Summary of Previous Conferences**

	Thredbo #1	Thredbo #2	Thredbo #3	Thredbo #4
Location	Thredbo, Australia	Tampere, Finland	Toronto, Canada	Rotorua, New Zealand
Date	1989	1991	1993	1995
Title	Competition & Ownership of Bus and Coach Services	Privatisation & Deregulation in Passenger Transportation	Competition and Ownership in Surface Passenger Transport	Competition and Ownership in Land Passenger Transport
Workshop 1	Experience from Different Countries	Experience with Competitive Tendering	Competition Policy	Competitive Models and Impacts
Workshop 2	The Issues	Understanding Competition and Anti-Trust Behaviour	Competitive Tendering Experience	User Requirements
Workshop 3	The Bidding Process	Externalities: Public Interest & Private Gain	Infrastructure Policy for Roads & Railways	Rail Sector Issues
Workshop 4	Operator and Organisational Issues	Management, Institutional structures, the TPP and the Future of PT	Planning and Analysis	Regulatory Reform & Transport Policy Development
Workshop 5	Costing, Scheduling and Demand	Road Pricing & Private Financing		International Experiences in Competitive Operations
Workshop 6	Productivity and Performance	Corporatisation, Deregulation and Privatisation		
Number of Papers	35	39	31	48
Number of Countries Represented	9	13	10	15

TPP = Transport Planning Process  
PT = Public Transport

**Table 2: Workshop Themes and Objectives**

	Workshop 1	Workshop 2	Workshop 3	Workshop 4	Workshop 5
Chair*	Ken Gwilliam	Michael Beesley	Wendell Cox	Chris Nash	David Hensher
Rapporteur*	Jeremy Toner	Peter White	Didier van de Velde	Kjell Jansson	Stephen Potter
Title	Ownership and Organisation	Competition Policy: A New Era	Franchising and Tendering	Passenger Transport Infrastructure Pricing and Investment Strategies	Competition, Ownership and Wider Transport Policy Issues
Theme Statement	To provide an assessment of ownership and organisational reforms	To provide an assessment of regulatory reform and determine implications for competition policy	To review developments in contracting out and to suggest optimal contract specifications	To determine optimal pricing and investment strategies	To determine the inter-relationships between ownership, competition and wider policy issues
Objectives	<p>To review the progress and impacts of bus privatisation</p> <p>To review the progress and impacts of rail privatisation</p> <p>To review the progress and impacts of reforms in the taxi industry</p> <p>To assess the role of alternative organisational structures</p> <p>To assess the incentives for collusion and mergers and their policy implications</p>	<p>To review the progress and impacts of bus and coach deregulation</p> <p>To review the progress and impacts of open access in rail operations</p> <p>To determine the role of government in ensuring fair competition</p> <p>To determine the need for new forms of regulation</p>	<p>To define and classify the various forms of contracting-out, tendering, concessions and franchising</p> <p>To assess the performance of contracting-out in different areas, in different modes, (bus and rail) and in different functions (operations/ planning)</p> <p>To suggest optimal contract specifications in terms of size; length; incentive structure; etc.</p>	<p>To determine the optimal prices for rail infrastructure</p> <p>To determine the optimal prices of public transport operations with and without road pricing</p> <p>To determine the optimal levels of public transport investment</p> <p>To review the EC Green Paper 'Fair and Efficient Pricing'</p>	<p>To assess the impact of competition and ownership in:</p> <ul style="list-style-type: none"> <li>• land-use</li> <li>• economic development</li> <li>• environment</li> <li>• safety</li> </ul> <p>To review the EC Green Paper 'Citizens' Network'</p> <p>To assess the need for Government regulation for wider pricing issues</p> <p>To assess the optimal level of mobility</p>

\* Subject to confirmation