

# **OBSERVATIONS ON THE BUENOS AIRES EXPERIENCE WITH INCREASED PRIVATE SECTOR ROLES IN THE PRODUCTION OF COMMUTER RAIL, TRANSIT AND BUS SERVICES**

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## **ABSTRACT**

The Buenos Aires transportation system is characterized by a very high public transportation mode share of over 50 percent of the trips in the metropolitan area. Services are provided by a unique system of nearly ubiquitous privately run buses ("colectivos"), an extensive commuter rail system run by four different private concessionaires under contract to the government, and a subway system operated by a private concessionaire under a 20 year contract. Service is frequent and affordable (bus fare = 60¢; subway = 50¢; base commuter rail = 40¢) and operates with very modest levels of subsidy (none for buses, with subway and commuter rail subsidies targeted at capital renewal, with operations basically covered by fares). The system appears to demonstrate a substantial example of the ability to capture private sector entrepreneurship cost consciousness, combined with customer orientation, to produce a reasonably high quality, ubiquitous and affordable public transportation system, within a framework of public policy establishing service levels and fares

Approximately five years ago, within a context of national economic restructuring, increasing the role of local and global competition in the economy, and reduction in public sector production of goods and services, a crisis in rail services resulting from years of deferred maintenance and inefficient practices led to a decision to transform government run commuter rail services. Argentina decided to restructure the Buenos Aires area metropolitan passenger rail services through concession contracts for seven independent rail services. The bidding and transfer process took place between 1991 and 1995 and is now complete, so it is possible to review the results based on a few years of dramatically improved performance. Ridership increases of over 30 percent have occurred as service reliability and customer orientation has improved. Reduction in workforce facilitated by World Bank loans to support early retirement has been largely successful, and private sector confidence has improved because of the timely payment of operating and capital investment subsidies, and the physical and operating characteristics of the systems have clearly improved dramatically.

At the same time, the backbone of the public transportation system continues to be the ubiquitous bus service consisting of 15,000 buses operated by hundreds of owner operators in private companies without subsidy, under a regulated competition system which regulates fares, routes, and entry, as well as safety. The system was converted from a public monopoly over 25 years ago to the current system, providing improved service which has been relatively stable up to the recent few years.

The "snapshot" of the current situation is quite positive, but a close look at recent trends raises questions about the sustainability of the overall system without stronger government support. In addition, the extreme crises which created the conditions for the conversion of bus operations from public monopoly to regulated competition of hundreds of private providers, and the coincidence of a national economic crisis with the rail crisis which led to the recent rail restructuring, raise the question as to whether this experience is replicable in other conditions. The author's conclusion is that this experience is relevant to other situations, but that the essential components of strategies to sustain and improve the Buenos Aires public transportation system and to learn from the experience relevant strategies for use

in other metropolitan areas are a strong government role in regulating, monitoring, and investing in the public transportation system, and a recognition of the need to seek "Pareto-Optimum" type approaches to ensure that all major stake holders either gain or are held harmless. In this sense the primary danger to the sustainability of the successes in Buenos Aires and/or their replication elsewhere is misunderstanding, and undervaluing the essential government role for these strategies to succeed. In this sense the success in Buenos Aires is more accurately described as a "public-private partnership" where both sectors play necessary roles, and not "privatization" which implies the possibility of success by eliminating the government role.



## **INTRODUCTION**

This paper focuses on a review of the recent restructuring of rail passenger services in metropolitan Buenos Aires, the generally positive results of that restructuring, and an analysis of current problems which need to be resolved to sustain the initial success of the restructuring. Some discussion of the applicability of this approach to other metropolitan area passenger rail systems is then presented.

A second discussion focuses on the recent five year experience with the regulated competitive bus system, which was converted from a public monopoly 25 years ago to the current system run by hundreds of private enterprises. This discussion summarizes the primary problems facing the bus system, the government actions that have occurred, and the current situation.

Finally, a summary seeks to look at the two experiences together to identify challenges to sustaining the relative success of both rail and bus policies within Buenos Aires and the elements of these experiences which might prove useful in other metropolitan areas.

## **THE BUENOS AIRES EXPERIENCE IN RESTRUCTURING METROPOLITAN RAIL PASSENGER SERVICE**

In the early 1990s, the Argentine rail system was declining dramatically. This rail crisis occurred within a context of dramatic restructuring of the entire Argentine economy to deal with the prior hyper-inflation, by an overall government strategy to reduce the role of the government in the production of most goods and services, and increasing the role of local and global competition in the economy. Reflecting this overarching policy, the Argentine railway system was split into three components: freight services, which were to be concessioned to the private sector without subsidy, to survive or fail in the goods movement market; an intercity rail passenger set of services, to be offered to the states to adopt if they wanted; and a metropolitan rail passenger system, which was to become dramatically more efficient.

The metropolitan rail services were running large deficits, and suffered from years of disinvestment and deferred maintenance. It was believed that even with the elimination of the dramatic overstaffing (by factors of more than three in most estimates), and with correction of the rampant fare evasion, that the system would continue to require substantial subsidy, at least to renew the capital assets and perhaps for some operating costs as well. A policy was established that the Argentine government is prepared to pay subsidy in order to retain rail passenger services in the Buenos Aires metropolitan area, but that a competitive bidding process should seek to minimize the subsidy required, within the context of the current fare levels, a minimum level of service, reasonable service standards, and a fixed 10-year program of capital renewal. The winning concessionaire would be able to eliminate excess labor, negotiate their own labor union contract with the union, keep all fare revenue, and retain the flexibility to exceed the minimum standards and market the service to achieve optimal levels of revenue. The government would retain the power to set fares, with any revenue from fare increases belonging to the government, and to monitor the level and quality of service with the power to contractually enforce the required standards and investment plan. A concession period of 10 years was established with an option to renew in the eighth year, or seek new competitive bids.

The belief was that a private concessionaire with reasonable management freedom to recruit and compensate management personnel, establish a new work environment, end fare evasion and market service to customers could come close to covering operating costs out of fare revenues, so that the subsidy payments would primarily facilitate the renewal of capital assets, rather than being wasted through inefficient practices and fare evasion as had occurred under



the government run public monopoly. In order to guard against becoming captive of one private sector provider, the rail lines would be broken up into seven separate packages and no one firm could win all concession contracts. International competition would be encouraged, and an aggressive campaign would be established to attract multiple competitive bids. The bidding process would be evaluated in a "two envelope" process, with price proposals in a second envelope opened only if the first envelope demonstrated adequate technical and financial capacity of the team, and an acceptable business plan. Of the bidders found to satisfy the minimum criteria under the first envelope, whose price proposals would be considered, the winner would be the price proposal which minimized the net present value of the combined operating and capital subsidy. To reduce the opposition of labor unions, the government would pay the cost of early retirement of unnecessary labor through a loan provided by the World Bank.

The severity of the crisis made it clear that the only hope to preserve the rail service and some of the jobs was through this concession process, as the old system was close to collapse and could not continue. The possibility of retaining one of the seven lines in government operation as a "control" was considered, but rejected for fear that it would send a signal of lack of resolve to end the old system, and a presidential decree was issued authorizing the break up and concessioning of the system under federal law. It was recognized that a major vulnerability in this approach was the possibility of a lack of bidder interest, so a major effort was launched to market this opportunity internationally, as well as in Argentina. The bidding process was intense, with the usual legal challenges by losing parties, but at the end of the bidding process, four different private joint ventures are running the commuter rail system and the subway\* under concession contracts monitored by the government.

After a few years of transfer of the lines to the private concessions, a clear pattern of success has emerged. True ridership has increased on each system by at least 30 percent because of increased reliability. Fare evasion has been essentially eliminated, leading to revenue increases on some lines of several hundred percent. The concessions are basically covering operating costs out of the farebox, and the subsidy payments are financing capital renewal and profit. The government has been making payments on time, relieving anxiety by the concessionaires.

In short, the plan has been implemented and is working better than had been hoped for. Consideration is being given to re-negotiating the concessions, with 20 year terms in exchange for greater investment by the concessionaires. Further World Bank loans are under negotiation for increased government investment in the subway capital renewal. The possibility of a basic fare increase to reflect the quality improvement and use the proceeds to defray part of the cost of subsidy and/or finance further capital improvements is being considered. The plan has worked well and the primary question is now how to sustain the success.

## **SUSTAINABILITY OF THIS APPROACH WITHIN ARGENTINA**

On the other hand, some problems have emerged. Some of the corporations initially involved in the winning joint ventures have changed corporate philosophy, and in one case gone bankrupt in other countries, so the current concessionaires have undergone some institutional and cultural change. One of the joint ventures had internal problems and split into two separate concessions.

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\* Initially the subway was not to be included with the commuter rail concessions, but the City of Buenos Aires insisted that it would not support the process unless the subway was included, with a 20 year concession period.



On the government side, the original presidential decree included the formation of an intergovernmental metropolitan transportation institution, to integrate the City of Buenos Aires, federal government, and province of Buenos Aires across jurisdictional lines, and establish a dedicated transportation fund to finance improvement of an intermodal as well as inter-jurisdictional coordinated system. This proposal (called ATAM) has failed to be enacted by the congress. Furthermore, the Argentine Constitution was changed to provide for an elected mayor in the City of Buenos Aires, so the federal district formerly led by a mayor appointed by the president is now led by a mayor of a different political party, potentially exacerbating the intergovernmental problems that ATAM was to have reduced. Moreover, the national Secretary of Transportation has now been changed twice, and the Minister of Finance, who appoints the Secretary of Transportation, has been changed, the governmental unit in charge of oversight of the concession contracts has been reorganized, and none of the original staff who designed and implemented the concession process remain. So the challenge of the sustainability of this reform after substantial institutional change within the private, and more strongly, the public sector partner now remains to be met. This concern is heightened by a chronic understaffing of the contract oversight role within the government, because ATAM was never created, and the government has not compensated for that gap with a fully staffed contract enforcement unit. Plans to institute fare integration and invest in upgraded intermodal centers have stalled, lending credence to the concern that the amount of institutional change has at least slowed the momentum of reform.

My own observation is that the excessive rhetoric of "privatization," misconstrues what is really not privatization but a public-private partnership, and a political environment of denigration of the importance of the role of the government partner fosters the understaffing and lack of institutional reform that could undermine the long-term success of this restructuring. Most ominously, if the rail concessions are confused with privatization, the government could fail to finance added investments that are needed, or even fail to meet subsidy contract obligations, and the system could degenerate into a series of private monopolies -- the model that failed financially even in an earlier era with far less auto competition. Essentially, the failure to adequately identify and support the necessary public role in the public-private partnership can undermine this success.

### **Applicability of This Model to Other Metropolitan Areas**

The primary question about the relevance of the Buenos Aires metropolitan passenger rail restructuring to other metropolitan areas seems to me to be that the simultaneous severe crises in the Argentine economy and rail system that generated the political will to sustain a radical transformation, and led the labor unions to accept the restructuring as the only alternative to total closure of the system. (Ironically, it is this same political climate that made possible the restructuring which may inhibit the ability to sustain it.) The question is: "Can a metropolitan area, without the extraordinary economic problems of Argentina in 1990, summon the political will to sustain such a major institutional change?" I believe it may be possible if the same kind of "Pareto-Optimum" approach can be developed, with "win-win" outcomes for the primary stakeholders, or at least "hold harmless" mitigation to avoid any primary stakeholder becoming a "loser." The budget deficit pressures on most urban rail systems, and the political instability these generate could create the climate to support a concession approach to achieve some multi-year stability in management and cost. The challenge of developing private sector interest in competing to play the concessionaire role in metropolitan areas far less rail oriented and smaller than Buenos Aires may be the more difficult issue.



## THE BUENOS AIRES BUS (COLECTIVO) SYSTEM

The regulated competition model of bus system was established over 25 years ago when the public monopoly bus and streetcar system was in crisis, with very large deficits and eroding service. The system was restructured by selling vehicles and routes to individual owner-operators, with route and fare regulation by the government. The service levels improved, subsidy was eliminated, and the system has provided reasonably ubiquitous, high frequency, modest fare service, which forms the backbone of the public transportation system, carrying roughly four out of five public transportation trips, and simultaneously feeding into, distributing from, and competing with, commuter rail and subway services. Today roughly 15,000 buses serve the Buenos Aires metropolitan area provided by 230 companies over 700 routes.

### Problems with the System

While the system has served well for a number of years, there are a series of problems which remain unaddressed which may threaten sustainability in the future.

**Air Pollution:** The vehicles produce large amounts of annoying diesel fumes because of poor maintenance, poor quality fuel and aggressive driving. It should be relatively simple to control this pollution but after several fare increases justified in part as compensation to the companies for the cost of cleaner operations and maintenance practices, the problem persists.

**Fare Boxes:** The system has for years operated with drivers making change as they drove the bus (aggressively) in traffic. To correct this perceived safety problem, the government required the installation of fare boxes capable of making change. Because the regulations require a receipt to each passenger as proof of purchase in case of accident, the new fare boxes are slow and have created delays at all major stops. Efforts to develop unified and sophisticated public transportation electronic payment systems have thus far not progressed because of competition among rival companies, which desire to avoid a uniform ticket that might eventually allow a unified system.

**Owner-Operators:** The original system of thousands of owner-drivers operating in association with others on the same routes to provide orderly schedules, share and distribute fares and achieve purchasing power for spare parts and maintenance has been gradually transforming into hundreds of companies employing drivers. As the companies get larger, the social and family ties which kept the driver motivated to provide service to customers has eroded somewhat and some of the labor/management problems common to large systems are developing. Profit sharing with drivers based on a share of fare revenues is practiced to ease this, but it is contrary to union rules.

**Insurance:** Increased cost of accident awards has created an insurance crisis, as one major cooperatively owned insurer failed. The high cost of insurance and even lack of availability have become critical, but legislation to limit liability is blocked in the congress and the government has been developing a new insurance mechanism, but has not yet implemented it.

**Congestion:** Increased use of the automobile has simultaneously reduced passengers and generated congestion. The congestion lowers the quality of service, increases the cost of providing the service, and requires a larger complement of buses and drivers to maintain frequency of headway on a given route. This is a major threat to the vitality of the system. Proposals to create a system of exclusive bus lanes in the congested center and more strictly enforce the use of the private auto in the center (where parking supply is supposed to be limited) have been halting. The "experimental" exclusive lane on Cordoba Street has been weakened by allowing the taxi cabs to use it, and the exclusive lane system proposed over



four years ago by the bus regulation authorities has been stalled, presumably in response to the taxi cab lobby.

**Unemployment:** Rising unemployment under the new economic policies has now reached over 20 percent, reducing the number of trips made, particularly by low and moderate income workers. This is believed to be a major cause of reductions in ridership of the magnitude of 20 percent over the past three to four years, causing substantial stress in the colectivo system.

**Bus Size:** Increase in bus size by some of the more successful bus enterprises has been destabilizing the system by increasing the permitted seated and standing capacity on the lines. The larger buses create problems on the narrow streets, take longer to load and unload, exacerbate problems at the crowded bus stops on narrow sidewalks, and increase delay for the entire system. If some of the weaker companies collapse, the result is less frequency and slower service. The large bus purchases were encouraged by bank loans, and reflect the same false "efficiency" of many public bus monopolies who seek to reduce labor cost per rider without considering the effect on customer waiting time and loading and unloading times. This problem has been exacerbated by the decision of the primary bus manufacturer to stop producing the 21-seat, mid-size bus, leaving owners with a choice of small, old buses or big, new ones. Consideration is being given to changing the bus permit system so that permits are expressed in terms of seats, so that expanded bus size, if it continues, will result in a reduction in vehicle number for the company in order to "internalize" this conflict, but it is clearly a sub-optimal response.

**Fare Increases:** Fare increases of 100 percent have been granted over the past six years of relatively low inflation and rising unemployment, as a response to the colectivo company pleas of financial distress. It should not be a surprise that ridership would drop by 20 percent in these circumstances, and some observers rationalize that conditions are not so crowded on the buses, which is a partially offsetting factor, but the current set of unresolved issues could threaten a downward spiral leading to collapse of parts of the system.

**Integration:** The recent success of the private concessioning of the rail services has created a new lobbying force proposing to limit the ability of the colectivos to compete with rail, forcing "integration." This argument ignores the fact that the extremely crowded conditions on the trains could not accommodate the added ridership at reasonable standards, and so far has not succeeded, but the improved reliability of the rail services has undoubtedly attracted some ridership from the parallel bus routes, particularly given the fact that bus fares were raised above the traditional parity with transit and commuter rail basic fares.

## **Sustainability within Argentina**

In summary, while the regulated competition model has provided ubiquitous, high frequency, reasonable quality and moderately priced bus service for over 25 years, recent experience suggests that parts of the system could go into crisis. There is no obvious mechanism to provide subsidy within this model, the great disparity between successful and unsuccessful enterprises would make subsidy appear to reward the inefficient, and would probably require a shift to competitive contracting in those markets where the regulated competition collapses in order to retain ubiquitous service. (But there is no financial mechanism or capacity to entertain such an action, nor any philosophical desire to do so.) It would seem to make sense to undertake the modest interventions to maintain the regulated competition system as long as possible (such as priority bus exclusive lanes, insurance support, tough and fair implementation of both pollution regulation and entry regulation of taxis and livery services, restoration of fare parity with rail services by raising rail fares, but caution on further increases lest further passenger loss occurs), but the failure to enact and fund ATAM, and the



general minimization of the importance of the government role which permeates the new economic policies has inhibited a coherent strategy in this area.

In addition, working within the concession system to make the kinds of improvements required to expand rail capacity, improve service quality, and facilitate urban development would require a very sophisticated strategy. The concession strategy which has succeeded in rescuing urban passenger rail from a precipitous decline, and restored it, at least to the level of quality and reliability and ridership prevalent five years before the steep decline, was conducted in a transparent, competitive manner. To add major public investments in an equally transparent and competitive manner, would require waiting until the eighth year point of renewal of the 10 year concession before conducting the process, and well beyond that to reap any real benefits. To act more quickly, as would be appropriate, would require a sole source negotiation with four private concessionaires, with no objective standards of matching investments or fairness. So even if the political will and financial strength were to exist to make major public investments, the nature of the private concessions becomes an obstacle, at least an obstacle to transparency and competitiveness. At a more major level, eliminating rail grade crossings through depression of some tracks, upgrading the pedestrian system, expanding the subway system, and restraining the automobile and taming some of the isolated highway projects under consideration would all require major public investment not particularly relevant to the financial interests of the concessionaires. So further progress really requires institutional reform, dedicated funding, and extremely high levels of skill in the public sector.

### **Applicability to Other Metropolitan Areas**

The unique crisis elements of 25 years ago which led to the adoption of the regulated competition model, and the unique combination of high density, low auto ownership, and moderate incomes that have sustained the system in Buenos Aires are not prevalent in many other metropolitan areas in such an ubiquitous manner, but the possibility may exist to sustain such a system in high density niche markets, supplemented by contracted services in the weaker markets. The precise combination of a very strong and sophisticated government role in provision, including financing, with a philosophical preference for private sector production and customer orientation would be required to explore the possibility.

### **SUMMARY OBSERVATIONS OF RECENT ARGENTINE EXPERIENCE**

Very briefly, I believe that the Argentine experience is extremely interesting and supports the hypothesis that private, competitive production of rail and bus services and customer orientation can deliver superior results in comparison to public monopoly models, that metropolitan economies of scale may be important at the consumption side, but are non-existent or exaggerated on the production side. At the same time it is clear that stronger, more sophisticated and coordinated government provision is required to deliver and sustain such a system. The achievements in rescuing the passenger rail system in Buenos Aires from collapse is extremely impressive and a testament to the creativity and diligence of the government team which organized the effort. The failure (thus far) to institutionalize this capacity by enacting the multimodal multi-jurisdictional authority (ATAM) with dedicated financial capacity, threatens to limit the continuation of this success, and is, I believe, a major element to secure in any other metropolitan area seeking to emulate this example.