LPT: a successful choice for the future

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Abstract

Nowadays the UE transport world is going through a particular situation of innovation, starting from deregulation processes. This deregulation process is now in full and unstoppable evolution: this is proved by the UE governments’ acknowledgment and putting into effect of directives concerning the opening up of the market. In particular, in Italy, discussions about separation of the company which owns railway lines from the group “Ferrovie dello Stato” (Public Railways).

Certainly the same thing can be said about local public transport (LPT): the deregulation process will really change this sector by:

- the consequences on transport offer and in particular on the transport companies’ features, the entry of new operators, services offered, correspondence of these with the demand’s requirements;
- the consequences on transport demand, considering the influence that the regulation process may have on the modal distribution of customers between public and private services;
- new market trends: tenders and company strategies to face growing competition;
- legal elements about the separation of infrastructures and capital goods property and the real service performance according to Italian laws.

Moreover, the necessary integrated vision of mobility leads to consider the different functions of Public Transport Agencies and Mobility Agencies: the latter should be the extension of the first, by a more integrated vision of transport and of its elements (i.e. private transport).

Keywords: local public transport, road and rail transport, deregulation, market strategies, tenders, demand and supply, parcelling out.
1 Introduction

70% of UE population lives inside urban areas, which cover only 25% of the territory (density population of more than 100 inhabitants/km²): an efficient transport system is one of the greatest thrusts for the growth and competitiveness of cities and built-up areas.

During recent years the expansion in mobility demand and the change in mode of transport use have caused ever higher traffic saturation levels: the massive use of private cars makes access and circulation inside them more difficult.

The negative consequences of traffic are air and noise pollution, waste of energy, more accidents, space occupancy and visual interference.

Undoubtedly, without a substantial change of the present configuration urban traffic will negatively affect the economic efficiency of the cities, environmental quality and generally the quality of life: the Local Public Transport (LPT) has to be strategic in this context.

In Italy, short-range passenger mobility (up to 5 km) is 63.9% of all trips: use of non-mechanized transport is increasing (27.2%). Also the public transport market share is increasing, in 2002 it covered 13.5% of mechanized journeys; in the North-West it rises to 17% and in large cities it touches 28.9% of trips.

As regards rail transport, it is about 5% of the whole passenger traffic: in 2003 the Trasporto Regionale division of Trenitalia transported almost 400 million passengers, 80% of the whole for the year.

Italy has received EU directives in the recent years and it has gradually begun to reform the LPT and the rail market in order to relaunch and make these sectors competitive compared to private transport.

2 The supply evolution

Italy with the 422/97 decree had the aim to reform LPT by the transfer of planning and regulation tasks from Regions to Local Administrations: this was intended to improve the economic and financial management of haulage firms (predominantly public stock companies) and support a greater decision mechanism transparency; a tender decides the service allocation and then different service contracts signed according to the different local situations.

For a long time, urban public and private transport supply was founded on transport by road. The Local Administration only managed under a monopoly system the transport public utility and, sometimes, regulated parking. Generally the journeys were radial from suburbs to the centre, whereas the more suburban areas and nearby conurbations were served by suburban transport routes on road and/or rail managed by third parties and most of them were independent of any municipal or provincial administration.

In the mid-80th the financial situation of LPT public companies worsened so it was necessary to revive collective transport through new strategies with the public authority organization even though with delay compared to the large European cities: new transport solutions, parking construction and managing
systems, demand regulation (mobility manager) and historic centre limitation access.

Then, nowadays, in a lot of European cities, there is a transportation supply diversification and active public subjects in competition. The products on the market are technologically sophisticated, but there is also a serious infrastructural gap and a strong resistance to change.

LPT amendment enters this context and it is important for these reasons:
- incentives to services supply diversification for custom-made products;
- support for new haulage contractors also operative internationally;
- market widening in favour of sustainable services.

The LPT amendment is the opportunity to intervene organically on the urban mobility system, by two main hypotheses:
- the separation of liabilities and roles between mobility planning/controlling and transport service supply;
- the guarantee of an economic management of the assignee haulage firms.

In fact, in spite of a deregulation process already in progress, it is necessary for the central government to remain public, in order to fix qualitative and quantitative standards of the service and also to control the supplied service following commitment.

With regard to the second point, the new private traders entry on the market has to be protected by some conditions: in the first place the time continuity and the local administration trends consistency about priorities and strategic targets in private traffic and in urban parking management, because long-term stability expectations and shared roles favour investments (e.g. rolling stock) and greater efficiency of public services. Concerning this Strasbourg is a model, there the introduction of trams served as the impetus for the reorganization of the road transport and parking and for urban access regulation.

Enterprise freedom of fixing rates (gross cost tenders) would be an important outcome, it would permit the management a more direct control of traffic revenues and so of their balance sheet; this would be a barrier to the entry of outsiders, because of the importance of knowing in depth the local demand features.

In Italy two solutions are being used to answer the new market roles:
- the joining of subjects already in the territory which are carrying out other functions;
- the entry of outsiders, also foreign, contributors of innovative managerial and company elements.

Europe is heading for the creation of transport systems related to a geographic area, also wide, but with a homogeneous demand. So the differences between urban and extra urban demand, or between the road and rail market: the prevalent target is service integration. In Italy this model is perfect in Emilia Romagna, Veneto or Marche where there’s a territorial dispersion of agglomerates and productive assets: once passed the impediment of local resistance, new traders could join the market and become larger.
In Europe the strong market is formed by Germany, France, Great Britain, Scandinavia and Benelux, where there are large multi-modal companies acting on different geographical markets and that have surpassed the modal specialization, characterized by:

- medium or large-sized companies and good liquid assets;
- national and international markets;
- they operate at the same time on different market segments;
- functional integration in the supplied services and sometimes also between infrastructure and services.

The previous monopoly system has often been replaced by an oligopoly formed by multinational and multi-modal companies, able to manage integrated intermodal systems that operate in specific geographic areas.

The internationalization process has concerned markets operating in a prescriptive and institutional very different context, like Great Britain (Arriva, Firstgroup, Stagecoach, Go Ahead Group and National Express Group) and France (Keolis, Transdev, Connex and Ratp), whose foreign sales revenues have represented in recent years up to 35-40%.

3 The demand evolution

The transport and economic system development of a country are closely correlated: trade and exchanges create growth and a better lifestyle and these call for and favour an efficient transport system. Above all during the XX century the increased mobility of people and goods has enlarged the exchange horizons, has allowed people to choose freely where to live in relation to the place of work and to take advantage of new services for spare time and for social relations.

Nevertheless, the transport infrastructure development is inadequate in comparison with the mobility demand, and this creates, especially in an urban milieu, traffic congestion and environmental pollution with respect to the very high general transport costs. The local transport has been in a crisis phase for some time now: the public transport possibilities are often underutilized so the private ones are often overestimated and, certainly, there is poor integration between different modes of transport.

The mobility rise, essential to not thwart the development, means the necessity to rationalize the sector, aiming to favour public transport.

- On one hand the mid-term target is to transfer a part of the urban mobility to LPT, improving its quality;
- On the other it would has to make great infrastructural projects with high investments and operating times.

Generally, collective transport system was considered an economic system that has not to be subjected to the rules of a free market, as it is considered a public utility. In this way traders operate like in a monopoly. Actually it is not always considered a public utility, because this definition is for public goods and services which are available for everyone, without competition among consumers. Nevertheless, this can be defined public, as the social character of the
transport service and as public transport infrastructure benefits the all community.

Although the growth of passenger and good mobility is known, the individuation of its different components is complex. Data are very precise as regards collective transport and tool transport on road. In urban areas the other mobility components are deduced from ISTAT data, as regards systematic mobility, of from researches carried out just for the drafting of town-planning scheme as regards the mobility.

The last 30 years have seen a growth of the mobility demand at an average annual rate of 5%, with the following phenomena:

- in medium-large centres in all there is a growth trend in spite of the fall in the birth rate;
- in metropolitan areas and in the large centres LPT prevails over private transport;
- in urban centres, large cities included, on the contrary private transport prevails both in per cent and as trend.

The traffic and parking problems are the proof that mobility is unsustainable as regards life quality, because of congestion, pollution and because subtract urban space that citizens could use for other social activities.

It is predictable that by deregulation, which has to adapt itself to the requirements of the transport company market, urban trips by public services will raise (demand increase), to the detriment of private transport ones (demand decrease). This creates a real improvement of the transport system efficiency and effectiveness on the whole.

Mobility development can be analysed by theoretical models appropriately gauged according to the data obtained. In fact from the analysis of historical series estimation indexes are obtained that represent the phenomenon trend depending on the social, economic and infrastructural characteristics of the territory and it is possible to suppose the future development in order to consider the advisability of the investments for the supply transport improvement. In particular, the investments in the transport have to aim to shift transport demand from the private vehicle to the public service. This is not a random choice: public transport has the lowest general cost, this includes the cost of the trip, of the parking, of the time spent for the journey, of pollution, of the infrastructural congestion and of accidents. Every road user spends about ten times more for private transport than for the public one. The road user, however, does not have an irrational behaviour: private transport is more flexible and comfortable, appropriate to satisfy occasional mobility. The shift of a part of private traffic to the public one is obtained persuading this occasional mobility, through minimization of the costs perceived by the passenger. This cost does not include collective costs and is considerably influenced by subjective aspects, such as comfort and saving of time. So deregulation has to perform a very important role in order to favour a competitive system for the companies to guarantee the maximum efficiency and effectiveness: to join the market firms would have to supply an ever more competitive service, by guaranteeing trip times and service
quality comparable to private transport. So it would be possible to gain a market share and improve traffic revenues.

4 Tenders and strategies of flourishing firms

Among the diversification elements of different tenders some are very important such as rate types, strictness level of the tender purpose (and particularly the management plan), ownership of the transport means and of the depots.

The rate, fixed by the service contract, can be:
- net cost, equal to the difference between running costs and transport revenues;
- gross cost, equal only to running costs.

There are also intermediate solutions, as e.g. gross cost service contracts that include extra benefits for the increase of passenger numbers and revenues, or net cost contract with fixed minimum and maximum levels of proceed.

These two types have different risk allocations between the bidder and the contractor: in net-cost trades, the bidder takes both the industrial risks (connected to costs) and the commercial ones (connected to passengers and revenues). A net cost trade needs more knowledge of the territory and of the traffic basin, more service marketing skill, and good local institutional relationships in order to improve collective transport by appropriate regulation of local mobility.

There are different choices for the strictness level of the trade purpose:
- maximum strictness, with fixed quality standards and detailed management plan;
- intermediate level, with fixed management plan and flexibility in the supply of additional services such as the information service for the public, the quality of vehicles and technological systems;
- high flexibility, a network and services plan where is required that satisfies fixed specifications on the basis of data put at disposal by the contractor (e.g. matrix origin/destination, provisional graph, present network load).

The flexible tender choice means a great commitment by the Local Authority and they have to be able to consider the proposals according to a power of discrimination that is difficult to consider on the basis of quantitative parameters.

The matter of the ownership of means and of the depots will be discussed in detail in the fifth part of this paper, but among the tenders that have been held up to now, the model that prevails is the one where operator is the owner.

In spite of LPT rules being generally rather uncertain and divergent as regards the interpretation, supply dynamics are distinguished by a strenuous activity of the companies that are trying to form strategic alliances both on a large scale and in local markets.

In this context the players, organized in powerful operative holdings that control local production companies, dominate the European Market and are also joining the Italian Market that is characterized by smaller operators. The first five European competitor have revenues of between 2.000 and 4.500 million euros, whereas the two largest Italian public operators, ATM Milano and
TramBus Roma, have revenues around 500 million euros. There is a high concentration of production in a few large public groups of companies and there is also a fragmentation of the rest of the service volumes in a lot of small medium-sized companies: public companies are only 12% of all the operators and they produce 73% of the service volumes.

The large foreign groups, mainly French and English, have different strategies: some try to join the market in order to compete in rail transport tenders, others instead compete in the road transport tender and finally others are interested only in single parts of the production process.

Italian companies cannot reach, if not in the long-term, the newcomers’ size, but they try to utilize their winning card which is their knowledge of the territory and of the local mobility needs, forming alliances among themselves following two strategies:

- top down strategies: the large operator form the so called great-alliances, so they create groups that are ready to compete for the assignation of the transport service in the large Italian cities (e.g. the group TP.NET that includes TramBus Roma, Bolognese ATC, Florentine ATAF and CTM of Cagliari);
- bottom up strategies: small medium-sized companies, both public and private, that alone have no competitive power at a European level, but they can build or preserve an important role in an urban context (e.g. AlaNetwork, a group made up of Autoguidovie Italiane of Emilia, Dolomitibus, Atinom and ATMA).

Both alliance choices can take advantage from partnerships with the European groups that are strengthening their competitive position on the Italian market.

Some companies have chosen both strategies, like ATAF, involved both on the TP.NET front and on the Rasena group one with other small Tuscan companies.

Nowadays, all the different alliance strategies show the preponderance of the defensive priority and some decisive elements:

- the basic need to increase in terms of dimensions and to develop financial potential;
- the earlier start of the tender procedures in some regions, such as Liguria and Lombardy;
- the development trend of a shared know-how in order to overcome the structural weaknesses of Italian companies.

5 The separation between instrumental goods and the transport service

The changes operated in title five of the Italian Constitution in 2001 have given Regions a central role in the transport sector, they have the legislative power as regards different matters. In particular the legislative power (exclusive) as regards the services of the local public transport, both by road and by rail.
Article 35 of the 2002 financial law (law 448/2001) has a general nature as regards the local public services, but it is not only referred to transport: it confirms the Region’s prerogatives and it is also referable to the rules about the protection of competition, an exclusive State legislative power.

This article establish for the Local Authority:

- the prohibition to sell installations, networks and other equipment that are destined to local public services;
- the possibility to give these auxiliary assets to a joint-stock company, whose majority stock capital belongs to the same Local Authorities and is inalienable;
- the availability of auxiliary assets for the operators that, as a result of a tender, are charged to supply the service.

If the companies that own these assets are the same that are now providing the service, they are bound to separate the ownerships (parcelling out), that is to create two different companies one for the infrastructure managing and one for the supply of the service. The operators can use the assets by lease locations, the conditions of which should be fixed by the tender rules.

In this way all the subjects interested in this market can evaluate the use cost of the assets necessary for the supply of the service and also the subjects that do not have these assets, or the financial means to buy them, can participate in the tender.

This system has been adopted almost integrally by same regional laws. But, others, like Lombardy, oblige the previous transport companies to sell the auxiliary assets to the new operator on fixed terms specified in the tender documents. Concerning this the price owing to the outgoing operator has to be fixed net of the public contribution obtained to buy these assets. According to this system the financial means to participate in the tender are much higher.

In spite of the fact that the first system favour more companies to participate in the tenders, also the second has some benefits. First of all it is opportune that the bidder, who has to make itself responsible for the maintenance of the vehicles, is also the owner, instead of the simple lessee. Secondly, there is a financial reason connected to the employees’ transfer in case of failure: the outgoing company in fact has to support the payment of the severance pay for the personnel transferred to the incoming company. This expense can scarcely be sustained, unless after the selling of the auxiliary assets.

With article 45 of law 166/200 (the so called “Connected infrastructure to the 2003 financial law”) the national legislator has confirmed the need to guarantee the availability of networks, installations and other equipment (defined essential for the service) regardless of who the owner is.

This rule states a basic principle aimed at definition of a minimum guarantee level of the competition in sectors, as the regional rail transport, where the nature of the operators (prevalently monopolistic) interferes with free competition: even Trenitalia, the major rail operator for passengers in Italy appealed to the Regional Administrative Court against the rules fixed by the Lombardy Region, as a consequence of an Antitrust Authority opinion about the no essentiality of the rolling stock.
The definition that assets can be considered as essential emphasizes some problems because article 35 is referred to local public services in general and it does not speak specifically about transport. These aspects are clarified by certain regional laws, first of all the Lombard one. The regional law in fact says the Local Authorities have the property of the assets as regards networks and installations essential for the service bought through public loan and that because of this are bound allocation for public uses. Essential services are intended as rail and tram rolling stock, networks, infrastructures and depots that are in urban areas. As regards road vehicles, they are not considered essential for the service but are often bought with public loans: the Lombard law says that the outgoing company can remain the owner but is obliged to return the share amount disbursed to the Local Authority, nullifying in this way the obligation of allocation. This possibility does not exist instead in the regional law of Puglia: according to the latter the incoming operator is obliged to buy from the outgoing one (in his turn obliged to sell) that goods bought by the outgoing with regional contributions and subjected to the obliged allocation for a period of ten years. The value is determined on the basis of the market price of the new goods and of the years that have passed since the purchase.

6 Conclusions

Recently, in Italy the deregulation process has come to a standstill because the national legislator, perceived the delay and the problems of most of the public administration and of haulage firms in order to comply with the new regulation, has postponed to 31st December 2004 the deadline for the present service contracts (art. 23 decree 355/2003) and has modified the modes of assignment (art. 14 decree 269/2003). As regards this, the service can be assigned to:
- joint-stock companies, by public tenders;
- mixed-stock companies (public + private), where the private shareholder is chosen by public tenders;
- public stock companies, as long as these carry on their activity together with the Public Authority that controls them.

In addition to this there is a chronic lack of public investments both to build new infrastructures, above all for transport by rail, able to give a good answer to the problem of sustainable mobility in urban areas.

Faced with this situation the most important operators of this sector and the Local Authorities have launched alarm signals more than once, confirming the need to resort to LPT in order to avoid traffic paralysis of the medium-large cities.

References


