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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
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Working Party No. 2 on Competition and Regulation

**Executive Summary of the Roundtable on Competition and Regulation in the Provision
of Local Transportation Services**

Annex to the Summary Record of the 73rd meeting of Working Party 2

20 June 2022

This Executive Summary by the OECD Secretariat contains the key findings from the Roundtable on Competition and Regulation in the Provision of Local Transportation Services held by Working Party 2 on 20 June 2022.

More documents related to this discussion can be found at
<https://www.oecd.org/daf/competition/competition-and-regulation-in-the-provision-of-local-transportation-services.htm>

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Executive Summary of the Roundtable on Competition and Regulation in the Provision of Local Transportation Services

By the Secretariat¹

On 20 June 2022, Working Party No. 2 of Competition and Regulation held a roundtable to discuss competition and regulation issues in local transportation services. Considering the background note prepared by the OECD Secretariat, the written contributions, as well as the discussion by delegates and the expert panellists, the following key points emerged:

1. When introducing competition in public transport services, authorities have different options, ranging from deregulation through full privatisation to the establishment of a public monopoly.

Competitive regulations (in the form of competitive tenders or competitive franchise) can be found in the middle between these two extreme options, aiming to reduce costs via competition. Several jurisdictions provide local public transport services through in house entities. However, **competition for the market in the form of tenders is often the most appropriate model to factor externalities** (impact on labour markets, real estate markets, and traffic congestion) **and economies of scale and scope while ensuring efficiency and the benefits of rivalry among firms.** Yet, it also brings challenges.

- To ensure effective competition and high-quality services, launching tenders as such is not sufficient. Organising competitive tendering requires **sophisticated expertise and control** by competition enforcers to avoid excessively restrictive conditions and smooth transition to new service providers.
- The lack of prior preparation when awarding transport service contracts through tenders may lead to long litigation and delays, often accompanied by the extension of incumbents' contracts to guarantee continuity of the service.

2. When launching tenders, contracting authorities need to consider barriers to entry stemming from the ownership of assets, the size of the lots subject to tender, the timing of the tender and the duration of the concession.

- The **ownership of assets** (vehicles, depots, maintenance equipment, available drivers). While requiring bidders to own assets may provide incentives to invest and innovate (e.g., in renewal of their bus fleet, as long as consumers are in a position to evaluate quality and this brings financial benefits to operators), it may also reduce the number of potential bidding firms. This is because bidders, faced with the uncertainty on the future award of the tender, may lack incentives to make significant investments in asset acquisition. The choice between the public and private ownership of assets is not necessarily binary as different hybrid models exist to encourage competition and innovation on the margin.
- The **size of the lots subject to tender**, which increases the value of the concession and influences the extent to which firms can benefit from economies of scale, as well as the number of bidders at the tender stage. Empirical studies have confirmed

¹ This executive summary does not necessarily represent the consensus view of the Working Party participants. It does however identify key points from the discussion at the Roundtable, including the views of the expert panellists and the participants' oral and written contributions.

the presence of economies of scale, at least up to a certain threshold of kilometres served by the transport operator.

- The **timing of the tenders**, whose distribution may affect the intensity of competition, especially for small new entrants that suffer from information asymmetries and learning disadvantages compared to the incumbents. However, the relative merits of staggered and synchronous tenders have not been sufficiently explored in the economic literature.
- The **duration of concessions**, which does not only affect firms' incentives to bid, but can also be used as a leverage to incentivise operators to increase quality. Some authorities grant extensions of concessions based on an evaluation of pre-agreed performance metrics.

3. Incumbents generally enjoy key competitive advantages. While some of them legitimately derive from their experience (e.g., learning or knowledge), others can be exploited to deter new entrants and subsidise high-quality alternatives thus making competition more expensive.

Some authors suggest restructuring incumbents and separating their assets and workforce (and possibly offering them openly to all bidders) before running tenders. Most importantly, **access to open and transparent data** (e.g., about costs) by all stakeholders reduces barriers to entry and should be facilitated. In any case, the presence of vertically integrated incumbents is not an obstacle as such to competitive tendering.

When ownership of assets is a condition to bid, incumbents benefit from a significant comparative advantage, as confirmed by empirical studies conducted in the London bus market. Thus, to reduce such an advantage, authorities need to consider how such assets will be transferred upon the expiry of the concession and facilitate their redeployment in other tenders. However, determining the valuation of the assets transferred to the awarded bidders (when tenders require asset ownership) and allocating the financial risk between public and private bodies are major challenges.

4. Some jurisdictions have developed new forms of co-operation between public authorities and private service providers. Many have implemented performance indicators and conditional extension of concessions based on quality checks.

- Weak public authorities' expertise and control, coupled with excessive discretionary powers, result in lower intensity of competition in public transport markets, with consequences on prices and quality.
- Authorities need to have sufficient expertise to plan transport services, organise tenders, supervise service delivery, or ensure compliance with pre-defined quality obligations.
- Innovative partnerships between the public and private sectors going beyond today's simple supplier-client relationship are becoming more usual in some jurisdictions. Hybrid models involving both public stakeholders and private service providers at each decision-making level may yield positive results. They indeed complement public expertise and help avoid traditional shortcomings of competitive tenders, in which bidders tend to under-estimate future uncertainties that may affect their chances to win the tender and over-emphasise their ability to deliver high-quality cost-efficient services.

5. A key choice as regards the desired level of service quality concerns the allocation of product (cost) and revenue risks at the stage of contract design.

Authorities (possibly with operators) need to determine who will bear the financial consequences of a decline in the number of customers, a reduction in revenues or changes in the price of fuel or other inputs. **Several jurisdictions provide public financing to local public transport.**

- Based on national experiences and the economic literature, it is possible to identify two main models as regards allocation of product and revenue risks, namely, gross cost and net cost contracts.
- As regards allocation of public funds, decisions must take into account different factors, including efficiencies, externalities and social considerations (e.g., equity, accessibility).
- Monitoring and evaluation mechanisms are essential to ensure the level and quality of mobility services.

6. The development of new technologies, such as Mobility as a Service (MaaS) two-sided platforms, may have a positive impact on prices, quality and, more broadly, competition.

MaaS platforms are distribution channels for mobility services that are built on shared data and a digital interface, allowing potential passengers to efficiently source and manage their transport-related services in a seamless way, by combining different mobility services tailored to their preferences and needs at a given point in time. Different models exist for their development, depending on the level of involvement of public authorities as opposed to private market players

MaaS platforms may enhance multimodal transport and inter-modal competition, both between different public transport modes, and between the latter and the new app-based means of transport.

- However, certain regulations may negatively impact competition, by creating barriers to entry. Regulations restricting for-hire local transportation services, for instance, may reduce the extent to which MaaS platforms are able to provide multimodal transport solutions.
- Furthermore, practices by incumbents and/or dominant companies may limit their deployment and development. In the absence of a compensation for resale, MaaS providers often need to add a surcharge since they cannot purchase tickets from incumbents at a discount rate, and this makes them less competitive. Also, limited access to their data or portfolio of transport services may reduce MaaS platforms' ability to compete.
- Competition authorities must be vigilant as regards such risks.