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FROM MONOPOLY TOWARDS MARKET: RECENT CHANGES IN POLISH URBAN MASS TRANSPORT

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In line with the new framework laws on decentralization and private sector activities, cities throughout Poland are adopting new ways of delivering mass transport services. Commercial institutions and market processes are beginning to replace the State-owned, local monopolies of the pre-reform period. Major changes include a new legal status for mass transport companies, permitting stock ownership by public and private partners, which is meant to increase independence of company management; creation of new transport authorities reflecting the separation of regulatory and operational functions at the local level; introduction of service agreements; and entry of private operators under concessions and sub-contracts.

INTRODUCTION

Since the late 1980s Poland has undertaken major political and economic reforms. A single-party system has been replaced by a multi-party democracy, accompanied by political and administrative decentralization. A socialist economy changed in the direction of a market economy. The reforms have opened the economy to the private sector, restructured and reduced the size of the public sector, and shifted the source of public finance from company taxes to income and consumption taxes. These changes have had many impacts, including a recession caused by a fall in public-sector spending. There was downsizing and liquidation in some sectors and companies, but also solid growth in others. For individuals, this may have meant a considerable increase in earnings, or unemployment and/or early retirement.

This note is about the impact of reforms on urban mass transport companies (MTC). Of the many aspects of reform, five were of particular significance for MTCs, but also other municipal utility companies: (1) the law on economic activity, passed in 1988, which removed many barriers to private sector activities, including barriers to entry into some sectors of the economy; (2) the local self government law (1990) which defines municipal governments as independently elected entities, whereas they had previously been field offices of the State government; (3) the regulation on implementing the law on local government staff, also passed in 1990, which specified that municipal governments now have jurisdiction (read: regulatory power) over all services whose impact is mainly local, including urban mass transport services; (4) change of ownership of most service companies, again including urban mass transport, with municipal governments being the new owners; and (5) change in the way local governments are financed, relying on a combination of local revenues (mainly property taxes and diverse user fees) and block grants from the State (derived from income taxes).

In pre-reform days, urban mass transport had been state controlled, charged very low fares, and therefore had low levels of cost recovery (20-25% as late as 1980s). This mode dominated urban transport, accounting for 80-95% of all non-walk trips. The funds for operating and capital subsidies, drawn largely from local industrial and commercial enterprises, had been reasonably plentiful, resulting in extensive and well-served mass transport networks. Much of this changed with the introduction of reforms. The municipalities, the new owners of mass transport companies, started on a weak financial footing. An immediate increase in user charges for municipal services, including mass transport, was required and replacement of vehicles and other plant was deferred. Mass transport fares increased sharply. Income polarization has also taken place, cutting deeply into the demand for mass transport services at both ends. Some passengers were lost to private cars, others could not afford to pay new fares. Modal share of mass transport fell to 70% or less.

Responding to these new problems, and using the opportunities created by the framework laws, cities introduced a number of potentially far-reaching reforms affecting all utilities. Innovations which have had a major impact on urban mass transport include: (1) a change of legal status of hitherto State-owned mass transport companies; (2) the breakup of public-owned operating companies; (3) the creation of new institutions linked to a separation of operational role from regulation and service planning; (4) an opening of the sector to private operators; and (5) the introduction of service contracts between operators and public authorities. These innovations, mark a radical departure from public monopoly, and a move towards a market-based mass transport sector.

Change of legal/organizational status of mass transport companies. The 1990 framework laws, which transferred MTCs to municipal ownership, also gave several options regarding their legal status. The results show cities opting for minimal change. Out of 128 urban MTCs, 80 (63%), including the cities of Warsaw, Poznan, Wroclaw, Gdansk, and Gdynia, now have the status of a municipal department ("budget unit"). Public enterprise status, identical to pre-reform State-owned public enterprises, was retained for 31 companies (24%). For a minority of 17 (13%) cities, including Krakow and Lodz, those making decisions cast their lot with corporate status, creating joint-stock ventures subject to the

Commercial Code.

In the budget unit option, mass transport is not only regulated but also provided by the city administration and its management is subordinate to city managers in all matters. The employees are civil servants. Budgetary units follow accounting rules for government institutions, have the same tax privileges, and do not have to show the depreciation of most of their fixed assets on their balance sheets. They can sub-contract with private companies for auxiliary or transport services, but cannot sell shares. In short, political control over mass transport activities is high, as is job security, while the potential for improving performance is on the low side.

In the corporate option, the management is much more independent, even if the company is 100% owned by the municipality, which is in fact the initial status. The company decides its own marketing and purchasing policies. It can enter into sub-contracts for auxiliary services and/or complementary transport services from another operator. It can issue stock, borrow funds, change capital/labor proportions, and hire and fire workers. It has to follow standard commercial accounting procedures, reflecting the full cost of operations, fixed assets, and capital structure. It is liable for taxation, must pay dividends (if any) to owners, and is (at least nominally) subject to bankruptcy laws. The municipality retains its influence through an explicit service agreement signed with the company, and through membership on its board of directors.

Break-up of public-sector MTCs. In many instances MTCs have also been broken up into several new organizations. Three different structures have arisen, largely resulting from different motives for the break-up.

Non-core departments have become separate companies . For example, three companies have been spun-off from MTC Krakow. They specialize in maintenance and repair of buses, tramways, and track/ power, respectively. All are (initially) city owned joint-stock companies. The main motive was to isolate activities which the City will continue to subsidize (transport operations) from those which should pursue a commercial orientation. The non-operational departments can now offer their spare capacity on the open market. Conversely, specialized companies located in other cities have expressed interest in bidding for track and vehicle maintenance in Krakow.

Multiple transport operators. The old operator was broken into several new operators, with or without shedding the non-core activities. Bialystok has chosen this option, creating three joint-stock companies. The initial motive was apparently to reduce the power of the union. The new companies have service agreements with the Municipality to provide the usual mass transport services in the city, but are also free to offer their services outside the city area, and their technical departments can offer maintenance and repair services to external clients. In addition, the Municipality has commissioned other operators, one private and one owned by the Governorate, to provide mass transport services.

A similar process is taking place in Warsaw. In 1992, MTC Warsaw was transformed into a budgetary unit of the Warsaw City Government and was then broken up into three pieces. Two are singletechnology transport companies, which will operate buses and tramways, respectively, the third is to specialize in maintenance. Subsequent stages may involve further fragmentation of operating units and the creation of several companies offering non-core services; the new companies would first be "corporatized", then offered for sale. The declared motive for the break-up of MTC Warsaw was to improve efficiency through creation of smaller, easier to manage organizations. The unions have been contesting the break-up, concerned that their job security, wages, and working conditions would all deteriorate.

Transformation of multi-city operators. For companies which had served more than one municipality, the process of changing legal status coincided with their fragmentation, to match service area and ownership. MTC Katowice, for example, used to serve all the cities in the Upper Silesia region. It was broken into 13 operating companies, plus two specializing in auxiliary activities, all of them opting for the public enterprise status. Twelve are bus companies, owned by individual cities. The regional government remained the owner of the thirteenth company for the time being, since its tramway-based, multi-city network was difficult to divide between cities within the public-enterprise framework.

NEW INSTITUTIONS

In some cities, MTCs were restructured to separate the regulatory and operational functions. Wroclaw, Gdynia, and Bialystok have advanced the farthest in this, but the process is also underway in Warsaw and elsewhere. Typically, the planning department of the old company has become the Mass Transport Authority, while the old operations and technical departments have constituted the new company (or companies). The Authority defines the route network, service standards and fares, checks compliance with service agreements, and does long-range planning.

Institutional design differs from one city to another. In Warsaw, the new Mass Transport Authority, exists in parallel with a Road and Traffic Authority, newly taken from the Warsaw regional government. In Gdynia, the regional government has maintained its jurisdiction over roads. Wroclaw, in by far the most ambitious and advanced effort, has created one Urban Transport Authority, which combines mass transport, road and traffic matters, with the full scope of short and long-term responsibilities. The inter-city travel market in the multi-city Upper Silesia agglomeration makes up nearly half of the passenger market in the region. With the new plethora of transport operators, division of the regional service network among the successor companies, the coordination of services and fare systems for inter-city routes, and the division of revenues all became problematic. This gave birth to Transport Associations, some of which follow the transit federation concept and others function much more like transport authorities in other cities. Two major cities in the agglomeration, Gliwice and Bytom, have stayed out of any common arrangement.

ENTRY OF PRIVATE OPERATORS

Private transport operators are now to be found in most cities. In 1993, they were estimated to supply 10% of the total public transport market.

The earliest mode of the private sector entry was entirely unregulated, in a literal reading of the Privatization Law. Owner-drivers, on their own initiative, wait close to a major transport terminal or activity center, until enough passengers have boarded their bus to make the trip worthwhile. Routes and stops sometimes follow those of the municipal company, but can deviate on demand. Second hand buses, many mini- and micro-size, are being used. Fares have typically stayed close to the municipal fares but could be up to 25% higher. While this form of supply brings some benefits to all sides where there are MTC capacity constraints, it is difficult to envisage its continued co-existence with other operators whose contractual obligations include providing non-commercial routes and time periods.

The most popular form of private participation has involved small-scale private operators providing services under contract with the municipal transport companies, following agreed routes and minimum frequencies. Typically, the private sub-contractor accepted tickets issued by the municipal operator. A variation on this is for the service contract signed with the local Transport Authority or Association, as in Bialystok and Katowice.

Less frequent have been full partnerships, formed between a private operator and the municipal company. In Olsztyn, the municipal operator (MTC Olsztyn) was facing a shortage of buses, since only 66% of its fleet of 160 buses was operational. Demand pressure was evident on several routes but funds were not available to replace the fleet. MTC Olsztyn therefore entered into a joint venture with a foreign entrepreneur, to supply vehicles and services initially on 2 routes, from which municipal buses would be withdrawn. The foreign partner has supplied management and the initial fleet of 15 mid-size buses, to be increased to 45 within a year. Services are seat-only, with fares more than twice those on MTC Olsztyn's ordinary services. The benefit to the MTC is the capital brought in by the foreign partner (90% of investment costs), as well as the demonstration of efficient management.

SERVICE CONTRACTS

Whatever the nature of the urban transport operator, relations between the municipality (represented by its transport authority or association) and the operator(s) are now regulated by the means of either service agreements, or commercial contracts. These typically list detailed service requirements (e.g., routes, lines, frequencies, vehicle types and number available for service), fares, and quality of service factors (e.g. punctuality, reliability and vehicle condition). Service agreements have so far come in three variants.

Management contract. The situation most frequently found is that the municipality has retained ownership of the plant (rolling stock, equipment and facilities), and decision power concerning their replacement and/or expansion. It also decides fares, sells tickets, and inspects passenger compliance. The operator is concerned with meeting the agreed service schedule, the required quality of service, and maintaining the plant in good condition. The only risk the operator takes is that of direct operating costs, inclusive of vehicle maintenance, repairs and overhaul. The remuneration of operators is proportional to vehicle-km of service actually performed, subject to an agreed annual total.

Cost-based contract. Less frequently, the operator uses its own rolling stock and maintenance facilities. The negotiated price therefore includes a capital cost element and the contract specifies conditions of non-performance and other conditions under which the contract will be terminated before its normal expiry. The model agreement of this type, as developed in Warsaw, includes formulae to correct for inflation.

Commercial concession. In 1993, there was only one example of an operator bearing both revenue and cost risks, that of Olsztyn. In several other cities, local authorities have been interested in the approach, but potential private operators have encountered difficulties in getting loans for rolling stock.

WHAT SHOULD THE NEXT STEPS BE?

Legal status. Most urban governments in Poland appear to have been guided by a desire to keep full control of mass transport companies and, generally, minimize risks of the unknown. The benefits of reform have therefore been minimal. This is in contrast to what they have done with the municipal water companies, the majority of which have taken the corporate option, and have already attracted outside investment. In that many past problems of MTCs were due to political interference in decisions concerning service routes and frequencies employment, salaries, and capital investments, the cities would do better to retain the regulatory role for themselves, and let the mass transport services be provided by independently managed organizations, whatever their ownership structure.

Service Contracting. Service contracts are mostly based on direct negotiations between a city and a single supplier, typically the city's own transport operator. The contracts contain agreed service requirements, remuneration, and penalties for non-performance. With a single exception, operators take the cost risk only. Remuneration is based on cost patterns dating from the preceding period of monopoly provision. This practice does little to pressure operating costs downward or generate better services.

Two improvements are recommended. Firstly, assuming that contracts are awarded under direct negotiations with a single operator, specific productivity targets and incentives should be built into service contracts, based on cost arbitration and comparisons with other cities and countries.

Secondly, competition should be introduced by requiring multiple bidders. The stage has been set for this in cities where multiple operators already exist. Still, there will not be enough competition to have a significant impact on productivity (read: bid prices) unless and until private operators enter the bidding process. The only private sector competition to date comes from some unregulated, ad hoc services, which are giving competition a bad name. This low level of private sector activity is said to be partly a result of a dearth of bank credit for an activity where profits may be low and risks high. There is also an underlying resistance from the unions. Assuming that the credit problem can gradually be resolved, the introduction of mandatory open bidding will allow the private sector to demonstrate its potential, directly or through competitive pressure on public-sector bidders.

TO LEARN MORE

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