

Summary:

Competition and tendering in local public transport

Competitive tendering was introduced in Norway in 1994. Since then there have been significant structural changes in the public transport sector. Similar changes have taken place in other parts of the world. What is unique to Norway is the slow introduction. Norway has had a long period where competitive tendering has existed parallel to the older system with negotiated contracts. As a result it is possible to separate effects of competitive tendering from other factors that influence the development of the industry. This makes Norway an interesting case to study.

Benefits from introducing competitive tendering are well documented (e.g. Bekken et al., 2006b). The main finding in this report is that price development in contracts with competitive tendering and price development with negotiated contracts follow similar paths. At the time of introduction a gap in subsidies between the regimes arises. This gap can be observed over the entire period studied. However, data available for this study do not support any conclusions on whether the gap is widening, narrowing or unchanged. The observed tendency is that costs drop when competitive tendering is introduced and then increase over time, resulting in a U-shaped cost curve. This finding is in line with the findings of Alexandersson and Pyddoke (2003) based on Swedish data.

Bus companies are affected by the changing context induced by competitive tendering, thus it is no surprise that the industrial structure has changed after the introduction of competitive tendering. Data available from Statistics Norway (SSB) and Mathisen and Solvoll (2008) document a reduction in the number of bus companies. However, the finding of this report is that competition has not decreased. This is found by counting the number of participants in each competition and looking at long-run trends as well as the difference between first and second rounds of tendering. It seems that the number of mid-sized companies is decreasing and the number of large companies is increasing. The result is that the companies now are able to compete for contracts in a larger geographical area. Thus the situation has changed from local and regional monopolies or oligopolies to a situation with regional, national and international competition. The development in price difference between the best and second best offer over time supports this.

There are many possible reasons for why the costs increase over time. The cost indexes relevant for bus operation have increased at a much higher rate than the general consumer price index. The quality of the service offered and environmental standards has also increased steadily. A result is that costs increase also in a regime with competitive tendering.

The theoretical part of this report focuses on the economic games played by competing companies and the information game between the operating companies and the local authorities. Different game theoretical models, including the Bertrand model, principal–agent theory and auction theory have been used in this analysis. Effects on efficiencies of different organizational changes are also discussed.

Cost development has been studied by using data provided by SSB. Contracts were collected in order to find out how the macro level changes affected the actual competition. The contracts and other tendering documents used were collected by the Institute of Transport Economics (TØI) in 2005, for the study by Bekken et al. (2006) and in 2009 for the purpose of this study. The main finding from this is that even though the number of bus companies on national level has been reduced, the number of companies competing for tendering contracts has remained high. In this report subsidies paid by the local authorities are used as an indicator for cost levels. Focus is on the period 2001-2008, for statistical reasons. This does not mean that the subsidies paid are directly reflecting the cost developments of the operating companies. Rather the subsidies reflect the cost development of the counties. This is interesting since it is the counties that decide which regime to use. Therefore it is more interesting to observe that the subsidies have increased less fast in the counties where competitive tendering is used, than exactly how these savings have been made.