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Will bus tenders benefit riders?

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In about a year's time, the Government will take the first baby step towards liberalising the duopolistic public transport market, now controlled by SBS Transit and SMRT Corp.

The Land Transport Authority (LTA), which will assume the role of central route planner, is expected to put up the first parcel of bus routes for tender by the second half of next year. Previously, the two incumbents planned their own routes.

The idea is to keep operators on their toes by introducing a system that will make them compete for the market, so as to better serve commuters.

Currently, the two incumbents do not compete directly. In fact, one could say they do not compete at all as they ply different routes. If there is any overlap, it is negligible.

They operate under the watch of the LTA and the Public Transport Council. Even so, the Government feels standards could be improved if competition is introduced.

Details of how the market will be opened up are still being worked out, but the burning question being asked now is: Will the commuter be better off?

'The proof of the pudding is in the eating,' said Associate Professor Anthony Chin of the National University of Singapore's economics department. He was a lead economist with the LTA from 2002 to 2004 and is currently a member of the Public Transport Council.

In a policy forum last week on competition in Singapore's public transport sector, Prof Chin addressed the larger question of whether there is room for more than two players.

He reckoned the answer is 'yes'. But whether there will be bidders for the route parcels depends on how contracts are drawn up.

Variables include how routes are bundled, how level the playing field is, how service standards are defined and what safety nets, if any, are offered by the Government.

The parameters have to be attractive enough to draw newcomers to Singapore and for the incumbents to stay on.

At the same time, the new landscape has to result in shorter waiting times, faster travelling speeds, greater comfort and high connectivity for commuters.

Market watchers are doubtful that the two opposing sets of interests - attractive commercial terms for operators and sterling service for commuters - can be met simultaneously.

A leading analyst, a head of research at a major firm who declined to be named, said the bigger and better companies - other than the incumbents - might not find the Singapore market attractive as the returns would be too low for them. In that case, the tenders could end up drawing in 'small firms with little or no track record'.

And if all the route parcels ended up in the hands of the existing players, the exercise would have been futile.

'Just look at the bus market. One player is bleeding, and the other is making only about \$50 million a year,' the analyst added. 'Not only that, the market here is not like the cost-plus fare model in Britain, where the government assumes revenue risks.'

One solution would be to package bus tenders with rail tenders, which are more profitable. But the next rail line open for bidding will be completed only in 2013.

In the meantime, the incumbents might be driven to focus on businesses abroad.

SMRT Corp will start operating its first overseas line - a light rail project in Dubai - next month. And ComfortDelGro Corp (parent company of SBS Transit) recently announced that it is now aiming to garner 70 per cent of its revenue from abroad in about five years' time - up from about 47 per cent now.

'If the objective is to raise service standards, why not just beef up the regulatory framework?' the analyst added. 'Wouldn't that be a more cost-efficient way?'

Prof Chin pointed out that in Britain, competitive tendering of its bus services over the past 20 years had resulted in savings.

Government funding for these services fell from £750 million (\$1.6 billion) in 1986 to £300 million in 2003. Operating costs fell from 249 pence per km in 1986 to 120 pence in 2007.

Not only that, most services have remained viable - even with the provision of free travel for the elderly. And buses have clocked higher mileages, indicating higher demand.

However, Prof Chin warned that competition would not lead to lower fares.

'It will not happen. And if it happens, it would be at the expense of service,' he said.

But he reckoned that price is not the top concern for commuters at large. Efficiency is.

Most commuters, he noted, are willing to pay more for shorter waiting times and seamless transfers.

'It's all about service,' he said.

The Government feels there is no better incentive for operators to keep service standards high than the threat of being replaced.

Transport Minister Raymond Lim said as much. In January last year, when he announced that the public transport market would be made 'more contestable', he noted that 'even just

the real threat of competition is an effective way to keep bus operations efficient and raise service standards'.

As for attracting new competitors, the public transport market is set for explosive growth. By 2020, the number of daily journeys made by public transport could reach 8.8 million in Singapore - up from 4.6 million today, an increase of more than 90 per cent.

Meanwhile, commuters fearing topsy-turvy changes to bus routes need not fret. The Ministry of Transport has pledged that changes will be 'done incrementally to avoid massive confusion'.

In its new role as route planner, the LTA will 'fill gaps and deal with inefficiencies in the current network'.

In a few months, it will begin holding consultations with industry experts and grassroots leaders on this bold move to open up a market that has been 'protected' since the 1970s.

Better connectivity and a higher level of service?

Indeed, the proof of the pudding will be in the eating.

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