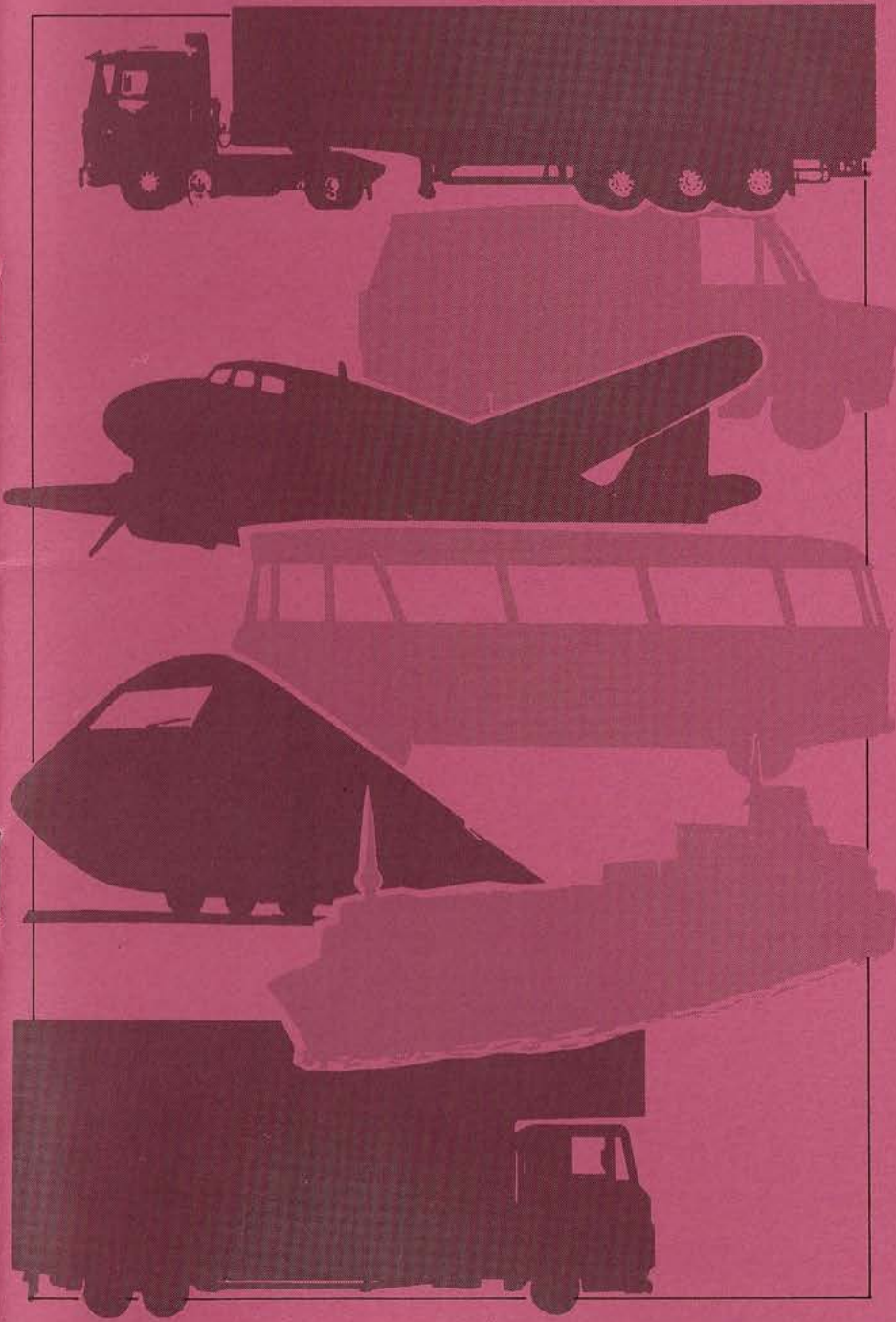


TRANSPORT

ECONOMIST

WINTER 88

Vol 16 No 2



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MAGAZINE OF THE TRANSPORT ECONOMISTS GROUP

VOLUME 16 NUMBER 2

EDITOR: Stuart Cole, Polytechnic of North London Business School

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RECENT MEETINGS

THE ECONOMICS OF REGULATION IN THE TAXICAB INDUSTRY

Ken Gwilliam, Institute for Transport Studies,
University of Leeds (Leeds, November 9 1988)

Local authorities have had powers to regulate entry, fares and conditions of operation for taxis ever since the Town Police Clauses Act of 1847. and most exercise these powers. The 1985 Act liberalised entry to the industry. but allowed authorities to refuse licenses if it could be demonstrated that there was no 'significant unmet demand', Thus there has been a growing industry in studies of taxi demand, of which the Institute at Leeds has undertaken a substantial number.

Evidence from cases fought through the Crown Courts so far suggested that it was very difficult to define what is meant by significant unmet demand, with consequential inconsistencies in decisions. For instance in Stockton the growth in the number of hire cars was accepted as evidence of unmet demand, whereas in similar circumstances elsewhere that argument has failed. Similarly the degree to which a lack of taxis at peak times or in out-of-centre locations has been accepted as evidence has varied.

The case for regulation was presented as threefold:

1. To protect the public by enforcing a degree of quality control.
2. To prevent city centres from being swamped by large numbers of taxis- with attendant effects on congestion.
3. To avoid excessive entry which would drive down occupancy rates and in that way increase costs per passenger.

Three conventional arguments against regulation were also presented:

- 1, That it would hamper innovation. However, even where entry was free, as in the hire car trade, there seemed to be little innovation.
- 2, That the information requirements for regulators to act optimally were too severe for them to succeed. But in this case the real question is whether a non-optimal regulatory system is better than or worse than a non-optimal market outcome.
3. The fact that regulators did not seem even to appreciate the arguments as to why regulation was necessary or to attempt to achieve an optimal solution, but seemed preoccupied with the interests of the taxi industry itself, and with short term issues such as the capacity of the ranks,

Evidence was presented that waiting times for taxis at ranks vary enormously, with 24% of users claiming to wait more than 10 minutes in York, compared with 1% in Tamworth. This was loosely related to ease of entry, and where entry was severely restricted, the value of a 'plate' could rise as high as £25,000. Jeremy Toner presented evidence that the principal effect of liberalising entry to the taxi industry was to attract diversion of operators from the private hire business. the combined size of the two fleets being largely unchanged,

A lively discussion ensued. discussing issues such as the nature of the private hire and taxi trades, the role of block bookings and the reasons why so little price competition was to be found in both the regulated taxi and unregulated private hire businesses. It was concluded that. at least in some markets, taxis and hired cars are close substitutes, so that on the one hand restricting entry to one without similar restrictions on the

other was pointless; on the other hand it could not be assumed that liberalising entry to the taxi industry would actually reduce waiting times for the two combined, if vehicles simply transferred from private hire. Experience on the degree to which private hire companies undercut taxi fares was mixed, with some evidence that regulated taxi fares tended to determine prices in both markets. Finally. attention turned to the relatively low level of taxi activity in the scheduled services and shared taxi fields. In part. the lack of shared taxi facilities was attributed to the fact that local authorities were only obliged to set up such schemes where at least 10% of licence holders were in favour of them, and existing licence holders had little incentive to support such schemes. Even where schemes had been set up in London at Central Government instigation, they did not appear to be a success, perhaps because passengers did not like the lack of privacy involved in sharing taxis with a stranger.

Chris Nash. Institute for Transport Studies. University of Leeds

THE ROLE OF HOVER SPEED IN THE CROSS-CHANNEL MARKET

Robin W. Wilkins. Managing Director. Hoverspeed Ltd.

(London, November 16 1988)

Role of Hoverspeed

Hoverspeed's fleet comprises:

3 SRN IV Mk 2 craft carrying 37 cars and 278 passengers

2 SRN IV Mk 3 craft carrying 55 cars and 424 passengers.

The latter are a "stretched" rebuild of the Mk 2 and carry the bulk of the traffic.

Turnover is £42 million per year; the 1988 profit is expected to be £5.5 million.

Expected traffic in 1988 is 325,000 cars and 1,7 million passengers. There will be 8,800 flights (one-way). Hoverspeed employes 530 permanent and 350 seasonal staff, the latter being engaged in the summer and including many students.

Hoverspeed is owned by British Ferries (Sealink UK's holding company) which is in turn owned by Sea Containers, but Hoverspeed competes with Sealink in the market.

Revenue sources are: 74% from tickets (£31 million in 1987). 17% from duty free (much less than on the ferries), 9% from other activities (catering, car parks, etc.).

Of revenue from tickets sold, 70% comes from cars. 11% from through rail journeys, 8% from schedule coach services (i.e. with through booking between London and Continental destinations). 9% from foot passengers (i.e. port-to-port only) and 2% from freight (light goods vehicles, couriers, Range Rovers for export).

Revenue per unit, 1988: foot passenger £7.87, Coach passenger £8.19 (this is for the city-to-city journey). Rail passenger £9.78 (a portion also goes to BR and SNCF). car £65.23 (c. £30 per occupant), non-Hoverspeed coach carried on board £344.22, duty free c. £5 per head and falling.

The coaches on Hoverspeed's scheduled services do not cross on the hovercraft. A portion of the crafts' seating space is reserved for car occupants, as these bring more revenue than foot, rail or coach passengers.

Seaspeed - Hoverlloyd merger

Mr. Wilkins illustrated the recent history of the company year by year since its formation as a merger of Seaspeed (a British Rail subsidiary operating between Dover and both Calais and Boulogne) and Hoverlloyd (operating between Ramsgate and

Calais). Both predecessors had been losing money and had high costs. The merger was intended to rationalise the operations, but **it** took a long time to achieve this.

1981

The merger took place. with holdings split equally between BR and Hoverlloyd's owners. At that time the companies' combined loss was £8 million, and the prices were 25-30% higher than the ferries'.

1982

The company was operating six craft, and two ports on each side of the Channel (Ramsgate. having been closed, was reopened; this turned out to be a mistake). The aim was for high volume, charging the same price as the ferries. Staff were cut and salaries frozen to save losses. Despite an increase in traffic there was still an excess of capacity and the company made a £5.5 million loss.

1983

Parity pricing continued and there was a drive to increase load factors; however the targets were not met. Attempts were made to increase sales on the Continent - most sales are in the UK - and inclusive holidays were started in order to give a more solid image.

Under the terms of the 1981 merger, the French-built N500 hovercraft (owned by SNCF) which had originally supplemented Seaspeed's inadequate two craft fleet, was to be accepted by Hoverspeed in exchange for granting a 10% shareholding to SNCF, provided the craft met performance criteria following extensive modifications. It was brought into service but only achieved around 60% technical reliability and did not meet specifications for ride comfort or controllability. It was therefore rejected by Hoverspeed. (Following an extensive period of negotiation. the craft was broken up for spares and scrap.)

Another problem was that the SRN craft, with their 3,5 metre vertical clearance, could not carry the new double deck and one-and-a-half deck coaches and this part of the market was lost. (Of some 120,000 coaches passing through Dover each year. only about 2,000 use the hovercraft.)

By now the company was near collapse. Its turnover was around £40 million but it had made a loss that year of £3.5 million.

1984

The Government refused to allow BR to underwrite further loans and the Swedish owners of the erstwhile Hoverlloyd refused to buyout BR's share. However, a management buyout was successful.

The company adopted premium instead of parity pricing, justified on the grounds that a faster service could be expected to be more expensive. Also, an aggressive advertising campaign was mounted against the ferries. More effort was made to target the fares accurately, Problems: a fall in the peak summer market and a rise in fuel prices (fuel is a sensitive component of the costs). Business from inclusive tours was lost because of the coach height problem, and there was continuing litigation over the N500. This matter was settled out of court.

At the end of the year the company had made a £0.5 million loss, but was now generating a positive cash flow

1985

Holiday sales and revenue from non-ticket sources were expanded, with a duty-free outlet opened in Boulogne Premium pricing was extended and greater control was exercised over the amount of space devoted to different traffics. It was attempted to set up a new computer reservations system but this turned out to be unsuitable and had to be written off.

Despite bad weather and the crash of the Princess Margaret at Dover, which killed four and put the craft out of action for seven weeks, confidence increased and the company made a £0.2 million profit. Business from US passengers increased,

1986

A peak banding premium was introduced, well above that charged by the ferries. Continental non-ticket revenue continued to improve with a substantial contribution from Calais. But the Achilles Lauro affair and the bombing of Libya led to the loss of much of the US market.

Profit for the year was £0.6 million. In June the company was acquired by Sea Containers but the existing directors were retained until the end of the financial year in December.

1987

The period of the peak premium was widened. Now that Hoverspeed and Sealink were in the same group the companies cooperated in private, while still competing in public. Thus when bad weather forced the cancellation of flights, the transferred passengers were carried by Sealink at a favourable rate rather than by Townsend-Thoresen as previously. (Such rerouting occurs to less than 3% of Hoverspeed's passengers each year.)

Some traffic was won as a result of the Zeebrugge disaster and low fuel prices helped. The turnover was £39 million and the profit was £3.2 million.

1988

This year Hoverspeed broke completely with the ferry companies' charge banding. It began to invest in new port facilities and overhauled its craft to lengthen their life. The ferry strike depressed the overall market, leading, for instance, to February's coach movements being 15% down on the previous year's and March's being 37% down. However, Hoverspeed

benefitted from diverted traffic, as it did from the air traffic control problems and continued low fuel prices. A £5-6 million profit is expected.

The Channel Tunnel

Diagram 1 shows how passenger growth has risen at a rate of around 12% per annum - ahead of the increase in GNP; most of this is in the leisure market. By 1987 30% of all adults had had at least one holiday abroad. Most customers come from the south of Britain, though custom from the north is growing. There is also a growth in the market for short breaks, i.e. stays of one to three nights; about one million UK residents took these in 1986. The leisure market may be levelling off now.

The ferries' business, on the other hand, did fairly well in the early 1980s but has levelled off. Diagrams 2 and 3 show that for Anglo-Continental sea traffic in general, the Anglo-French traffic in particular RO-RO freight has been rising steadily; coach traffic rose rapidly at the beginning of the decade but has levelled off while car traffic has risen since 1985 (after the earlier Tunnel studies). "Classic" traffic has continued to decline. Eurotunnel expects foot traffic to grow - though the trends don't support this - and for rail traffic to increase after the Tunnel opens. And while both Eurotunnel and Hoverspeed agree that car traffic will continue to grow at around 4-5% per annum, Eurotunnel seems optimistic in expecting coach traffic to grow at 6%. The excursion market in particular seems to be saturated and Hoverspeed do not expect it to grow further.

Strong price competition in the early 1980s caused rates to fall in real terms until 1981 for cars and until 1983 for RO-RO (Diagram 4). Eurotunnel expects rates to increase in real terms, whereas Sealink and Hoverspeed expect them to stay constant and, in the case of coaches, to fall as a result of air competition. This appears to be borne out by Diagram 4 which shows rates for coaches remaining fairly stable until 1986 but falling appreciably between 1986 and 1987.

Diagram 1: Passenger Traffic Growth, 1980-87

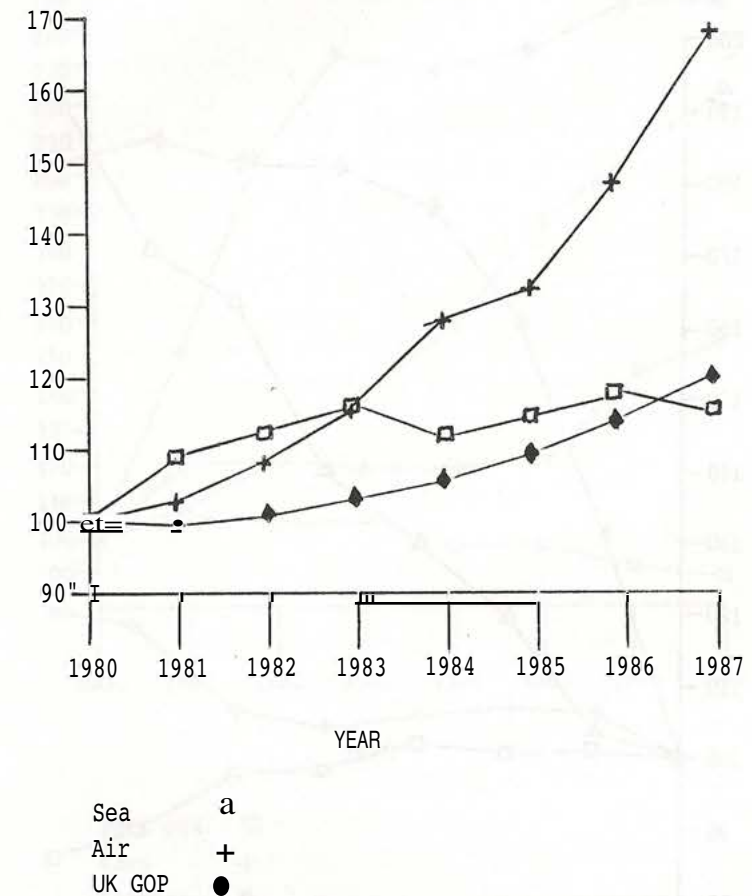
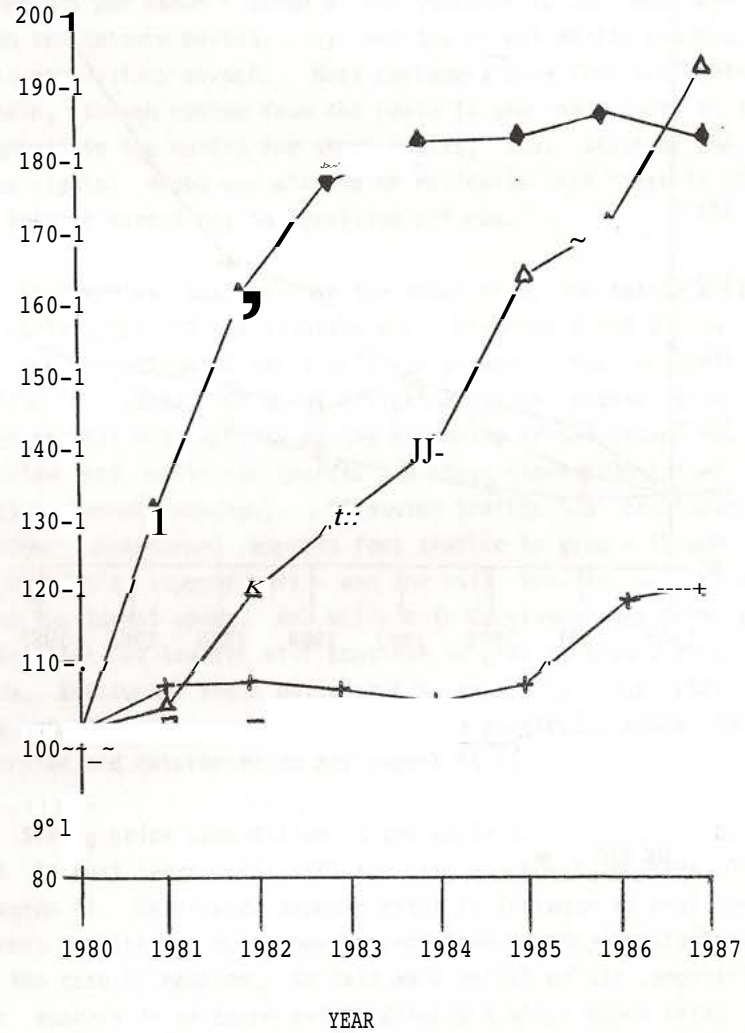
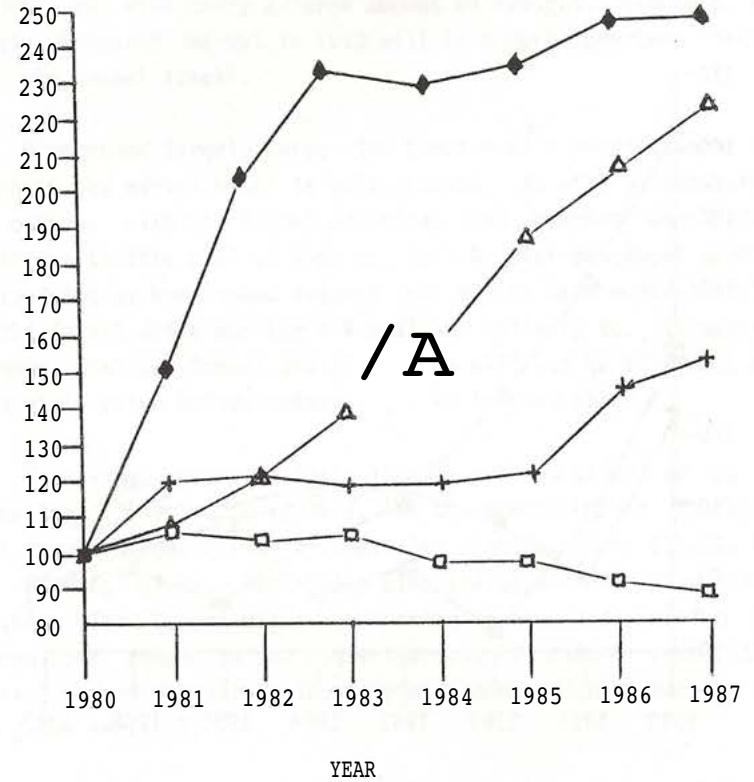


Diagram 2: Anglo/Continental Sea Traffic
Trend in volumes (1980 = 100)



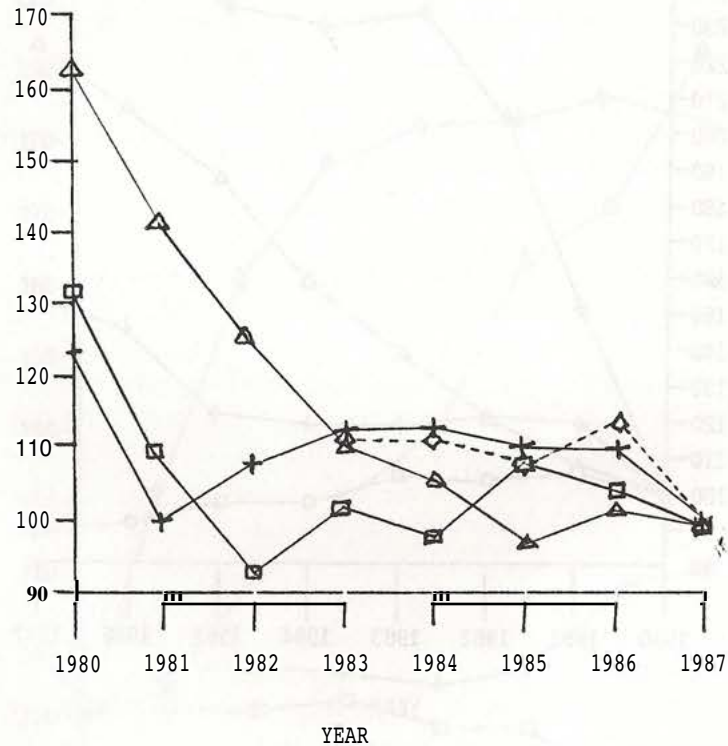
Foot pax 0 Cars + Coaches .. RO-RO A

Diagram 3: Anglo/French Short Sea Traffic
Trend in volumes (1980 = 100)



Foot pax 0
 Cars +
 Coaches ●
 RO-RO □

Diagram 4: Short Sea Average Rates
Trend in real terms (1987 = 100)



Classics CI
 Cars +
 Coaches C ---
 RO-RO A

The Tunnel will undoubtedly generate new traffic - an effect which Eurotunnel have made no attempt to forecast - and will benefit from being an all-weather link and from a certain novelty value. It will carry a large amount of freight, although the Single European market in 1992 will be a more important factor than the Tunnel itself.

Hoverspeed largely agree with Eurotunnel's prediction of the share of the market which it will capture. It will be impossible to compete with the Tunnel on price, and coaches and price-sensitive traffic will be lost to it. Regular passenger surveys carried out by Hoverspeed suggest that 45% of cars would transfer to the Tunnel while another 42% would be unlikely to. It appears however that the Tunnel shuttle trains will not be bookable and this might deter holidaymakers who like to book ahead.

Eurotunnel expects that it will set its prices so as to match the ferries. It appears, at the moment, that Sealink's cost per passenger car unit is £14.24; that for AN is £15.25, for P&O Ferries £9.79. for Sally Line £14.14 and for Hoverspeed £57.00. The Tunnel might be expected to add 19.1 million PCU spaces per annum to an estimated cost of £13.00 each (1987 prices) - very similar to the ferries (though higher than for the new jumbo ferries).

Hoverspeed have not yet decided on a strategy. Much will depend on the capacity and pricing strategy of the Tunnel itself. Hoverspeed could move to other routes, but has not yet found one as profitable as its present ones - so there is no point in moving at the moment,

New Craft

There is no compelling "reason why Hoverspeed should operate amphibious hovercraft. Although these are fast, they are expensive at £45 million per craft. While the uncertainty

surrounding the likely performance of the Tunnel has made it difficult to decide what sort of replacement craft should be purchased, it would, for example, be possible to operate a Portsmouth - Cherbourg service with a new design of 75 car/600 passenger craft which could weather Channel gales.

Sidewall hovercraft are cheaper than amphibious craft, and can use diesel-powered propellers rather than gas turbine airscrews. Jetfoils cannot take cars and offer no cost saving. A possibility is a wave-piercing catamaran which resembles a jetfoil in propulsion and general appearance but is permanently elevated out of the water on sponsons. Sea Containers has ordered one for use in the Mediterranean; the expected cost is £10-11 million per craft. They are slower than hovercraft but can weather a 5 metre sea as against 3.5 metres.
ordered

In any case Hoverspeed expects to diversify into other activities.

Discussion

Mr. Wilkins observed that while Hoverspeed would lose its speed advantage when the Tunnel opened, it could still offer a more personal service and more facilities. Much would depend on whether Tunnel passengers would be allowed to remain in their cars during the crossing. There was also a great deal of opposition to building further roads in Kent and this could put a ceiling on the total market for the short sea route.

Dr. Andrew Spencer, Transport Studies Group,
Polytechnic of Central London

BOOK REVIEWS

THE MANCHESTER TRAMWAYS

Ian Yearsley and Philip Groves. Transport Publishing Company. Glossop, UK. 1988. £29.50

Once in a while the Editor approves a review of a historical text. With this one there should be no need for apology. for it is a very extensive contribution to knowledge. On the principle that 'what I am is what I was' it is a very good read as we see the development of light rapid transit. and indeed it has a reference to the Manchester system now being constructed. There are many flashes of insight that are of significance today, as where the authors quote the then General Manager, Stuart Pilcher, giving figures to the Institute of Transport showing an increase in passengers carried per year from 22,298,220 in 1930 to 23,654,063 in 1931, after the first major tram-to-bus conversion in the UK. Their comment is worth thinking on: "Pilcher in his loT address said disarmingly 'Where had all the extra revenue and passengers come from?' The answer would appear to be from the speed and frequency of the replacing service, a recipe much used later by minibus operators. Like every good taxi driver, he had discovered that passengers per vehicle hour were a more important statistic than passengers per vehicle mile. (He recognised this in the 1937 edition of his book on Road Passenger Transport). What is more, they go on to observe "Nobody at the time seems to have pointed out that if the speed could have been raised by eliminating the single track bottlenecks (on the 53 route), similar results could have been obtained with new ••• tramcars. The extra capacity of the buses was far less significant than their extra speed."

Extracts like this will whet the appetite of readers for a book that is much. much more than a nostalgia paradise. The price is not excessive for 304 pages with many excellent prints

and a useful index. Authors and publishers are to be congratulated, and economists concerned with road public passenger transport may be encouraged to buy.

Reviewed by John Hibbs, Director-of Transport Studies,
Birmingham Polytechnic

GEOFFREY SEARLE~ AN APPRECIATION

by Ernest Godward

It was with great regret that I learnt of the death of Geoffrey Searle in the autumn of 1988.

I first came into contact with him as a direct result of putting together the programme for the 1981/82 year. I asked him to come and speak about the National Road Maintenance Condition Survey. He came and gave an illuminating insight into an area which receives very little attention. Through his interest in transport economics he was subsequently persuaded to join the committee and was elected chairman of the group for 1982/83. He served for a further year as a committee member. His health forced him to give up this role.

Subsequently I came to know Geoffrey through work. I represented West Midlands PTE on the Passenger Transport Executives/Department of Transport patronage working party. Geoffrey headed the Department of Transport side in looking at the effects of fares changes on patronage during the early 1980's. Geoffrey had the job of bringing together the evidence that would enable the Government to cut revenue support to the PTE's. In this role he surpassed even his television counterpart Sir Humphrey Appleby in that he was able to keep the PTE's sweet as well as achieving the aims of his political masters. Geoffrey's dry wit and character in many ways matched those of Sir Humphrey.

Geoffrey appeared at his most relaxed and 'laid back' at the PTRC conferences in Brighton. Casual conference goers hardly suspected that he was a Senior Economic Adviser. In questioning speakers he could be most searching, pointing out a weakness or illustrating a strength in a speaker's paper.

His own contributions to the field of transport economics, if short, were nevertheless significant. One is contained in the book edited by Stephen Glaister on Transport Subsidy. Geoffrey contributed a paper on the assessment of needs. The title of the paper was "Value for money from rural public transport subsidies: A summary of the Lewes approach". The paper reflects the Department of Transport views on the need for rural public transport, although the paper specifically states Geoffrey's view of the problem. It perhaps might stand as a memorial to him,

My last meeting with Geoffrey was at the end of 1986 when through Geoffrey's good offices I carried out a review of the economics of travelcard. The project came shortly after leaving West Midlands PTE. Geoffrey's support for this work helped me to realise some direction in my own life after a traumatic time. I am sure that amongst his colleagues, acquaintances and friends he will be sadly missed. I certainly feel this way.

TEG NEWS

ANNUAL GENERAL MEETING

Notice is hereby given that the 1989 AGM of the Transport Economists Group will be held at the Polytechnic of Central London, 35 Marylebone Road, London NW1 at 17.00 on Wednesday, 15 March 1989.

Any nominations for Committee members and items members wish to place on the Agenda should be sent as soon as possible to:

Peter White, Transport Studies Group,
Polytechnic of Central London, 35 Marylebone Road, London NW1

24 January 1981

MEMBERSHIP NEWS

There is only a handful of new members to mention this quarter. Two are MSc students from the Transport Studies Group at the Polytechnic of Central London - ideal for attending our meetings. They are Martin Whitcombe and Robert Bain. The third new member is Martin Lawrence who is Senior Economist with De Leuw Cather of Braamfontein, South Africa and was once with the Polytechnic of Central London where he obtained his MSc in Transportation Planning & Management. He is particularly interested in public involvement in transport planning and also in transport modelling.

My apologies for the late distribution of the Membership List this time. This is due to 'hiccups' in the procedure for removing lapsed members from the list. May I take the opportunity to remind members that they should tell me of any amendments, omissions or additions they require to entries on this particular publication - it is quite separate to the list used for distribution of Journals. etc.

As London Buses have moved to 172 Buckingham Palace Road, London SW1W 9TN, anyone wishing to contact Robert Webber, our member in that organisation, should now use this new address (Tel. 01-730 3453 X3114).

Chris Nash and Stuart Cole are both Specialist Advisers to the House of Commons Select Committee on Welsh Affairs in its enquiry into the import of the Channel Tunnel on Wales.

Stuart Cole, in his role as Transport Books Adviser with Kogan Page Ltd. is setting up an Advisory Board for Kogan Page. Would any TEG members interested in publishing please contact Stuart on 01-607 2789 X2457.

Don Box, Treasurer & Membership Secretary

PROGRAMME OF MEETINGS 1988-89

LONDON PROGRAMME FOR 1988-89

Programme Organiser: Roland Niblett, Network South East,
British Rail

Wednesday, 15 March 1989

ANNUAL GENERAL MEETING at 17.00, followed by
CAR ONLY TOLL ROADS
Tony Flowerdew, University of Kent

Wednesday, 19 April 1989

AIRLINE DEREGULATION
Tom Bass, CAA

Wednesday. 17 May 1989

LTS DEVELOPMENT
M. Copley. MVA Consultants

Wednesday. 14 June 1989 (*N.B. second Wednesday in June)

MINIBUSES
Speaker from the Transport Studies Group, PCL

All London Meetings are held at 18.00 for 18.30 at the Polytechnic of Central London, 35 Marylebone Road. London NW1, adjacent to Baker Street Underground Station. Meetings are generally held on the third floor of the main block directly fronting Marylebone Road. The room number is displayed in the reception area.

NORTHERN PROGRAMME

Meetings are to be arranged. Full details are available from Chris Nash, Institute for Transport Studies, University of Leeds, Leeds LS2 9JT (0532 431751 X5337).

COMMITTEE 1988/89

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Vice Chairman

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Chris Nash. Institute of Transport Studies, University of Leeds.
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Committee Member

Peter Collins. Group Planning Manager. London Regional Transport.
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PRINTING ERROR

The cover of the last edition showed AUTUMN 1989. It should of course have been Autumn 1988.

COPY DATES FOR THE TRANSPORT ECONOMIST

Edition	Vol.	No.	Copy Date	Date Out
Spring 1989	16	3	14 March	30 April
Summer 1989	16	4	14 June	31 July
Autumn 1989	17	1	14 September	31 October
Winter 1989	17	2	14 December	31 January