DEREGULATION : PROBLEMS AND PROSPECTS FOR THE PRIVATE BUS INDUSTRY IN QUEENSLAND

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ABSTRACT: *Deregulation appears to be the solution for the 80's In response to growing national urban public transport deficits, the United Kingdom has opted for deregulation through competitive tendering while the United States has used an innovative deficit funding idea in privatisation. But what of a public transport industry that is privately owned and operated yet regulated and subsidised by the Government sector? Is there a case for deregulation?*

This paper examines the Queensland Private Bus Industry of Queensland in the context of the deregulation debate It concludes that in the highly regulated industry, the need for stability and customer confidence in service provision through regulation is vital and while there is operator support for this view, in reality, the sector of the industry that is least regulated is the industry's greatest singular cause for concern at the present time.

The paper examines the implications and practicality of two options for regulatory change Both options have inherent strengths and weaknesses and regardless of what may emerge from the current deregulation debate, there remains the fundamental need for operator EDUCATION AND SELF REGULATION BEFORE DEREGULATION.

The views expressed in this paper are those of the Author and not necessarily those of the Department.

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INTRODUCTION

While deregulation (in one of its many forms) will no doubt be successful in some operating environments, it would be folly for us all to believe deregulation to be both appropriate and desirable in all situations, regardless of the initial problem, the initial cause of that problem, the nature and composition of both the industry itself or the catchment population it is intending to serve.

This paper examines the existing private bus industry in Queensland and the environment within which it operates It does not expect to be equally appropriate to all conference participants as it is contended the characteristics and the operating environments of those in the private bus industry in Queensland are very different to c those experienced by most of the larger, metropolitan transit organisations likely to be represented here.

Unless otherwise stated, all reference to private bus operators in this paper refers to those operators providing regular scheduled urban commuter, shopper, pensioner and school services. Many of these operators also provide charter and limited tour services and reference to these sections of the industry is made where appropriate. Discussion on long distance bus operators is specifically excluded from the paper although limited reference is made to this section of the industry in the contact of deregulation initiatives in response to public pressures.

WHY DEREGULATION

Traditionally, deregulation is discussed in the contexts of large publically owned, operated and funded transport authorities. Concern for increasing deficits (Palmer 1987), the diminishing market for public transport, and the overwhelming and seemingly consistent victory of the private car over the public transport mode does tend at times to entice us all to look elsewhere for solutions.

The past two decades have seen a changing emphasis on the definition of and solutions to the problems facing public transport service provision of the day. From the global modeling issues of the late sixties and early seventies through to operational and financial efficiency matters of the late seventies and early eighties and finally to deregulation issues, the search for solutions goes on.

At last year's ATRF conference the emphasis on cost recovery, competition and the question of who pays continued to reinforce the perennial concern for cost recovery and deficit containment. Recent events in the United States, Great Britain and in Australia suggests an emerging body of thought that deregulation may now be an appropriate solution.

So is deregulation just another phase in the search for the final solution

Is it a "trendy" (Mountjoy 1986) solution or is deregulation an admission by planners and regulators that, despite the initiatives of the past decade having generated many improvements, budget deficits (and therefore subsidies) are still rising beyond acceptable levels.

The deregulation advocate may see it as a means by which a system, perceived as being costly to administer, regulate and subsidise, is able to be provided at a level and direct cost which the community sees as being appropriate to their needs. Less regulatory control and influence together with the "user pays" principle is an important element of this point of view. Financial independence of Government subsidies, economies of scale, increased cost effectiveness and greater economic efficiency through competition and a belief that a liberalisation of regulation will automatically induce innovation into the industry are often cited in arguments advocating deregulation.

The regulation advocate, familiar with the seemingly orderly and structured industry environment may view deregulation as being a journey into unchartered waters. The worst elements of the existing industry are perceived to be magnified at the expense of those elements which may benefit through deregulation.

Existing operators generally are against deregulation. They forsee the consequences of competition and the protective measures they will be obliged to take in order to protect their established markets. These markets generally have not been won easily and naturally operators are fiercely protective of them. Deregulation therefore could logically be expected to generate hostility between operators. This hostility in the form of overly aggressive operating practices may, if taken into the market place, place in jeopardy, service regularity and consumer demand for services.

There is of course the third view that supports deregulation as an interim measure only to provide a catalyst for an industry "shake out". In this scenario, those operators who do not survive are deemed to have been inefficient, unable to maintain community support for the services offered, or for some other reasons not required in the industry.

At this stage, (i.e. after the shake out) revised regulatory controls are reintroduced to ensure only those desirable elements of the industry are maintained and fostered. Through this process, both the industry and the regulatory controls are subjected to review and rationalisation. Finanical independence is not necessarily an end objective in this point of view.

With the rapid growth in Queensland's tourist industry in recent years, the Government has been subjected to considerable pressure for the deregulation of certain sectors of the industry to cope with the increase in tourist related bus travel. The long distance coach and tourist coach sectors of the industry have been the principal targets of this pressure by accomodation houses, tourist industry associations, travel agents and in many cases, the travelling public.

Bus operators, themselves have also contributed to this pressure with the result that three additional long distance passenger licenses were granted for the Brisbane to Cairns route in 1984 to cope with the anticipated growth in tourist travel.

Thus while bus operators can advocate deregulation on occasions when seeking additional routes and markets not presently available, there can be at the same time a call for regulatory protection of routes and franchises currently available to them.

Would be operators seeking to enter the industry, often if unsuccessful in their application feel the regulatory barriers to be unduly harsh and restrictive and not in the best interests of the travelling public. The optimism surrounding the tourist market and the implicit healthy growth projections of those associated with it, can imply a need for a bus industry, responsive to the flunctuating demands of the tourist industry.

Consequently, there are many reasons why deregulation is advocated and opposed by both operator and public alike. Obviously there are many factors to consider in the deregulation debate.

THE QUEENSLAND PRIVATE BUS INDUSTRY

The industry is comprised of a large number of operators, most of whom are locally based and have relatively small fleets. In December, 1987, there were 100 licencees, 275 charter operators, 161 tourist operators, 360 authorised permit runs administered by the Department of Transport and 1171 kilometric school runs administered by the Department of Education. Fleet details by geographic area throughout the state are indicated in Table 1.

As fleet switching is a common practice, the fleet categories indicated in the table are not mutually exclusive. Nevertheless it is relevant to note that of the 100 licencees, only 19 have an authorised fleet size of 20 or more vehicles and these vehicles account for 802 or 55% of the total licensed fleet. Thus the majority (81 operators) of licencees are relatively small operators with an average fleet size of 8 vehicles.

Almost all licensed operators also hold charter permits and on an industry average, authorised charter fleet sizes are generally smaller than authorised licensed fleets. Records indicate that of the 275 authorised charter operators throughout the state, only 19 have charter fleet sizes in excess of 10 vehicles while six operators have charter fleets of 20 or more vehicle. For the remaining 93% of charter operators, the average fleet size is 3.

For the 161 authorised tourist operators, the average fleet size is 6.5 vehicles while only two operators have a fleet size greater than 10 vehicles. School permit and kilometric runs are provided by operators who are locally based and on average have small fleets.

Table 1
Fleet Distribution 1987

AREA	FLEET CATEGORY				
	LIC.	CHARTER	TOUR	SCHOOL PERMITS	SCHOOL (KILOMETRIC)
Brisbane Statistical Div.	632	403	88		
Gold Coast	233	105	81	202 *	180 *
Sunshine Coast	97	92	28		
Darling Downs	139	106	18	6	155
Wide Bay/Burnett	62	103	28	26	215
Central Qld.	49	61	18	6	155
North Coastal Qld.	215	219	102	84	200
Western Qld.	24	23	8	1	145
TOTAL QUEENSLAND	1451	1112	371	325	1050

NOTE: These figures are for privately owned fleets. They exclude the metropolitan fleets owned by Brisbane City Council and Rockhampton City Council.

* Disaggregated data not readily available.

In total, the private bus industry in Queensland consists of 385 licensed or permit operators, authorised by the Commissioner for Transport.

Licensing Aspects

Although there are a number of Acts impacting on the provision of bus services in the state, the principal Act determining the regulatory framework in which the industry operates is the State Transport Act 1960 - 1985 and associated regulations.

To operate within the state, authorisation must be given by the Commissioner for Transport who acting under the powers conferred by the above Act may grant either a licence or a permit to operate.

There are essentially three broad groups each of licenced bus operators and operators providing services under permit.

Under licence, is the operator providing regular;

(i) traditional commuter and shopper service
(ii) specialist airport passenger services
(iii) long distance services

Under permit, is the operator providing regular;

(i) passenger services
(ii) tours
(iii) charters

While the three categories of licence are generally mutually exclusive, many urban licenced operators also hold one or more of the three categories of permit. A brief discussion on the nature of these licences and permits is continued below.

The licensed operator may be the traditional urban route service operator. Authority to operate rests with the licence document which is issued for periods up to seven years during which time, the routes and timetables to be operated, fares to be charged and vehicles to be used are all subject to the approval of the Commissioner for Transport and form part of the licence document. This group of licensed operators provide urban commuter, shopper and school services and will often be in receipt of government subsidies whether these subsidies be for gross fare revenue, for authorised pensioner services or as an interest subsidy on approved vehicle purchases.

In addition, there are some 16 licensed airport operators providing direct and regular passenger services between the state's airports and the host cities and towns. These are specialist services, are not subsidised, and are geared generally to provide a link for airline passengers to the central business district or in the case of tourist areas, transfers to accomodation houses and resorts.

The third group of licensed operators includes those providing long distance, non subsidised passenger services. The state's six long distance operators are Ansett Pioneer, Deluxe, Greyhound, McCaffertys, Skennars and Sunliner provide a network of some 57 million kilometres of service annually throughout Queensland.

The passenger permit operator is authorised to provide passenger services under permit which is issued in circumstances where the permanency or viability of the proposed service is unknown, doubtful or where the local licenced operator would prefer not to operate the service. The permit authorises the operator to provide the nominated service on the specified route for an approved fare using an approved vehicle for periods of up to two years.

A tour permit may be issued to an operator to conduct an approved tour with a set itinery or at an approved fare and timetable in an approved vehicle. The permit may be issued for periods of up to two years during which time the operator is required to submit a monthly return indicating the approved tours being operated and the passengers carried (ie. demand) for these tours. A condition of a tour permit being issued is that the tour operation is viable in its own right.

A charter permit may be issued to an operator providing that operator already has a current licence or permit issued by the Commissioner for Transport. The permit specifies the vehicles to be used and the areas from which authorised charters may originate. No condition of viability is attached to the issue of a charter permit.

Thus the licensing framework may be viewed as a screening process responsible for determining firstly those who are elligible to enter the industry.

Routes, services and tours to be operated, the vehicles to be used, the fares to be charged and the extent of the franchised area from which an operator may operate charter services are monitored and regulated through this framework to ensure services are provided in accordance with public need.

Catchment Population

The structure of the industry is to a large degree a reflection of the State's population distribution. Queensland's 2.6 million residents are spread over a coastline of urban centres and rural townships from the City of Gold Coast (population 184,000) in the south to Cairns (55,000) and Mossman (population 1600) some 2200 klm further north.

In total, while the 2.15 million residents living in the 318 urban centres and rural townships throughout the state are served by the private bus operator through either school or charter services, only 58 are served by either scheduled urban commuter services or pensioner services.

Almost half (1.3 million) the state's population lives within 100 kilometres of Brisbane. This area has accomodated 83% of Queensland population growth during the ten year intercensal period 1976-1986. For the remainder of the state's population growth, 72% occurred in either Cairns, Townsville or Mackay. The highly concentrated population of the state is being concentrated even further with time.

Operators serving these few growth areas with urban services are guaranteed a growing market. In contrast, operators serving the State's many provincial cities and towns where little or no population growth has occurred, are often faced with a declining demand for travel. Because of this, the scale of operation, viability of services and the degree to which the operator in these provincial areas relies on traditional urban services is heavily influenced by the demographic and growth characteristics of the local catchment.

For the private bus operator on the fringe of the greater Brisbane Metropolitan area, the subtle changes occuring through urban sprawl are placing increased pressures on the existing route services. Diversification of work trip patterns, changing patterns of school travel and the proliferation of major suburban shopping centres have all contributed to the changing fortunes of the urban operator.

Operators who have either not experienced growth in demand for school travel or growth on commuter and shopper services as a result of being in a tourist growth area are often faced with the choice of either diversifying into other areas of bus transportation (tour, charter etc), reducing the scale of operation, or leaving the industry Rarely is the latter choice made. Diversification through increased dependence on charter is the course taken by most operators under these circumstances.

Financial Aspects

Those licensed operators receiving a gross fare revenue subsidy are automatically entitled to receive subsidy at the rate of 30% of their gross fare revenue. Up to an additional 10% may be forthcoming if the operator can demonstrate this additional amount of subsidy is required to assist in obtaining a specified rate of return on funds employed. Operators receive this subsidy in return for providing urban commuter, shopper and some school services.

In addition to this general subsidy, the Government provides a subsidy for operators providing pensioner concession fares on approved services. This subsidy is designed to reimburse the operator for the full concession offered to pensioners.

Thus for the initial 30% gross fare revenue subsidy and the pensioner concession subsidy, the amount of subsidy payable by Government is directly linked to the level of patronage and to the fares charged. The dependence on Government subsidy is thereby set in regulation.

A six percent interest subsidy on approved purchases of new or near new vehicles for the provision of licenced route services is also paid by the Government to further assist the industry. In total, some $32.2 million in assistance has been provided by the Government since the commencement of the assistance scheme in 1975. Assistance during the 1986/1987 financial year was:

General Subsidy	$4,986,835
Pensioner Concession Subsidy	$ 144,900
Vehicle Interest Subsidy	$ 456,632
TOTAL	$5,588,367

In general, many urban private bus operators in Queensland are in a precarious financial position. Many provide urban commuter and shopper services under licence[(i)] and rely on the subsidy to record operating surpluses. For many, allowances for fleet replacement, preventative maintenance programmes, adequate depot facilities, labour charges and promotion and marketing are considered insufficient and if continued, will result in a reduced capacity of the industry to sustain itself in the long term even with the assistance of the current rates of subsidy.

Many operators are aware that for the most part, their commuter and shopper services fail to cover costs. They often feel locked into the loss making runs that have been operating for a number of years and whilst demand may have diminished over time, urban operators are generally reluctant to withdraw services altogether. They feel they have an obligation to continue to provide services to their local community as they have done for a number of years.

(i) there are 58 operators presently receiving a gross fare revenue subsidy throughout the state.

Faced with the choice of incurring the displeasure of the local community with service cuts or seeking other profitable avenues to help subsidise the loss making urban services, the operator will generally choose the latter by seeking to increase the charter side of his business. The value of recorded charter work done by those licensed operators receiving gross fare revenue subsidy was approximately $8.63 million in 1987. During the same year the value of gross fare revenue was approximately $13.45 million.

Thus charter revenue forms a significant portion of the revenue base of the industry. It also forms a significant portion of the total costs incurred by the industry. Unlike services operated under licence or permit, charter service prices are not regulated or price controlled by Government.

To assess whether charter acivities are helping to subsidise the operators' commuter, shopper and school runs, a statewide survey of charter activity is being undertaken. The survey has to date identified some 5.13 million kilometres travelled for a return of $5.33 million. A gross return of $1.04 per kilometre with nearly two out of three jobs being related to local school travel. The survey is not yet complete but sufficient information exists to demonstrate firstly the charter market is overserviced and secondly, charter work is generally unviable. Table 2 shows the different rates being obtained for charter by selected geographic areas in addition to revenue received and kilometres travelled.

Table 2
Selected Queensland Charter Statistics 1986/1987

EA	REVENUE $	KILOMETRES	RATE PER KLM $
isbane Statistical Div.	2,830,600	2,544,300	1.11
d Coast	729,100	613,800	1.19
ling Downs	157,800	160,200	.98
le Bay/Burnett	1,162,700	1,529,600	0.76
th Coastal Queensland	448,200	284,800	1.57
TAL	5,327,800	5,132,700	1.04

n an individual operator basis, many rates recorded were as low as)¢ to 90¢ per kilometre.[(i)] Discussions with many revealed a strong esire for greater vehicle utilisation rather than return per ilometre. All operators agreed that rates should be improved owever given the entrenched operating and "cut throat" pricing actices in the industry, many seem reluctant to actively pursue e necessary increase in rates from the public

i) represent approximately 40% - 50% of costs of service.

While the majority of all charter work is associated with the local school, the ability of the schools to encourage charter rate reductions cannot be overlooked. In situations where a number of operators provide daily school services, there is keen competition to secure charter work to ensure driving staff are gainfully employed during inter-peak periods.

This tends to guarantee most of the charter work being done at uneconomic rates and directly impacts on the overall financial position of the entire operation. For some operators the charter rates are well below those rates being received for the subsidised commuter, shopper and school runs. Under these conditions, the operators' financial position has worsened as a result of charter. This aspect is fundamental to the current weakness of the industry and is a major factor to consider in the deregulation debate at the present time.

Some Operating Practices and Philosophies

There are a number of common operating practices and philosophies which are followed by a large number of operators and which continue to erode the overall viablity of the industry. In almost all cases, these operating practices are related to the charter side of the operation and although this is the area of the industry that is least regulated, it is the one area, which contributes most to the problems at the present time. There are many licensed operators who even though they contribute to it are either not aware of it or are not prepared to accept it exists.

There is an abundance of literature which addresses the issue of marginal costing in transit operations. Often the subject of investigation is the large metropolitan Government run operations where resource committment to published timetables is the major reason for the system's existence. The issue of cross-subsidies within individual private bus operators has also been discussed in the context of the cost of school travel (O'Brien, 1983).

It is widely accepted that peak period services provided by major urban operators are generally more expensive to provide than off peak services. The cost differential being directly proportional to the peakiness of the resource utilisation at certain times of the day.

This philosophy is accepted by the writer in those cases where rigid labour demarcations exist, where labour and vehicle in traffic profiles result in resources being reserved and allocated specifically for limited periods throughout the transit week and where during the interpeak period, drivers and vehicles are stood down purposely. For the majority of cases in the private bus industry in Queensland, this philosophy is neither appropriate nor accurate and the acceptance and mis-application of this marginal costing philosophy is perhaps the single most damaging aspect of the private bus industry today.

The notion that because the vehicle is already in the fleet, the driver is already on the payroll and the depot charges have been already allocated against the subsidised school and route services leads to the false premise that the charter or the tour revenue need only cover the marginal operating costs. As a result, many operators will use the 'rule of thumb' method for pricing their services. In these cases, cash flow is often mistaken for profits, by both existing operators and buyers wishing to enter the industry through the purchase of an established operation.

Numerous discussions have taken place with operators throughout the industry in an attempt to lift charter rates to viable levels. While there has been a general acknowledgement that to remain viable in the long term the rates must rise, attempts have not always been successfull. Continuing undercutting, inability to agree on a standard pricelist in the face of consumer resistance, a continued misconception that cash flow equals profit and the persistance with the view that charter work is only marginal to the operation and should be priced as such, are the principle reasons for this lack of success.

Thus while there is a consistent operator claim that low fares, inadequate subsidy, poor community support for the services, or excessive Government charges and regulations are all either individually or collectively the principle cause of the problem facing the operators, in actual fact it can be shown that the unregulated pricing policies of charter is the greatest single threat to the industry today.

A relaxing of the regulatory controls currently in force would remove some of the screening mechanisms currently responsible for restricting access to the industry to those who can demonstrate a satisfactory financial and operating capacity.

If this were to occur the already overserviced charter sector would see additional operators enter the market. Increased downward pressure on prices would further compound the problems already being encountered.

DEREGULATION - IMPLICATIONS FOR QUEENSLAND

The Government has for some time experienced an increasing level of pressure for the deregulation of certain areas of the private bus industry. Recent years have seen a significant increase in the scale of urban and tourist development, particularly that associated with the resort areas of the southern and northern coastal areas.

Associated with this growth is the increased demand for an "uninhibited free enterprise" industry, essentially devoid of regulatory influences and able to adjust to, and accomodate the needs of an increasingly discerning international and domestic tourist clientele. In these circumstances, the existing regulatory controls are often seen by both the travelling public and some operators as being a hinderance to the ongoing development of the tourist and associated industries.

Coupled with this, is the stark reality of an industry comprised of many operators, providing services under the protective franchises of the existing licencing system yet continuing to operate uneconomically through poor pricing policies. It would appear that at least part of the reason for the current financial weakness of these operators is their inability to self regulate within the protective umbrella of the existing regulatory framework.

While it is not intended to examine the full gamut of options for regulatory change in this paper, the following factors summarise the principal concerns relating to this issue in Queensland at the present time.

- many services currently provided are uneconomic.
- many operators are unable to make their services economic.
- many operators are unable to generate sufficient funds to maintain a progressive fleet replacement programme.
- recent increased public demands for a greater range of urban services and operators particularly for tour and charter services.
- a concern that existing regulation has been unable to ensure an industry which is viable and therefore independent of government subsidies.

From these concerns, the options for regulatory change to firstly ensure a return to viability and secondly to ensure the provision of services according to public demand are examined.

Given that the present structure of the industry has developed over a long period of time with regulatory protection and for the most part, Government subsidies being paid to ensure service provision, a withdrawal of subsidies and a concurrent lifting of regulatory restrictions (open roads policy) would greatly impact on the future direction the industry would take.

A likely scenario could be that these operators now able to enter the industry would look to those market segments and geographic areas where they believe the greatest return exists. On the basis of recent applications received, this would be the charter and tour market in those areas of the state heavily aligned with tourism.

The licensed urban operator, traditionally providing the often subsidised local commuter, shopper and school services would come under increasing pressure to compete with these new arrivals. His daily committment to the scheduled services provided under license reduces his flexibility to compete with operators having no such committment. The tendency to price cut further for work would see many uneconomic timetabled services being discontinued as public service obligation is replaced by economic priority.

Route poaching and other overly agressive practices by neighbouring operators or new entrants in a limited number of tourist areas would see a rapid deterioration in the regularity and stability of timetabled services. A period of widespread consumer dissatifaction and industry turmoil would follow.

That this likely scenario is proposed rather than a scenario where operators simply leave the industry is based on the knowledge of the present position where many operators are unwilling to leave the industry even though their business is not viable.

A prerequisite for the deregulation of the industry is that not only is growth in demand required but that the industry commences from an economically viable position in the first instance. Examinations of the books and accounts of many of the existing operators suggest that for the most part, neither the urban timetable services, the charter services nor many tour services are presently viable.

To attain economic independence from subsidies,two options for regulatory change are considered. The first targets itself directly at the unviable charter market through strengthened regulation. The second option provides a compromise between public and operator demands for deregulation and the fundamental need for a viable urban bus industry.

OPTIONS

As most operators are unable to secure economic rates for their services, initiatives such as regulatory pricing or a simple strengthening of current regulations to help ensure viability appear to offer solutions to the problem. The setting of a minimum rate for charter through regulation has been suggested by some operators.

By contrast, the attachment of a condition of viability to the charter permit would require the operator to ensure viable rates are obtained for charter as failure to do so would place the charter permit at risk. An increase of the charter rate to viable levels would generate additional annual income in excess of the $5.59 million paid in subsidy to the industry during the past financial year. On an industry basis therefore, the additional revenue would allow financial independence to be achieved without deregulation. For this to be achieved however, the operator would in effect be responsible for the self-regulation of the industry.

The application of such a regulatory requirement would be difficult to implement sucessfully given the present structure and operating practices of operators within the industry. In addition, the inclusion of a "viability in it's own right" clause in permits issued to operators would no doubt place increased scrutiny on those scheduled services currently provided by the operators out of social conscience rather than profit motive. Nevertheless, if a financially independent industry is being sought, such measures are considered necessary.

In contrast however, the issue of acceding to the ever increasing public demands for a wider choice of operators and services (particularly tour and charter services) suggests an alternative option is to treat each of the three sections of the industry (scheduled urban services, tour services and charter services) as separate identities, each subject to independently developed sets of regulatory standards which have been designed to accomodate the trends and demands of the public and the industry. As different demands are being simultaneously exerted on each section of the industry at the present time, this approach is seen as "best fit" solution to an increasingly complex situation.

Under this option, charter services would be able to operate in market conditions independent of the existing "core authority" requirement. Tour services could also be provided in similarly free market conditions. Operators would then be free to offer all types of packages (subject to vehicle standards) while the public would also be free to determine through their choice of operator or vehicle, the appropriate standard required of the industry. For subsidised urban and pensioner services, a breaking of the regulatory link between fares and subsidies would enable operators to increase fare box revenues independently of subsidy payments, thereby reducing the dependence on subsidies. Thus while the social need element of scheduled service provision is retained, the demands for reduced regulatory influence and greater freedom of public choice is also achieved. Financial independence under this option is not necessarily achieved. However, if applied correctly, this option has the capacity to reduce the urban operators' dependence on Government subsidies.

CONCLUSION

While the deregulation debate continues to focus on public subsidies and freedom of choice, the industry continues to suffer financial problems brought about largely by the inability of Operators to obtain viable rates for the charter and to a lesser extent tour markets. The industry is also financially dependent on public subsidies through regulation. Given the current tide of deregulation debate, it would be naive not to accept some form of regulatory change being imminent.

This paper has attempted to provide an insight into the major problems facing the urban operators at the present time. In doing so, two options for regulatory change are examined. One focuses solely on the financial problems of the charter market and accepts the view that while unviable charter is perhaps the major reason for the industry's continued dependence on subsidies, the required regulatory change to solve this problem would be difficult, if not impractical to implement. The second option accepts the view that with conflicting pressures being exerted in the push for deregulation via a call for financial independence and a concurrent public push for an "open roads" policy, a compromise mix of initiatives may succeed where others fail. There is however a cost attached to this option. That cost is continued subsidies

In examining these options, the need for limited regulatory change is accepted. The fundamental weaknesses of the industry as addressed in this paper does suggest however that in the interests of industry stability in both the short and long term, wholesale deregulation is not appropriate.

The problems of the industry today are largely self generated. The prospects for continued existance after deregulation are uncertain. In view of this, it is fundamental that operators prepare themselves for regulatory change. There must be a concerted effort for operator EDUCATION AND SELF-REGULATION BEFORE DEREGULATION.

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