

May 7, 2005

Is it a fair increase?

After three years' wait, the two public transport operators now say it's time to raise fares. The economy has rebounded from 2002, they point out. But both operators have also just announced record profits. Lydia Lim and Sue-Ann Chia look at the economic and political calculations involved

EVERY May 1, as Singaporeans celebrate their Labour Day holiday, public transport operators have a tough decision to make.

Should they or should they not apply for a fare increase?

The public holiday is the annual deadline for them to submit to the Public Transport Council (PTC) proposals to adjust their bus and train fares.

Three years ago, they decided to apply for an increase and got it.

But the fare hike set off a storm of public protest that culminated in a heated debate in Parliament.

In 2003 and 2004, the two firms decided against applying for fare increases.

This year, however, they chose to go for it.

Both cited higher operating costs as the main reason.

Maximise revenue?

SOME suspect the two transport operators have applied to raise fares to maximise revenue and not because they need to.

Among them is Ang Mo Kio GRC MP Inderjit Singh.

Under a new formula to cap fare changes introduced this year, the companies can apply to raise their fares by up to 2.4 per cent.

The reason? Both the inflation rate and average wages went up last year. The two are components of the new formula, in which they are a proxy of the transport firms' operating costs.

This new formula was drawn up by a parliamentary committee and accepted by the Government in March.

What has drawn fire from critics are reports that both ComfortDelGro, which owns SBS Transit and the North-east MRT line, and SMRT Corporation, which operates two MRT lines and Tibs buses, made record profits last year.

ComfortDelGro's profits shot up 50 per cent to \$200.6 million from the year before while SMRT's rose 41.8 per cent to \$126.9 million.

But it is not these profits that the PTC will scrutinise when it meets to decide whether to approve a fare hike.

The reason: these include profits from the two companies' non-transport operations and their overseas investments.

What the PTC will do instead is zoom in on the figures for the firms' bus and train operations here.

For SMRT, for example, it will look at profits from train operations, which stood at \$61.5 million in the year ended March 2005, up slightly from the \$59.5 million in 2004.

But profits from its bus operations fell, from \$13.9 million in 2004 to \$10.8 million this year.

This was mainly due to higher diesel prices. As its chief executive noted in a recent interview, the price rose 40 per cent last year.

As for ComfortDelGro, its local bus and rail operations come under SBS Transit, which last year made a profit of \$52.7 million, up from \$24.9 million in 2003.

But its costs have also risen.

In a statement this week, SBS Transit said that overall, its operating costs for local bus and rail operations rose from \$510 million in 2002 to \$546 million last year.

That is why it was no longer able to hold off an application to raise fares, it said.

Still, it would seem that both companies are making healthy profits, despite cost increases.

So why the need to increase fares?

This was an issue Transport Minister Yeo Cheow Tong addressed in 2002.

He said then that the operators' profits must be seen in the context of the amount of investments ploughed in.

This is done by using a measure known as Return on Total Assets (Rota).

It is calculated by dividing a company's profits by the value of its total assets.

The nature of public transport is such that it involves huge investments in trains and buses, which can run as high as \$1 billion.

That is why the profits the operators have been earning should not be considered excessive, Mr Yeo said then.

Mr Ong Kian Min, who heads the Government Parliamentary Committee for Transport, tells Insight

that operators must make sufficient profits to ensure their long-term viability.

'But it should not be too large a profit,' he adds.

His committee recommended that before approving fare increases, the PTC should do a check of operators' Rota, to make sure their earnings are not 'excessive'.

All eyes are now on the industry watchdog, PTC, which has the unenviable task of deciding if the fare hikes are justified.

When approached by Insight, it would only say that its council members are currently studying the operators' proposals and expect to take 'at least four weeks' to reach a decision.

Although there is a widespread perception that the PTC merely 'rubber stamps' applications to raise fares, the council has previously said no to the operators, most recently in 2001.

That year, it threw out SMRT's entire application.

It also turned down all the requests made by bus operators except for a change to align the fare of feeder buses with the minimum fare on trunk routes.

So if a fare hike is approved this year, is there likely to be a repeat of the 2002 uproar? MPs interviewed don't think so.

Emotive issue

DR AMY Khor, who was one of 20 MPs to speak during the 2002 debate on fare increases, says: 'The economic picture is decidedly brighter now.'

She expects the discontent to be 'less than before'.

The jobless rate has fallen significantly since then, from 4.5 per cent to the current 3.9 per cent.

The outlook is also brighter and sentiments are more positive.

But it is also true that the recovery has not filtered through to all sectors of the economy.

This is the concern of labour MPs like Halimah Yacob and Yeo Guat Kwang.

They point to the many low-income earners who have not enjoyed salary increases for several years.

'These workers will be greatly affected. Some have even had their wages cut,' Mr Yeo says.

However, as Feedback Unit chairman Wang Kai Yuen points out, it is no longer possible to wait until the entire economy is doing well before considering fare adjustments.

This is because it is no longer the case that all sectors move up and down in step with each other, he

says.

Unemployment has also become a long-term problem because there are workers who simply lack the skills to do the new jobs being created, he adds.

But fare increases continue to be an emotive issue.

Even those who can well afford to pay for them, such as executive Cheryl Long, 25, are against them.

She spends \$80 a month to commute from her Pasir Ris flat to her office in Bugis.

She enjoyed a 5 per cent wage increase last year, which will more than cover the fare hike.

Her indignance stems from her lack of choice in the matter.

'If electricity prices go up, you can try to save by not turning on lights or the air-con,' she says.

'But when it comes to transport charges, you can't say I will walk to work to save money.'

Bus and train fares have always been considered a political hot potato.

In fact, back in 1981, the public unhappiness over impending bus fare hikes was seen as one of the factors that led to the People's Action Party's defeat in the Anson by-election.

That is why political watchers say that if a fare hike is approved this year, it could signal that a General Election is not on the cards soon.

As political scientist Ho Khai Leong puts it, such moves are usually 'timed in such a way as to minimise political impact'.

As for the political price the Government may have to pay, Dr Ho says: 'These things add up. With the casino decision, increase in fares, these things will add up to remind people of a series of policies that are implemented and that somehow might have impacted on them in a negative way.'

What's more, transport expert K. Raguraman says the hike could hit commuters harder than has been made out thus far.

Transport Minister Yeo Cheow Tong said last week that a 2.4 per cent hike in train fares would mean a commuter pays 2 cents more on an average fare of 80 cents.

But Dr Raguraman, principal researcher at the Centre for Transportation Research, a National University of Singapore think-tank, believes many will end up paying more.

This is because as more rail lines are built, more people have to rely on a combination of buses and trains to get to where they need to go.

As services are streamlined to ensure there is no duplication, they can no longer expect to take just

one form of transport to get to their destination.

Before the North-east MRT line, for example, someone living in the north-east might have taken just one bus to get to the west of the island.

Now, he may have to take a feeder bus, then a train and another bus to get to the same place. This means higher transport costs.

It also means a commuter may have to pay for the 2.4 per cent fare hike several times over, just to get to one place.

What's the solution?

ComfortDelGro has hinted that the fare changes it proposed this time round include concessions for low-income groups.

It said it had 'taken into consideration the poor and needy, families with school-going children and senior citizens'.

Dr Raguraman suggests transport operators channel some profits to a fund for transport vouchers for needy families.

The Singapore public, he says, has a right to expect the operators to play their part as responsible corporate citizens, especially as they are in an industry where there is only limited competition.

In a television interview this week, Prime Minister Lee Hsien Loong also said measures to help those from needy families get to work or school should be considered.

More clout for PTC

FARE revisions are not the only change on the cards for the public transport sector.

There is also a plan to amend the PTC Act later this year.

This change will give the council the right to make transport operators reduce fares under certain conditions.

Mainly, it will be when the economy declines.

Wages will go down, inflation will be affected and as the new fare formula takes these two factors into account, it could show a negative value. Therefore fares ought to fall.

So, once the law is changed, it means that bus and trains fares, which used to only go up, can also come down.

This will make for a fairer system that better protects the interests of the commuting public.

That, at least, is one transport revision that Singaporeans can look forward to.