

Assessing Regulation of Road Transport

1. Identifying Regulatory Problems and their Possible Effects

This document describes how problems in transport regulations can be identified, either through being an obstacle to competition or by failing to set suitable safety and environmental standards. This involves:

1. reviewing the objectives of regulatory policy in terms of how well they promote competition and efficient use of roads, while meeting safety and environmental concerns;
2. analysing the actual regulations and the way that they are enforced in order to see if they are the best way to achieve the required regulatory objectives.

In reviewing regulatory objectives important broader issues may emerge that require policy decisions to be made before the regulations themselves can be assessed. For example in Korea in the 1980's, trucking regulations reflected the following political objectives.

1. There was a wish to allow rapid mobilization of the trucking fleet in the event of an emergency (external military threat).
2. There was also a wish to avoid cyclical instability in the trucking industry, addressed through controlling the supply of new operators.
3. To keep freight prices down, especially with controls on the supply of new operators, the government considered it necessary to set freight rates.
4. As part of the government's macro-economic policy to control imports generally, it was made very difficult to import new trucks.
5. To encourage economies of scale in the transport industry (for which there is actually no evidence), the government believed that it should encourage growth of existing transport companies.
6. To foster regional development, the government believed it was effective to impose routes and frequencies on certain trucking companies to guarantee availability of services throughout the country.
7. To minimize traffic congestion it was considered necessary to ban heavy trucks from the center of Seoul during the day.
8. To ensure the provision of feeder/delivery services to railway stations, it was held that such services should be closely regulated.

It is extremely difficult to justify these transport regulations in terms of promoting competition and efficient use of roads, and meeting safety concerns. Consideration of alternative approaches to regulation (described in Smith G., Michell T. and Buyong S.: [“Assessing the Effects of Trucking Regulation in Korea”](#), World Bank Transportation Department, 1998) revealed that existing

regulations could be costing the country US\$ 240-400 million each year and that the government's legitimate concerns could be met more effectively by changing its approach to transport regulation.

In cases such as this it is useful to examine alternative approaches to regulation that could achieve the government's overall transport objectives. This would consider, for example:

1. How best to provide emergency transport and services in remote regions (preferably through a market mechanism that gave incentives for these to be provided effectively at minimum cost).
2. Ways of using market forces more effectively in controlling costs and allowing customers more choice in tailoring services and transport equipment to their needs, using either small or large operators, whichever could offer the most attractive service.
3. What alternatives exist to banning trucks in city centers that could promote more efficient transport and lower prices of goods in the shops.
4. To what extent safety and environmental standards could be increased with or without an increased role of market forces. (Increasing standards by disqualifying dirty or unsafe trucks risks disrupting services unless there are surplus trucks around.)

In reviewing the licensing alternatives, it is useful to distinguish between quantity controls (that place quotas on the number of operators or vehicles able to operate, and usually implicitly discriminate against new operators) and quality controls (that set minimum entry requirements for safety reasons but do not attempt to determine the overall level of supply). It may also be useful to examine international experience in forms of transport regulation, especially in finding effective ways of avoiding market distortion that may arise from anti-competitive behaviour (or informal regulation) by dominant operators or large groups of operators. Deregulation may well meet with strong resistance from those operators who have been able to exploit the advantages to them of the existing regulatory regime. Particularly strong resistance may come from operators who have had to pay monopoly rents to another existing operator in order to buy their right to enter the business. International experience shows that ways can be found to deal with these problems by building up a consensus for reform among transport customers and those transport operators who stand to gain from the changes.

Once the appropriate regulatory objectives have been agreed, the next step is to examine the extent to which current regulations meet those objectives. The following table gives a list of typical problems that are found with existing regulations.

Regulatory Problems	Comments
General	
Legal framework lacks key features	Limits scope of justifiable regulation e.g. vehicle size and weight regulations, laws/acts do not define the basis of further implementing regulation
Legal framework is unclear	Limits scope and allows discretion in enforcement, e.g. powers of local authorities to limit bus route licences, no requirement by vehicle inspection stations to advertize clearly the conditions for failing tests
Legal framework is over-restrictive	Imposes conditions between customer and transporter that are best left to negotiation
Ineffective appeal procedures	Gives limited controls on abuse of regulations by regulatory authority
Ineffective insurance provisions	Specifies compensation payable to third parties. Often this is inadequate because of government concerns to keep premiums low.
Protection of local vehicle, tyre and spare part suppliers through punitive import duties for alternative suppliers	Limits choice of vehicles to operators, increases cost of vehicle ownership, limits quality of vehicles, places operators at competitive disadvantage in international transport markets
Trucking	
Complicated/unrealistically high/discretionary licence conditions without time limits on processing applications	Widely found, responsible for high entry costs (e.g. financial assets, onerous professional qualifications without grandfather rights, criminal records in countries with political instability), and long delays in issuing licences which deters new entrants
High charges for operator licences	Increases entry costs for those operators affected and is likely to encourage less efficient transport, for example own account rather than for hire
Quotas on numbers of truck licences to avoid excessive competition (sometimes leading to high black-market prices for rights to operate)	Limits competition, increases costs, high monopoly rents, lowers level of service, discriminates against new entrants, makes setting of higher vehicle safety standards more difficult,
Geographical limitations on truck licences	Can result in transshipments between trucks which are licensed for only part of long hauls
Restrictions on road tractors being used with more than one trailer	This is found in some countries where it limits utilization of the tractor unit and increases transport costs
Limitations on trucks, routes or type of service able to be operated or places to load/unload	Limits competition and utilization of vehicle (to meet peak demands and to secure back-loads) and may distort truck acquisition practice
Unjustifiable limitations on maximum axle and vehicle loads and size	Sometimes these are too low for efficient use of roads but are widely ignored
Legal requirement on truckers to belong to associations	Encourages monopolies in the business and unnecessary costs
Licence requirements limited to certain operators (e.g. for hire rather than own account, exemptions for government operators or agricultural trucks)	Discriminatory practices that result in encouragement of inefficient operations (own account)
Licence conditions put onus on applicant to prove fitness to operate	Open to abuse by regulatory officers who should be required to produce evidence in support of refusal to grant licences

Public service obligations	e.g. to serve peak harvest demand, prevents fair competition
Tariff controls (often avoided through extra charges or discounts for ancillary services, charging for truck loads instead of less-than-truck loads)	Usually limited to certain government-controlled commodities - may not reflect true costs unless awarded by competitive tender
Informal entry and tariff controls	Where small operators are locally organized and can control lorry fleets, where there are few freight agents
Government control on marketing freight services by requiring truckers to use designated agents or freight consolidation centres, with roadside controls on truck movements	Additional costs (5-25% of transport charge in Mexico), prevents truckers offering services tailored to customers' requirements and may even prevent customers hiring the trucker of first choice
Extension of truck operator licensing to freight forwarders	Not justifiable in terms of safety requirements and weakens the link in safety regulation between vehicle operator and vehicle use
Monopolization or domination of certain markets by large (often state) operators	Undermines competition, especially if state operators are not financially independent and are receiving preferential supply of credit or credit guarantees
Bus Transport	
Complicated/discretionary licence conditions	Widely found, responsible for high entry costs
High operator licence charges	Discourages development of public transport
Charges for bus service franchises	Discourages development of public transport and encourages private car use
Licence conditions put onus on applicant to prove fitness to operate	Open to abuse by regulatory officers who should be required to produce evidence in support of refusal to grant licences
Route licences issued if there is sufficient demand	Limits competition, discriminates against new entrants, makes setting of higher safety standards more difficult and unrealistically requires regulatory authority to assess demand
Operator or route licences may be debated/refused if other operators object	Danger of misuse of power by existing operators who wish to protect their own competitive position
Restrictions on route able to be served	Limits competition and utilization of bus
Restrictions on bus stations able to be served	Distorts service patterns and can increase costs
Restrictions on schedule able to be operated	Limits utilization of buses and possibility of operators to adapt service to passenger demand or to cover for breakdowns
Public service obligations (e.g. to serve minor routes)	Prevents fair competition
Fares controls (often avoided by charges for luggage or charging for full route length instead of actual distance travelled)	May not reflect cost, reduces incentives to invest and innovate, limits range of services (basic, luxury, aircon etc)
Informal entry and fares controls	Often on short-distance services provided by small operators, through local organisations (often with support from officials), limits utilization and passenger choice
Compulsory passenger insurance charges instead of legal minimum insurance cover required	Gives no incentive to safer operations by allowing insurance companies to charge lower premiums for safer operators
Monopolization or domination of certain markets by large (often state) operators	Undermines competition especially if state operators are not financially independent and are receiving preferential supply of credit or credit guarantees

2. Scope for environmental improvement

Before considering how best to reform the regulatory system, it is appropriate to review the scope for improved regulations, to reduce the adverse environmental impact of road transport. In developing countries accident rates are relatively low and, with high levels of motorization, there is much concern about air pollution, noise and other impacts. Nevertheless the major external social cost imposed by road transport in most countries is the cost of accidents (see Levinson D. M., Gillen D. and Kanafani A: “The Social Costs of Intercity Transportation: a Review and Comparison of Air and Highway”. *Transport Reviews*, 1998, Vol. 18, No. 3, 215-240). More information on this publication may be found at the Taylor & Francis Publishers Web site at <http://www.tandf.co.uk/journals/frame loader.html?http://www.tandf.co.uk/journals/tf/01441647.html>

In developing countries, accident rates are generally much higher and so safety concerns dominate environmental concerns even more. Typically there are ten or more deaths annually per thousand registered vehicles in developing countries compared to about one or two in many developed countries. Lowering accident costs is a matter addressed in other Transport Web pages. Here it is sufficient to point out that, when formulating regulatory policy, it is important to consider the potential benefits that could be achieved from regulatory changes.

3. Terms of Reference for a Study to Assess Adequacy of Regulatory System

Once the problems with the existing regulatory system have been identified, alternative approaches to regulation can be analysed and recommendations given for improvements. The following terms of reference describe a typical study designed to improve transport regulation.

[Study of the Economic Impact of Regulations in the Trucking Industry](#)

Ministry of Transportation, Republic of Korea (15 December 1983)