Impact and Benefits of Deregulation

1. Introduction

Deregulation of trucking industries has taken place in many countries. The effects of deregulation depend on the extent to which the industry was regulated before. In cases where the effects have been monitored it has often been found that:

1. The number of common-carrier operators increases, especially in regard to the truck-load business, which becomes increasing dominated by highly competitive small operators.
2. The number of own-account operators decreases, as some customers find that common-carriers can offer more cost-effective transport services.
3. Tariffs for truck-load freight decrease significantly because, with more operators, there is strong downward pressure on unit staff costs and because some operators introduce better technology tailored to specific needs of particular customers, which increases efficiency.
4. Larger trucking companies specialize in broad-based or network services in the less-than-truck-load business. This can result in intense competition as rival companies strive to increase market share and regional coverage, increasing marketing and other overhead costs, which can be successfully recouped by successful businesses but will drive out less successful companies.
5. Falling tariffs give cost savings to customers; costs are reduced to a lesser extent and so profitability can fall; those operators who offer higher levels of service can achieve higher profit levels.
6. No discernible increase in accident rates occurs after deregulation, at least if there is adequate enforcement of traffic law.

Deregulation of bus services is less common and so it is difficult to generalize. However, there is evidence from UK, USA and China that, outside urban areas,

1. The number of operators and services increases in the short term, especially on main routes.
2. Bus fares generally decrease significantly, especially in the short term, due to competition within the bus industry and between buses and other modes, mainly rail. Costs are reduced to some extent and the overall effect is to reduce profit margins. In the long term fares may have to increase to some extent in order to finance investment.
3. On some secondary routes with declining traffic, which have been cross-subsidized by other routes in the past, fares increase and services continue to decline.
4. Many larger operators with major route networks and bus stations manage to increase their businesses and, in the long term, some of these may come to dominate parts of the long distance scheduled bus route business.
5. New operators may establish themselves through aggressive marketing and providing high quality services, especially on unscheduled excursion and private-hire services.
6. There is little if any evidence of an increase in accident rates attributable to bus deregulation.

Within urban areas, there is a small but growing body of deregulation, starting with Great Britain, from which it is clear that significant cost savings can be achieved through increasing competition.

The rest of this annex summarizes experience around the world in deregulation of truck and (non-urban) bus industries, based on the sources listed at the end of the annex.

2. North American Experience

Before deregulation in Mexico it was almost impossible to enter the trucking industry, which was largely controlled by a small number of family companies. It was regarded as a public service with controls on entry, on marketing and on loading/unloading. Short-distance tariffs were 20-40% higher, depending on route, than similar routes in the USA and annual monopoly rents in trucking amounted to US$ 532 million (US$ 3,500 per truck). In 1989, in anticipation of general economic reforms and the need for the Mexican economy to be internationally competitive, trucking entry controls were largely eliminated, market controls were scrapped and tariffs were liberated. The results soon after were that

1. Monopoly rents were eliminated and the Mexican economy gained US$ 600 million per year from more efficient road transport.
2. The number of trucks increased by 21%.
3. The average truck tariff decreased by 25%.
4. The trucking sector became more responsive to customer needs, offering higher quality service (especially services to small communities and small users requiring less-than-truck-load services).
5. Private companies began subcontracting trucking services instead of providing these themselves.

Implementation problems arose in some areas that resisted change, although these were resolved successfully by joint action by the truck operators associations and government. Although local monopolies in distribution remained after these initial reforms, the government continued to pursue its reform program. The reforms were made easier to introduce because of rapidly changing transport flows, which enabled some operators to benefit more than others from deregulation. This was important in building support for change, which was endorsed by groups who had been exploited by the previous system: many small truckers, truckers constrained to relatively unprofitable markets, and all transport users. The success of the changes was also partly attributable to the commitment of the president and the ministers responsible for trade and industry and for transport.

In the USA, it is reported that trucking deregulation resulted in costs being lowered by a similar amount to that described above, producing annual savings of US$ 300 - 500 million. However, trucking deregulation in Canada lowered costs by a smaller margin because regulatory constraints were never as severe as in the other countries. (For example, there has never been regulation of tariffs there.)

3. European Experience

The UK has had a long tradition of encouraging free entry and market forces in the trucking business and so there is little evidence of the effects of deregulation. However, experience there can indicate the long-term consequences of following such policies. There are strict quality controls for entry into the trucking business to promote reasonable business standards and to avoid instability due to financial problems with new operators. There is no evidence that new operators are more likely to abuse transport regulations than existing operators. There is no evidence of an excessive rate of bankruptcies in the business. There is evidence from the low use of own-account transport, that the common-carrier truck industry has been successful in offering attractive services to customers.

Lower costs have also been found to result from deregulating bus services. For example, in the UK reductions of as much as 35-40% were achieved following deregulation of non-urban buses. This was associated with greater concentration of buses on the main routes and a wider range of services being offered. Although the number of operators increased after deregulation, in the long term the scheduled coaching business has continued to be dominated by a single operator (although this network operator sub-contracts most operational activities to regionally-based operators). A large number of smaller operators offer non-scheduled services such as excursion and tourist services. Fares have returned, in real terms, to those prevailing before deregulation, while level of service and quality of vehicle have increased. This demonstrates the key marketing advantage of operators who develop scheduled network services in conjunction with computer booking systems. Despite this concentration of the bus industry, there is no convincing evidence of monopoly situations occurring. In fact there is vigorous competition between bus and rail, and also between operators of scheduled and non-scheduled services. UK experience shows the important role played by long distance coaching (both scheduled and non-scheduled) in offering an alternative to passenger rail services and in stimulating competitive rail services.

There is no evidence of any increase in coach accidents due to deregulation. However this is partly attributable to increasingly higher safety standards being applied to coach operations.

Within urban areas the effects of deregulation in the UK and related policy issues are more complicated, although similar reductions in cost and broadening of service range have occurred.

4. Experience in Chile

Deregulation of non-urban buses and trucking in Chile was implemented during the 1970's as part of a series of measures taken in response to the economic crisis that the country was facing at the time. It is therefore difficult to distinguish changes in transport attributable to the deregulation measures themselves from changes attributable to broader economic or policy changes.

Previously the transport sector had been heavily regulated. This resulted in a multitude of government-approved local trucking associations, whose members were small truck operators, who were allowed to monopolize local freight markets and were subject to tariff controls. Bus route licences were only issued after very lengthy procedures (about two years), operators had to join route associations and there were restrictions on use of the bus on other services. Maximum and minimum bus fares were fixed by government. The import of trucks and buses was restricted in order to support a local truck manufacturing venture supported by the government.

Trucking deregulation in 1975 freed tariffs and allowed free entry into the business without having to have approval from the government or membership of any particular truck association. It became illegal even for truck associations to suggest minimum rates. Simultaneously the government encouraged importation of trucks which, combined with other economic reforms, contributed to a sharp increase in the number of truck operators, often financed with foreign credits. An economic crisis in 1982 had disastrous effects on the trucking sector: rates fell and the government had to intervene to help repay the foreign loans. In subsequent years the traditional small operators with one truck have been replaced to some extent by trucking companies who offered specialized services. Despite the financial problems from the past the trucking industry remains profitable, especially the larger companies.

Intercity bus deregulation in Chile took place between 1977 and 1979 and allowed higher fares and new companies to enter the business. Following years of control, it was expected that fares would rise and this indeed happened at first. However, subsequently fares then fell back as new competitors entered the business, so that ultimately fares were only slightly above the levels set under the old regulated regime. In subsequent years the number of operators increased substantially before a period of consolidation began, characterized by a growth in size of the large bus companies. Many of these companies developed their own bus stations. Deregulation has resulted in more services being offered, especially in rural areas, and improved the frequency and quality on existing routes (especially where many operators compete). The business is profitable.

In overall terms transport deregulation in Chile has been a success and there is little political pressure to reintroduce regulation. The main concern is the level of competition on certain non-urban bus services: this can be quite low on secondary routes. Combined with the private provision of bus stations, this limits passenger choice. However, provided the local governments continue to offer facilities to other operators, the threat of new competition should in itself help to limit the risk of excessive fares and poor services being provided. The main lessons learned from the Chilean experience are that

1. Non-urban and trucking markets can be made more efficient by removing government regulation of access, services and prices.
2. With interurban buses, strong companies will tend to grow stronger.,
3. With trucking services, the industry tends to move towards creation of trucking companies, often specializing in specific markets,
4. Particular benefits are obtained in non-urban bus transport on main routes with many competing operators.
5. For deregulation to be sustainable, the government should develop antimonopoly controls to prevent collusion between operators and predatory action by financially strong operators.
6. Phasing out fare controls over several years, while new operators enter the business, may be able to avoid strong fluctuations in fares following deregulation. (This seems preferable to implementing fares deregulation on a route-by-route basis.)
7. Care should be taken to ensure that overall competitive conditions between different modes of transport remain fair after deregulation.

8. Care should also be taken during deregulation over policy in other sectors, to avoid distortions caused by trade, tax and credit policies.

A key factor in the success of the reforms was probably the commitment at the highest level in government to economic reform in general.

5. References

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