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Training Seminar on International Road Haulage in the Euro-Mediterranean Region

Stage 3: Market Structure and Liberalisation

Road Transport: Market Conditions, Steps for Liberalisation and the role of the State

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Road Transport: Market Conditions, Steps for Liberalisation and the role of the State

- 1. Context of Market Liberalization (Why)
- 2. Key Aspects of road Transport for Liberalization (What)
- 3. Toward Liberalization (How)



1. Context of Market Liberalization (Why) 1/5

The public sector was traditionally involved in road transport since it was conceived as public good, much as all other transport infrastructure and services.

But road transport and shipping have been worldwide the pioneers of liberalization in transport when compared with rail transport and air transport.

The objectives of liberalization are:

- Increased efficiency (lower price-cost)
- Increased effectiveness (better quality)
- fair intra-modal competition between state and private enterprises
- fair inter-modal competition
- resolution of Market disturbances and public service obligations

1. Context of Market Liberalization (Why) 2/5

Market liberalization in road transport has been introduced in Europe quite early and has led to an unprecedented expansion of the sector vis a vis railways, which remained stagnant and ineffective.

Acquis Communautaire foresees now the liberalization of all transport sectors in order to optimize global efficiency and effectiveness of the transport sector.

- air transport liberalization initiated in 1993 (open skies),
- railway liberalization introduced since 1998 but more effectively taking place now (1st and 2nd railway packages, while the 3rd is in the pipeline)
- shipping gradually liberalized since 1992 (cabotage) but still no Directive for port services.

1. Context of Market Liberalization (Why) 3/5



Steps for Liberalization

- a. Deregulation
- b. Competition
- c. Privatisation in association with the role of an “independent” regulator

A. Deregulation: Objective: to reduce the role of state as infrastructure and service provider

through

- ➔ Abolition of protective measures, especially for the state as owner and operator-natural monopolies
- ➔ Abolition of controls on fares and prices
- ➔ Abolition of market access restrictions

Typically by change of Laws and Regulations

1. Context of Market Liberalization (Why) 4/5

B. Competition: Objective: to allow more than one actor to offer infrastructure or service in order to improve social well being

through

- Entry to the market of private operators from same state or international
- Price competition on same routes depending on type of service
- Due consideration to public service obligations (PSO)

Typically by a new relevant Competition Law

1. Context of Market Liberalization (Why) 5/5

C. Privatization: Objective: to privatize state enterprises and improve their effectiveness and the efficiency of the service they provide

through

- ➔ Commercialization of existing establishments
- ➔ Corporatisation of existing establishments
- ➔ Private Sector Participation (PSP) by contracting out operations, or the management or by concession agreements
- ➔ Total privatization by selling to private interested parties or by floating of shares to general public in the stock market (total or partial privatization)

Typically by a new privatization law that can also take the form of a concession law allowing private public partnership (PPP)

In addition it is necessary to establish an "independent regulator" who monitors the liberalized market performance

**2. Key Aspects of Road Transport for
Liberalisation (What)**

1/7

- a. Road transport infrastructure
- b. Passenger transport operations: urban, intercity, international
- c. Freight transport operations: national, international, special
- d. Vehicle circulation and control: licenses, technical controls
- e. Access to profession and access to market

2. Key Aspects of Road Transport for Liberalisation (What)

2/7

A. Road Transport Infrastructure

Road infrastructure: public good because it is non-divisible and non-consumable. Private sector not interested to invest in non-divisible and non-consumable goods

In the last 25-30 years internationally (USA, South America, South East Asia) and since 1994 in European Union too due to shortage of public funds or the need to direct them to other investments of public character (health, insurance, education, agricultural subventions etc) interest to involve the private sector in roads:

- for construction
- for operations
- for maintenance
- or combination of above

2. Key Aspects of Road Transport for Liberalisation (What)

3/7

Typically some type of PPP employed such as:

- contracting out the annual and/or periodic maintenance by performance contracts. Typically short term (3-10 years). May be extended in case of satisfactory performance (Morocco, Lebanon)
- concession contracts for transferring the right to operate an existing road and its maintenance. Typically medium term contracts (5-20 years) which may be extended
- BOT arrangements for the construction, operation and maintenance of a new road against annual fee or against tolls. Can take the form of BOT, BOOT, BOO, BTO. Back-to-back contracts too. Long term contracts (15-35 years).

2. Key Aspects of Road Transport for Liberalisation (What)

4/7

B. Passenger Transport Operations

Urban transport: typically owned and operated by city, regional, state authorities/establishments. Little liberalization even internationally. Considered as social service. Maintained in public hands in association with traffic and environmental conditions in cities. Revenues can not cover costs. Occasional privatization observed against subventions to tickets (Morocco, Tunis, Syria).

Taxi, minibus ownership and operations typically liberalized and privatized.

Intercity transport ownership and operations (buses, minibuses, taxis), typically liberalized and privatized. Also by regional or state authorities. Way ahead: fully liberalize operations and ownership of fleet. Consider low volume routes or schooling routes as PSO's.

International road transport: typically liberalized and in private hands.

Even in cases of full liberalization and privatization access to profession and market often not liberalized.

2. Key Aspects of Road Transport for Liberalisation (What)

5/7

C. Freight Transport Operations

National transport: typically privatized and partly liberalized. In MEDA countries varied conditions for fleet ownership and route operations. Market and profession access often strictly controlled

International transport: typically privatized and liberalized. Access to profession restricted.

Special transports: In Europe special transports are treated same as any other transports. In MEDA countries, vehicles and operations may be state or region owned and controlled (liquids, dangerous goods, refrigerated goods). Access to profession and market controlled even internationally.

2. Key Aspects of Road Transport for Liberalisation (What)

6/7

D. Vehicle Circulation and Control

Vehicle circulation licenses are provided by the state, since they constitute a major element of controlling state budget revenues from all types of vehicles but also a way to control illegal registrations. This control in some case implies that private concerns are not allowed to increase indiscriminately the size of a particular type of fleet, as for example urban or intercity taxis, refrigerated trucks, intercity buses etc. This then implies an unjustified fee “typical of black market” in any subsequent transaction of selling the vehicle to another interested party. This then increases unnecessarily the price of vehicles constituting a clear market disturbance.

Vehicle’s technical control: This aspect of road transport has been controlled by the state traditionally, since relevant information had to be maintained in the central Information System of MOT, in particular for vehicles such as buses, taxis, trucks etc. Recently this aspect too is liberalized. Private Technical Control centers are allowed to operate in Algeria. They are properly licensed and interconnected to MOT IT system.

2. Key Aspects of Road Transport for Liberalisation (What)

7/7

E. Access to Profession and Access to Market

Both aspects constitute an on-going disturbance to road transport. While many operations are liberalized, opened to competition and even privatized too, operators are bound to unfair controls, outside the context of a proper regulatory approach.

Indeed, entry to the profession of truck operator or trucking/busing/taxi company can be very cumbersome and expensive, imposing unfair and discriminatory practices. Indirectly, this aspect, introduces inefficiencies and ineffectiveness to liberalized markets by maintaining the status of “closed professions”. This practice is observed not only in MEDA countries, but in European countries, such as Greece and Italy.

Entry to the market is another aspect where most states introduce unnecessary disturbance. Indeed, control is exerted by not allowing any operator at any route (urban or intercity) or for freight distribution in the whole of a country. The same is observed in “special transports” (license for refrigerated or dairy product transport). Liberalized markets and professions should be open, as long as safety of transport, effectiveness of operation, social order and environmental protection are respected.

3. Toward Liberalization (How)

1/3

- i. Proceed in steps and according to different aspects
- ii. Establish the biggest possible political consensus for deregulation / competition / privatization
- iii. Pass in the Parliament the necessary laws:
 - opening markets to competition and dissolving monopolies (competition law),
 - allowing privatization (privatization law),
 - attracting foreign investments (investment law)
- iv. Decide on aspects of roads transport to be opened to competition or corporatised or privatized
- v. Carry out detailed financial feasibility studies

3. Toward Liberalization (How)

2/3

- vi. Establish and quantify Public Service Obligations (PSO) and either tender them to private operators or cover them contractually
- vii. Tender procedure for selling state companies (through invitation to buy or through stock market following corporatisation), or by inviting third parties to compete in opened markets/aspects or by concessions contracts
- viii. Roadshow of opportunities to attract greatest interest locally and abroad
- ix. Clearly explain regulatory approach of state or of regional authority or of an independent authority to monitor operations and abiding with contractual obligations
- x. Sign contract with preferred bidder.

3. Toward Liberalization (How)

3/3

Where is liberalization most likely, most useful and easier to implement

	Deregulation	Competition	Privatization
Road transp. Infra.	+	~	+
Urban transport	+	+	~
Intercity pass. Transp.	+++	++	++
Inter'l pass. Transp.	+++	+++	+++
National freight transp.	+++	++	+++
Inter freight transp.	+++	+++	+++
Vehicle circul'n Licenc.	~	-	-
Vehicle techn'l control	++	++	+++
Access to profession	+++	+++	+++
Access to market	+++	++	++