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

Stage 3: Market Structure and Liberalization

Impacts of Liberalization and Managing Excessive Liberalization

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Impacts of Liberalization and Managing Excessive Liberalization

1. Advantages of Liberalization
2. Disadvantages / Problems of Liberalization
3. Impacts of Liberalization in intra-modal and inter-modal Competition
4. How to Reduce the Problems and Increase the Advantages



1. Advantages of Liberalization

- a. in the medium and long term lower cost services provided to users
- b. overall the quality of service is improved due to competition
- c. avoid drawbacks of natural monopolies
- d. freeing up government funds for other social expenditures / investments
- e. creation of new revenue streams for governments through PPP in investments commonly undertaken with private sector
- f. transfer of risk to private operators through PPP or BOT
- g. increase entrepreneurship in country
- h. attract foreign capital by potential investors, better suited to carry out investment, (example in road construction projects)

2. Disadvantages of Liberalization

(1/2)

- a. Risk to create new types of private or other state controlled monopolies (players with dominant position in the market) or oligopolies
- b. Short term impacts can be negative:
 - reduced effectiveness (quality) due to early savings to recognize the market
 - reduced efficiency (increased fares) for accumulating early revenues
 - some competing companies may be drawn out of the market due to very strong competition, as the market matures

2. Disadvantages of Liberalization

(2/2)

- c. Government has rushed to get rid of operation or investment in anticipation of high fee offered by bidder and soon discovers the incapacity-inability of bidder to respect contract terms
- d. Transfer of risk not sufficiently covered in contract, therefore reverting the operation or investment to state
- e. Renegotiation of contract required due to insufficient financial feasibility study or due to rushed government decision
- f. Just before the transfer of investment or operation to state, its proper maintenance is “forgotten”
- g. Investment is a “Trojan Horse” (serves other purposes)
- h. Liberalization can be excessive, both in its extend and in the absolute level of privatization selected

3. Impacts of Liberalization in inter-modal and intra-modal Competition (1/4)

Typical impact of a liberalized market is the extend of entries depending on its divisibility and consumability:

- the lower the investment necessary to enter, the market will become “flooded” by new players who try to reap part of the market
- the higher the consumability of the product offered, the higher the number of new players

3.1. Impacts in intra-modal competition

Then there is excessive offer for the demand and cut-throat competition begins. This is typically the case with liberalized urban transportation with paratransit, such as taxis and minibuses. The same can apply to national freight transport market. The case of Lebanon.

3. Impacts of Liberalization in inter-modal and intra-modal Competition (2/4)

When the operators are not too many, they may establish their own “oligopoly” in which case a new type of market imperfection appears. This is typically the case of international freight transport or special transports where fare setting is popular, especially if foreign operators are not “allowed” in the market. The case of Algeria for Trans-saharan trade.

In such a market it is advisable to have a national operator too who can act as balancing factor for competition. But usually –especially if he had a monopoly and is now asked to compete with other players- he acts as dominant player and tries to exterminate the other competitors. This is typically the case of national air carriers where divisibility and consumability are reduced. In road transport it rarely appears, especially in urban bus transport. The same can be the case for Vehicle Technical Control units.

Therefore the role of an “independent regulator” is indispensable

3. Impacts of Liberalization in inter-modal and intra-modal Competition (3/4)

3.2. Impacts in inter-modal competition

Excessive liberalization of road transport market may have impacts on other sectors of the transport market, especially those that are less liberalized and have low divisibility and consumability. This is the case of railway transport.

Indeed, there are many proponents of the argument, that the continuing decline of railway usage is due to the liberalization of road transport market, both for passenger and freight transport. In fact modernized bus and truck fleets, increased capacity trucks, high quality and variety of private vehicles, associated with continuous increase of length of motorways and quality of service and safety provided on them, have sharply increased the number of alternatives offered to users/clients for passenger and freight transport.

But in a liberalized market environment, such as the one promoted by the Acquis Communautaire and the White Paper for Transport, the client is in the center of attention. In an almost perfect market he is able to take the proper decisions

3. Impacts of Liberalization in inter-modal and intra-modal Competition (4/4)

The grim position of railways today can not be attributed to the liberalization of road transport but rather to the difficulty of the state to comprehend early enough, that the delay in modernizing and liberalizing railway transport –as it happens now in EU- and its protection for so many years as natural monopoly has produced at the end of the day adverse results. The only argument that is correct for railways, is that while they bear their full costs, this is not the case for road transport, especially in the scope of internalizing external effects. For this reason, the land transport market overall may still be considered as imperfect. Should external costs been internalized, the position of railways would have been more competitive and its market share higher.

Impacts on inter-modal competition have been observed also in air transport which, being liberalized since 12 years, has attracted many railway but also road transport passengers due to low fares, better service and many alternatives to select from.

4. How to Reduce the Problems and Increase the Advantages (1/2)

The role of State:

- policy formulation that supports overall transport planning objectives
- facilitator through relevant laws, decrees, decisions
- “regulator” of the market that is open to competition or establish the proper body to exercise this role
- monitoring of performance of market
- defining and contracting our public service obligation services (PSO)
- fair rules for access to profession and market

The legal environment:

- A proper and fair competition law
- Concession contracts covered through a relevant PPP law
- Big scale BOT contracts should have the approval of the Parliament for bigger established authority, power and political endorsement
- A proper and fair investment law
- Adherence to EU Acquis Communautaire

4. How to Reduce the Problems and Increase the Advantages (2/2)

The role of politicians:

- Support provided to liberalization, when the relevant rules of the “game” are respected
- Reduce favoritism and unnecessary bias

The role of actors in road transport:

- Adhere to contract conditions, especially quality of service
- Abide with relevant laws
- Contribute to social well-being
- Respect contract clauses on safety, social order, environmental protection
- Seek reasonable profits
- Do not bid for transport operations or for privatized establishments unless ready to follow above rules and accept the “regulator” role of state or of independent body
- Treat PSO’s just like any commercial business and do not pretend you are doing a favor to anyone