

Chapter 8

A STRATEGY FOR REFORM



8.1 A Changed Role for Regulating Authorities

The Government relies on implementation and enforcement of regulations by provincial

and county authorities to achieve its goals for road freight and passenger transport. Other countries have recognized that competitive markets are more effective than regulatory controls in driving up quality and efficiency standards and pushing down prices. In passenger transport, removing controls over operations and prices has always resulted in better-quality, more affordable services as long as controls preventing the entry of inappropriate operators have been retained. In freight transport, deregulation has been effective in expanding the range of services, raising standards, and lowering rates. While there has been understandable concern in the PRC about intense price competition in the lower tier of the market and the difficulties this poses for better-managed enterprises in upgrading their services, deregulation and competition have already encouraged the emergence of some world-class road transport and multi-modal transport service providers.

Allowed to take its course, competition, combined with effective enforcement of safety and environmental controls and incentives to discourage uneconomical or unsafe practices, will eventually help achieve consolidation among smaller-scale operators and a general upgrading of efficiency, demand-responsiveness, and technical standards.

Once the benefits of competition are recognized, the role of road transport administration becomes less one of regulatory control and more one of facilitating the efficient operation of markets while also protecting public safety and the environment through a combination of incentives and enforcement. This changed role involves:

- monitoring the operation of markets, notably service standards and prices, to ensure that monopoly or predatory practices do not develop;
- opening up road transport to greater competition by identifying and removing any unnecessary restrictions on market entry or the ability of operators to customize their services to the perceived needs of users;
- permitting a greater range of services tailored to the needs of the market, including services which improve the accessibility of isolated communities, by regularizing any informal services that have developed in response to transport needs;
- leveling the playing field between state-owned and private transport enterprises, and achieving arms-length relationships between regulating authorities, SOE managers, and independent transport operators;
- encouraging the development of integrated national networks of services, including inter-modal services, by eliminating unnecessary restrictions on market entry by operators domiciled elsewhere;
- adjusting the structure of user charges and ta-

xes facing road transport operators to help encourage a more economical structure of the transport fleet, internalize the costs faced by society (accidents, environmental pollution, congestion) and ensure economically optimal decisions on choice of transport mode, route, and road class;

- reducing the incidence of truck overloading through more effective enforcement, sanctions, and inducements;
- strengthening safety and environmental protection through more effective on-road inspections linked with economic incentives to raise safety and environmental performance.

8.2 Regulatory Priorities for Road Freight Transport

Current regulations allow relatively unhindered entry to the trucking industry and there is no control over rates. This has led to improved productivity and lower tariffs. Opening up the market has allowed some enterprises, both private and state-owned, to develop into sophisticated transport and logistics service providers with nationwide networks. With further opening under WTO rules and the possibility of foreign firms entering these markets, the forces of competition driving improvements in productivity and lowering freight rates will probably increase. Foreign participation will introduce more productive technologies and management approaches. Over time, there should be a trickle-down effect on other firms. Even among the lower tier of operators, there should be an eventual consolidation, as the better-managed achieve greater market share and shippers learn the benefits of more reliable, better-quality services.

The most important regulatory priority, therefore, is to continue-to “stay the course”—with market liberalization, resisting the temptation to impose market-entry restrictions in the hope of accelerating industry

consolidation and working at reducing those remaining areas where the state unnecessarily interferes with the commercial affairs of trucking companies. To weed out operators who employ unsafe drivers and vehicles, it is best to rely on better enforcement of safety regulations.

8.2.1 Quality Regulation

As with bus transport, efforts should be focused primarily on setting, encouraging, and enforcing safety standards, in terms of both vehicle condition and driver behavior. There should be a more critical assessment of the effectiveness of existing regulations to identify those that are no longer effective, reduce overlap or conflict, and tighten those lacking sufficient detail. As a basis for incentives to improve performance, a rating mechanism that would track the performance of individual operators in complying with safety and overloading regulations should be developed. This should be linked to the issue and renewal of operators' and vehicle permits, and would require arrangements to manage the system—including the performance-rating database—to be established jointly within the PCDs and PSDs.

A more effective system of on-the-road inspections is also necessary. This would involve installing automatic, tamper-proof equipment at inspection stations and developing agreed procedures for carrying out inspections (possibly outsourced under competitive, incentive-based contracts with appropriate monitoring arrangements), putting a vehicle out of service when it fails to meet safety and overloading standards and identifying trucks that have been recently inspected. Lastly, efforts should be made to tighten the conditions for obtaining a truck driver's permit, through more stringent driver training and testing and the possible introduction of endorsements to signify various levels of qualification.

8.2.2 Taxation

User fees, taxes, and toll charges make up a large proportion of truck operating costs, particularly for those that make significant use of toll roads. Yet the structure and levels of road user taxes and charges have not been designed as part of an integrated policy of cost recovery. Their incidence and the revenues raised from them are not related to the marginal social costs caused by each type of vehicle's use of roads. For heavy vehicles, they are structured mainly on the basis of registered GVW (which itself is subject to manipulation, as noted earlier) rather than the number of ESALs, a better measure of potential road damaging power. The result is that the larger, modern, multi-axle trucks that do less road damage per ton of payload are not encouraged and the smaller, 2- and 3-axle heavy trucks that are the main cause of road damage are not discouraged from using the roads by facing higher per-ton charges.

It is beyond the scope of the present project to carry out a full cost-allocation study and recommend an appropriate cost-recovery structure of taxes and charges. The task is complicated by the current policy on toll-road pricing, intended mainly as a means of raising funds to repay loans. But a review is clearly needed, since a key element of an efficient transport system is a rational system of pricing such that users face the full costs associated with their use of the system. The recommended Action Plan includes a proposal to carry out such a study.

8.2.3 Vehicle Weights and Dimensions

The current VWD regulations allow what might be called short-heavy trucks in the PRC, similar to those common in developing countries but now uncommon in most western countries where larger, more economical vehicles are encouraged and loads are typi-

cally spread over a greater distance between more axles.

Again , it is beyond this study's scope to carry out a comprehensive review of permissible VWD limits , but a review is needed , both to encourage an economically optimal vehicle fleet and to ensure that road and bridge safety , geometric and structural design standards are compatible with the heavy traffic they will be expected to carry in the future. This would be a major undertaking : it would involve an analysis of the trade-off between economies of scale in vehicle operation and the costs of accommodating larger , heavier vehicles on roads and bridges , with trends in vehicle technology and safety and environmental requirements taken into account. The Action Plan includes proposals to carry out such a study.

8. 2. 4 Industrial Policies

The policy of promoting selected enterprises as industry champions is understandable and may indeed have achieved benefits in terms of industry consolidation by helping amalgamate smaller firms under the wing of larger enterprises. A similar approach is being used in other sectors of the economy. But the transport sector , unlike perhaps the industrial sector , does not necessarily benefit from having a limited number of dominant players ; it would benefit more from a wider , more diverse market that is innovative and quick to adjust to customers' needs. Strengthening the market share of dominant SOEs through government intervention would not help promote this ; it runs counter to the policy of promoting fair competition.

Government might help promote more efficient and demand-responsive services better if it removed any discrimination in favor of selected enterprises and , instead , concentrated on eliminating unnecessary restrictions on market entry and expansion , tightening controls over road safety , weeding out un-

safe operators and drivers and supporting the development of skills through education and training programs.

8. 2. 5 Industry Associations

Industry associations are important sources of information , research , ideas , and policy initiatives in other countries. Governments elsewhere usually ensure that formal and informal lines of communication are open to them over questions of regulatory policy. Industry representatives know best what road transport customers want and what is needed to meet their needs. The PRC makes little effective use of such consultations , however. It is a common complaint that regulations are announced with little warning and often with unanticipated , costly consequences for road transport operators and their customers.

MOC should establish regular consultation forums with industry on matters of policy and regulation.

8. 3 Regulatory Priorities for Road Passenger Transport

Current regulations governing the entry of new operators into the road passenger market are restrictive , and thus restrict potential competition , which in turn limits operators' incentives to improve efficiency. Bus route capacity is regulated , so individual operators cannot increase their level of operation to compete more aggressively with others on the same route. Regulatory authorities or terminal operators , rather than bus operators themselves , determine bus schedules. So the operators cannot schedule their vehicles to achieve maximum utilization and thereby reduce costs. Bus licenses specify the route on which each vehicle must be operated , so buses cannot be utilized efficiently by inter-working them between routes.

Low vehicle utilization and other inefficiencies are not the direct result of the regulatory policy alone. Many bus operators in the PRC have invested in modern vehicles and state-of-the art workshop equipment , and most large bus terminals have sophisticated ticketing systems , but management systems and procedures are generally weak , so that the benefits of this modern equipment are not fully realized. To some extent , such weakness is an indirect result of the limited competition , and therefore of the regulatory system.

Therefore in the Action Plan the current policy should be relaxed , with regulation reduced to the minimum necessary to ensure that an adequate , safe , reliable , and affordable service is provided.

8.3.1 Quality Regulation

As with freight transport , quality licensing should be focused primarily on setting and enforcing safety standards , in terms of both vehicle condition and driver behavior. It is recommended that the regulations specifying vehicle maintenance and inspection procedures should be replaced by a set of specific and quantifiable safety standards , rigorously enforced through routine and random inspections. Standards of driving should be improved by raising the conditions required for the issue of a driver's permit , and more rigorous enforcement of traffic regulations ; the traffic regulations themselves require review and strengthening.

In addition to quality regulations governing vehicles and the way they are used , maintained and driven , the PRC also has very specific regulations regarding the qualifications of operators of bus services , though these are understood to be under review. The quality of management of the enterprise has a significant influence on standards of service , so some form of operator licensing is appropriate to ensure that they meet required standards of compe-

tence and integrity. Even so , the existing system in the PRC is overly restrictive and this is recommended to be abolished and replaced by an alternative system for ensuring operator competence. In some countries , to hold a license to operate buses , it is necessary to demonstrate the basic ability to manage a transport operation. In the UK , this is provided by the Certificate of Professional Competence (CPC) , issued when an applicant passes an examination on the operation and management of a passenger transport undertaking. License applicants may also be required to provide evidence of financial standing and a satisfactory police record. A broadly similar requirement is recommended be applied in the PRC to replace the existing complex criteria that determine an operator's eligibility for different types of service. The system must be sufficiently robust to prevent such measures from being circumvented , resulting in an excess of incompetent new operators.

8.3.2 Quantity Regulation

With regard to bus services themselves , a version of the Western model is recommended for the PRC , with minimal regulation of interurban and long-distance services and a form of franchise arrangement for urban services , with the minimum degree of intervention by the authorities necessary to ensure comprehensive route networks and properly coordinated schedules. If it is considered necessary to subsidize rural bus services , the European franchise or contract model is the most appropriate.

Bus operators should be permitted to determine their own routes , schedules , and fares , with no restriction on the number of buses that may be operated on any route ; they should also be permitted to operate any bus on any route to enable vehicles to be utilized with maximum efficiency.

Each enterprise would be required to hold the following permits : an operator permit , route permit

and vehicle permit. The operator permit would be issued to any passenger transport enterprise meeting the basic requirements of competence. It would specify the maximum number of vehicles that may be operated, based on the enterprise's maintenance capability and maintenance and safety records, and would specify the operating bases or depots, but would not specify the bus routes to be operated or the areas to be served. The number of vehicles specified on the permit would be reduced for infringements of safety regulations; for very serious infringements the permit would be revoked.

A separate route permit would be issued to the enterprise for each route it operated. It would specify the starting and finishing points, the roads to be followed, and the points where passengers can be picked up and set down. There would be a procedure before the permit is issued to allow interested parties, such as the PSB or other local authorities, to raise objections on safety or environmental ground, but objections by other operators, for example on the grounds that they are already adequately serving the route, would not be permissible. It would also specify the fares to be charged and the times at which buses will operate. Schedules and fares and the route itself could be varied at the operator's discretion, provided that the licensing authority is given a specified period of notice (8 weeks in the UK). The route permit should not specify the type of bus to be used, the standard of service or the number of buses to be operated, and under no circumstances should specific vehicles be identified for operation on the route.

A separate vehicle permit would be issued to the enterprise for every bus it owned. This would entitle the owner to use the vehicle on any route for which a route permit is held, driven by any driver who holds the relevant driver's permit; the vehicle may also be hired to another operator, who may use the vehicle on any route for which a permit is held by that operator. Under no circumstances should a vehicle be re-

stricted to a particular route. The vehicle permit may be suspended or revoked if the vehicle is operated in an unsafe condition.

Entry to the market would be free to any operator who can obtain the necessary permits.

The regulation of bus fares is recommended to be abolished in the PRC, as has been done throughout Europe, North America, and Australia. While there may be political obstacles, it should be remembered that bus operators are aware that there is a limit to what passengers can afford or are prepared to pay, and in a competitive situation this will prevent them from trying to impose unreasonably high charges. The almost universal experience in other countries where bus fares have been deregulated has been that most fares were reduced rather than increased. It will be necessary, however, to introduce measures to prevent operators from charging very low uneconomic fares in an attempt to put competitors out of business.

Deregulation of bus fares must not be implemented in isolation: the benefits of fare deregulation to passengers will be achieved only if regulations that control other aspects of bus operation are relaxed at the same time, so that better vehicle and driver productivity will reduce costs and make possible the fare reductions envisaged.

It is important that the benefits of competition are achieved as far as possible while avoiding the problems created by complete deregulation. Competition should be encouraged, but not to the extent of outlawing practices which result in improved services, such as the coordination of schedules by different operators on the same route. The dangers of inappropriate legislation designed to promote competition must also be avoided, and if such legislation covering all sectors of industry exceptions should be made for public transport operators.

8.3.3 Terminals

The provision of bus stations and terminals, in terms of their number, size, and location, as well as their design, also affects the efficiency and demand-responsiveness of bus services. Large terminals used by several operators give passengers greater choice of operator and can provide convenient interchange between services. But they should not be too large, for both operational and environmental reasons, and for convenience there should ideally be several in the larger cities. It is not realistic to specify standard sizes for terminals: the appropriate size can be determined only on the basis of specific local requirements. There should be no restrictions regarding the destinations to be served by each terminal.

The need for bus terminals in any city or town involves a number of considerations, including the interests of the bus operators, passengers, and the community as a whole. In particular, the size and location of a terminal will impact on traffic in the immediate vicinity, but the interests of bus passengers must be weighed against those of other road users. Because of these different interests, bus terminal planning must be subject to regulation, but must involve consultation with bus operators, passengers' representatives, local communities, and all other interested parties.

Bus operators should be permitted to operate their own terminals, and they should not be required by law to permit other operators to use them, although they may do so if they wish. Their location should still be subject to planning regulations, and should take into account their impact on the neighborhood.

The role of the terminal operators should be clearly defined. If each route is served by one or only a small number of operators, then the allocation of departure times should not be necessary, except to

achieve a smooth flow of departures. Operators should decide on their own departure times, but these should be subject to slight modification by the terminal operators, in consultation with the bus operators, if there are too many departures simultaneously. Terminal operators should be concerned with departure times, not destinations.

Terminal operators should be permitted to determine the charges for their services to operators. However, in view of the monopoly position that many of them will hold, there must be a procedure to ensure that operators are not exploited. While not being made responsible for setting charges, a body such as the Provincial Pricing Bureau should act as price regulator, with the task of investigating complaints of overcharging by bus operators and the authority to impose lower charges if the operators' complaints are upheld.

8.3.4 Rural Bus Services

The market will ensure that services will eventually operate to meet demand in all areas. In the short run, however, government intervention may be necessary to expedite this process, particularly in remote rural areas. Where it is established that demand is not being satisfied, the CB should have authority to offer fixed-term contracts for subsidized services. Such contracts should be awarded only to operators who are likely to be able to continue the operation on a commercial basis (i.e., without subsidy) once it has become established. The term of the contract should be determined accordingly, but should not be more than 3 years.

8.3.5 Urban Bus Services

Bus operators in urban areas should also be permitted, if demand justifies operating beyond the city boundaries. New suburban housing developments

are in most cases more effectively served by extensions of urban routes than by long-distance routes with restrictions on picking up and setting down passengers in the city. In some provinces the PCDs and MCon authorities have cooperated to permit such services, but in many provinces they are not permitted.

MCon may continue to have a role in planning urban bus services. But these should be considered together with other bus services in connection with the proposals for policy reform. In particular, quality regulations governing such matters as vehicle construction and use, safety and operator licensing should be the same as those for nonurban transport, and therefore should ideally be the responsibility of the same ministry.

There are parallels in other countries. In the UK, London's bus services are planned and regulated by Transport for London (TfL), a local government department. They are operated by private-sector bus operators, majority of which also operate local and long-distance bus services outside London. Vehicle and operator licensing for buses both in and outside London are the responsibility of a single central government ministry, the Department for Transport; TfL is responsible only for planning the services in London, and awarding and administering the contracts with the bus operators concerned.

8.3.6 Social Issues

The proposed regulatory reforms will bring about improvements in the efficiency of the bus industry. This will eliminate surplus capacity currently that many small bus operators and informal or illegal operators currently provide. The reduction in the number of formal buses should result in increased utilization of the remaining buses, so that the majority of existing drivers will still be required, although there may be some surplus. In other areas of operation, particularly in

the bus terminals, there are unnecessarily high numbers of employees, and an efficient private-sector operator would likely reduce numbers to reduce costs. Many of those involved in informal operations would find it difficult to get other jobs and therefore would otherwise be unemployed.

Potentially, this is a serious social issue. The employment of excess staff reduces the level of unemployment, but whether transport operators should be responsible for absorbing workers in this way is a broader policy issue that government must address. In any event, all industries should be treated equally. Similarly, illegal operators tend to be tolerated because they create employment, and harsh measures to deal with them would also have serious social implications, and the authorities must be sensitive in this regard. Nevertheless, perpetuating these inefficiencies will have an adverse effect on the quality and cost of transport services, and the issue must therefore be addressed in a more appropriate way. New, efficient private-sector bus operators will not employ unnecessary staff unless they are required by law to do so, and those operators which do will be at a disadvantage.

All transport operators should be free to determine the number of staff to be employed. Where an organization must reduce its staffing levels, it must be allowed to do so, even if this requires legislative changes, although it should be carried out as sensitively as possible. A voluntary redundancy program may be feasible in some cases; in others, staff reduction through natural wastage, i.e., by not replacing staff who leave or retire, will be appropriate. Where possible, surplus staff should be retrained for other jobs in the organization where vacancies exist.

The issue of pensioners in SOEs and former SOEs must also be addressed. This affects other industries besides transport and should be dealt with on a national basis; it is not within the scope of this study to make recommendations on this issue.

8.3.7 Administration

The present regulatory system and its administration are complex, with several tiers vertically (e.g., PCD, CB) and several organizations involved horizontally (e.g., CB, PSB, EPB). Some rationalization, but it must be borne in mind that the PRC is a very big country and a degree of devolution to a fairly local level is necessary. The proposed reduction in the extent of regulation should facilitate this process. Lines of responsibility need to be clear, and regulations

must be consistent where necessary; it is important to define which policies and regulations should be set at which level, and the number of agencies involved must be small- or medium-sized.

The monitoring role of the authorities must be clarified also. At present, they collect a great deal of data, ostensibly to enable them to carry out their regulatory functions; this would no longer be necessary, although the collection of basic operational data and calculation and publication of relevant performance indicators would be useful for both operators and regulators.

