Working Party No. 2 on Competition and Regulation

Executive Summary of the Roundtable on Competition and Innovation in Land Transport

28 November 2016

This Executive Summary by the OECD Secretariat contains the key findings from the discussion held under Item III of the 62nd meeting of Working Party No. 2 on Competition and Regulation on 28 November 2016.

More documents related to this discussion can be found at www.oecd.org/daf/competition/competition-and-innovation-in-land-transport.htm

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Executive Summary

By the Secretariat*

Considering the discussion at the roundtable held by Working Party No.2 on 28 November 2016, the delegates’ submissions, the panellists’ presentations and the Secretariat’s background paper, several points are noted:

1. As a result of regulatory and technological developments, the land transport sector has seen significant changes to intra- and inter-modal competition

The land transport sector has been characterised in past decades by significant regulatory reform processes (in rail and passenger road transport), major shifts in paradigms (the high speed train), and some radical innovations (in trucking, even if these are still at an experimental stage).

The competitive pressures that different market players face has changed as a result. The advent of high-speed services led in many countries to an increase in competition between medium/long distance rail services and air transport (increasing the choices of time sensitive consumers). Bus service deregulation has led to an increase in competition between rail services, and also between buses and taxis (increasing the choices of price sensitive consumers). Finally, radical innovations in road freight, in particular the advent of platooning – where trucks run close to each other, similarly to the wagons of a train – is likely to provide strong environmental efficiencies, reductions in congestion, and increases in competition between road and rail freight in some market segments.

2. Land transport services still suffer from significant pricing inefficiencies

The pricing of land transportation services is affected by significant inefficiencies. In most countries, road transportation prices attempt to internalise externalities such as environmental and congestion costs through taxes on gasoline and highway charges. At the same time, rail services are heavily subsidised, usually to take into account the costs of building, maintaining and operating rail infrastructures. Current price distortions lead to inefficient decisions and a highly distorted use of public money. Moving towards market based prices in transportation services could avoid these distortions and lead to a better allocation of resources.

It was suggested by some intervenients that, in order for a market-based equilibrium to be found, externalities such as congestion and environmental effects should be subject to direct pricing mechanisms, and subsidies should be avoided inasmuch as possible. Such

* This executive summary does not necessarily represent the consensus view of the Competition Committee. It encapsulates key points from the discussion at the roundtable, the delegates’ written submissions, the panellists’ presentations and the Secretariat’s background paper.
equilibrium should be better able to reflect the costs of extending and improving the necessary infrastructure, while allowing intermodal competition to flourish based on undistorted price signals.

3. The promotion of competition in land transport must take into account technological developments affecting how customers access those transportation services, and work towards the removal of unjustified barriers to access.

Developments regarding the collection, processing and making available of data on transportation services have created possibilities for increased competition in land transport. The implementation of systems allowing for intermodal competition means that consumers will be better informed, that their choice set will expand, and should lead to increased competition.

Reducing unjustified barriers to entry is also important for increasing competition, both within and between different modes of transport. Nonetheless, maintaining certain barriers to entry coupled with effective regulation may lead to better outcomes than attempting to maximise competition in situations of natural monopoly. For example, regulatory reforms in rail, and in particularly structural separation, have been most beneficial when they were not be adopted mechanically but pursued systematically. Indeed, incentives to entry in rail markets are critically influenced by the way structural separation is organised e.g. how easily rolling stocks, locomotives or train conductors can be found by new entrants. Importantly, however, ease of entry may diminish the incentives for investing in the network, with potential consequences for the quality of the network and the state budget.

In the vast majority of situations, however, removing barriers to entry is beneficial and should be pursued. A good example of this is cabotage rules. These rules creates barriers to entry by limiting transportation services within national boundaries, both in passenger and freight road services, even in integrated trade areas such as the European Union. Such barriers reduce the degree of competition, keep prices high for consumers, and are environmentally damaging because they increase the number of unnecessarily empty vehicles in circulation.

4. Even in the face of increased inter-modal competition, measures promoting intra-modal competition should be pursued.

Increased intermodal competition is not a sufficient disciplinary device for intra-modal competition unless it is accompanied by specific measures aimed at promoting competition within the different modes of transport and at allowing innovative technologies to find their way into the market.

In rail, jurisdictions should consider introducing competition through progressive, systematic and thoughtful rounds of regulatory reform based on accumulated experience. In order to ensure that increased competition leads to improved service quality, reduced prices and the overall benefit of consumers, jurisdictions can and should refer to successful experiences elsewhere, but should also be careful to ensure that their reforms are adapted to their domestic characteristics.

Deregulation in bus services for medium/long distances and technical progress have led to increases in the number of suppliers, greater competition, and lower price services in
both Europe and the US. Increased competition in Europe was unleashed by the liberalisation of rules regarding market entry, and has led to efficiencies and increased quality of service in the sector. Nonetheless, a number of obstacles to competition remain which should be addressed. A first obstacle is the cumbersome authorisation procedures required in many countries to change time-schedules or approve new routes. A second obstacle arises from the absence of integrated reservation systems, which creates difficulties for the development of integrated ticketing systems.