

Regulatory Impediments in the Land Transport Sector

Workshop on Regulatory Impact Assessment

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National Modal Share

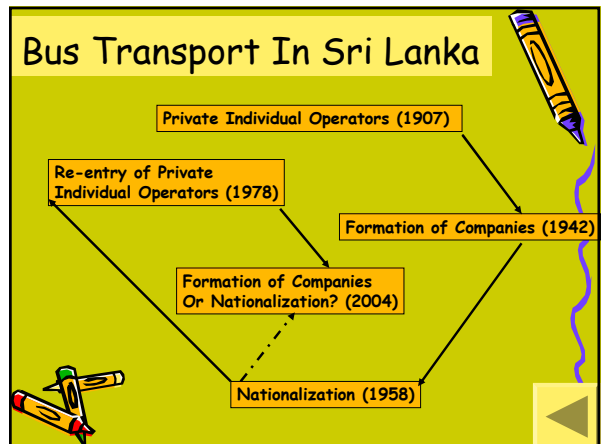
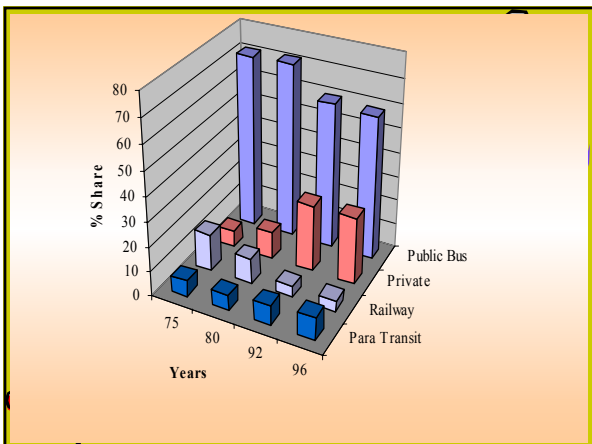
Mode	Vehicle Kms Operated (mn)	Passenger Kms Carried (mn)	Ton Kms Carried (mn)
Bus	966 (08%)	45,407 (68%)	
Private Vehicles	7,861 (64%)	15,831 (24%)	
Railways	11 (00%)	3,600 (5%)	102 (02%)
Three Wheelers	1,548 (13%)	1,161 (2%)	
Lorry/Land Veh.	1,813 (15%)	907 (1%)	4,532 (97%)
Water Transport	3 (00%)		32 (01%)
	12,202 (100%)	66,906 (100%)	4,666 (100%)

Dominant Development of Transport

- Canal Transport - 16th Century
- Railway Transport- 19th Century
- Road Transport- 20th century
- Bus Transport - post independence

Sub Sectors

- Buses
- Railways
- Three Wheelers
- Trucking
- Private Transport



Railway Transport

- Fully regulated since inception
- Problem areas
 - Lack of commercial/passenger interest
 - Pre-occupation with employee rights
- Abortive attempt on privatization



Three Wheelers

- Popularity rising due to deterioration of public transport
- Primary reason being attractive as means of self-employment
- Presently 142,000 vehicles, but transport 2% of share.
- Problem areas:



Trucking

- Has always been fully deregulated
- Efficient in corporate settings
- In informal settings, poor productivity, high fares, externalities
- Trucking is subsidized by the Govt.



Private Transport

Sub-sector	Value of Annual Inputs Rs mn
Railways	4,700
Buses	29,000
Three Wheelers	18,730
Private Vehicles	73,350
Trucks	42,300
Other	7,000
TOTAL	170,000



The Background Policy for Transport Sector Reform

Sri Lanka is a country with a high population density.

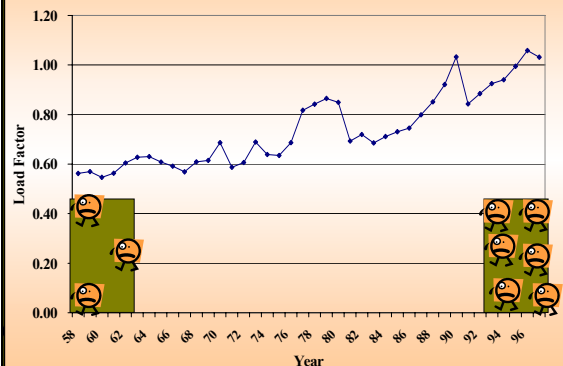
Such countries are ideally suited to make public transport (bus and rail) the primary provider of passenger transport services.

At present only 4% of households own a car or van.

Even if this were to double or treble our roads would not be able to handle the traffic.



Load Factor in Buses in Sri Lanka (1958 - 1997)



Impediments to Transport Regulation

- Policy of Long Term Sustainability and modal contributions
- Policy on End Product of Public Transport
- Exploitation of policy lacunas by trade unions, service providers associations and politicians.

Case Study on Reform through Regulation: Bus Sector

The Status of the Public Bus Transport Services

- The bus sector transports 68% of passengers
- Private Sector carries 70-75%, but service satisfaction levels are -0.03 (scale of +1 to -1)
- State Owned Bus Companies (SoBC's) provide around 25-30% of service. In recent times here too service satisfaction has fallen to 0.07.
- Even though there were periods of profitability the SoBCs are subsidized by around 30%.

It is less than in countries say in Europe, where bus sector subsidies range between 30 (U.K.) to 80% (Sweden) of costs.

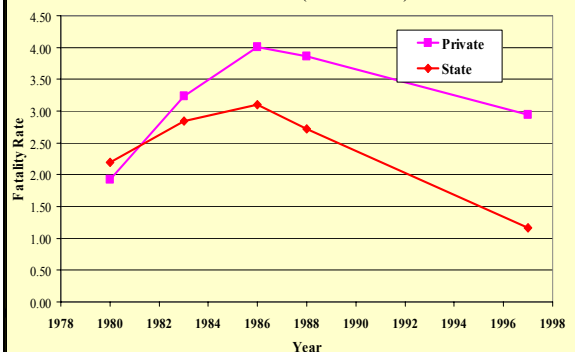
Why we need the Privately Operated Bus Services?

- When scope of demand for bus transport is extensive and State is not able (or willing) to provide adequate (a) investment or (b) management supervision or (c) both.
- To reduce the risk of a potential (particularly sudden) discontinuity of all bus services (the dominant mode of transport in Sri Lanka) due to trade union action when bus services are operated by a State agency.
- To bring about innovation, marketing and risk taking that is necessary to systematically improve bus services, for which the private sector is better equipped.

Do we have a responsible and competent Private Sector?

- On the credit side, they have made investments (mostly by single bus owners), they have also responded to the introduction of air conditioned services
- On the negative side, reliability of services have deteriorated, idling of buses at terminals and stops have increased, accident risk factors have increased, productivity of crew and buses have decreased.

Figure 7
Bus Passenger Fatalities per Billion Passenger kms in Sri Lanka (1980-1997)

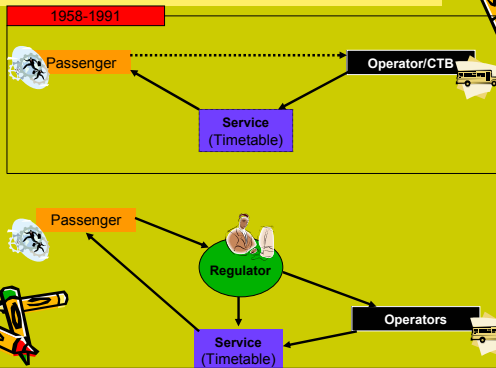


- Fares in real terms have not come down with increased competition, as opposed to quality of service that has deteriorated as measured by most indicators.
- Clearly the benefits of the private sector investment and management of services has not brought the desired result as is obvious to the bus passenger today.

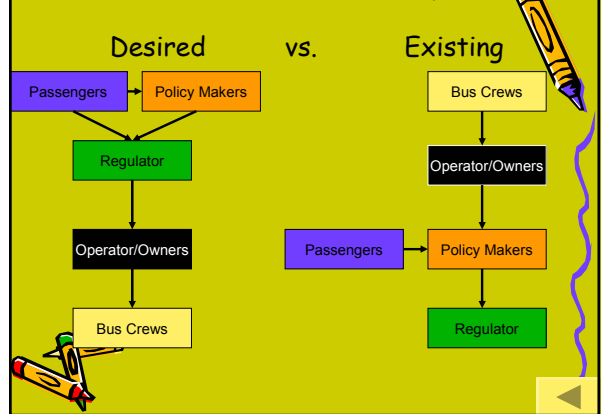
Regulatory lapses

- Although regulated fares, and the single bus ownership have been the most quoted reasons for this state of affairs, recent study and documentation reveals that a host of **regulatory lapses** are in fact the primary cause of this situation.

Profile of the Sector



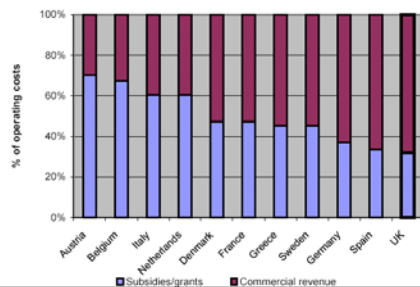
The Flow of Authority



Some Critical Issues Today

- Can Companies Make a Difference Today?
- Can Subsidies be Eliminated from Public Transport?
- What is the Role of the Regulator Today?

Revenue support for buses



Why an Effective Regulator for Bus Transport is needed?

- manage the supply of buses
- qualitative continuity of non-profitable services
- 'quality and fare'
- no barriers to entry of bus operators
- develop the bus service as a network of services and routes
- protect the rights of the bus passenger

Possible Models for Developing Bus Operations

- **Permit System:** (which is the practice in Sri Lanka)
- **Supervised Competition through Route Associations:** (Buenos Aires, Caracas, Istanbul, Manila.)
- **Route Franchising** (UK, Costa Rica, New Zealand.
- **Market Partitioning** (Dakar, Hong Kong, Bangkok)

What appears most appropriate for Sri Lanka

- In the short term to use route associations for larger routes and route franchising for smaller routes
- Route franchising and market partitioning simultaneously in the medium term
 - to ensure competition between quality and cost
 - to have a manageable number of corporate providers

Reforms in the Railways

- State ownership and operation of Core Operational activities
- Joint Ventures in Non-core activities
- Overcoming Problems of Reliability
- Reducing large Treasury payoffs

Three Wheelers

- Minimalist regulation is required
- Two areas of possible intervention
 - Registration & Certification of Driver & vehicle
 - Display of Fare Structure/Metering

Conclusions

- The transport sector in Sri Lanka has a wide spectrum of regulation ranging from total deregulation in the trucking industry to monopolistic control of the railways.
- As such Sri Lanka provides a platform for determining the pros and cons of reforms.
- Experiences to date in the bus sector in particular show that the correct formula has never been found and/or sustained.
- The paper outlines the impediments to reaching sustainability within economic and social service expectations.
- The pre-requisites for such an achievement together with a program for such reforms has been given as a study using the bus sector as an example.