NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH

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A Study of State Policies Affecting Competition - Passenger Transportation Sector

A Proposed Study to Competition Commission of India

Context: Rapid Economic Growth

- Indian population of 1 billion - a federation of 28 states and 7 union territories
- Indian economy fastest growing democracy in the world - recent growth averaging around 7-7.5 %
- Reduction of poverty - 50 % UN Millennium Development goal - implicitly assumed in projecting economic growth

Context: Challenges

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- State's economic performance, social development vary widely

  Kerela to that of East European countries to Africa in the case of UP and Bihar; size differs from less than a million population in the case of Sikkim to the U.P state - enough to be the fifth largest populous country in the world.

Context: Challenges

S.No.	States	Popualtion in 2001 (in million)	Per Captia Income (2003-04) Current Prices	Life Expectancy at birth (1998-2002)	Infant Mortality Rate 2003 (per 1000 live births)	Literacy Rates 2001 (in per cent)
1	Kerala	32	24492	73.5	11	90.86
2	Maharshtra	97	29204	66.2	42	76.88
3	Orissa	37	12388	58.5	83	63.08
4	Rajasthan	57	15486	61.1	75	60.41
5	Tamil Nadu	62	23358	65.2	41	73.45
6	West Bengal	80	20896	63.9	46	68.64
7	U.P.	166	10817	59.1	76	56.27
8	Sikkim	0.5	21586	NA	33	68.81
9	Delhi	14	51664	NA	28	81.67
	All India	**1029**	**21142**	**62.5**	**60**	**64.84**

Path Forward To Meet Challenges & Harness Growth

- Tenth Plan Document - balanced development of states consistent with national agenda.
- Increase in Private Sector participation.
- Markets cannot replace states; states to assume expanding role in social sectors.
- No preclusion of any section in achieving efficiency
- Equity intertwined with growth.

Path Forward To Meet Challenges & Harness Growth

- Equity through agri development, employment generation, special programs.
- Efficiency - promote competition, efficiency enhancing liberalisation policies - concurrent polices can be sub-optimal
- Aim - quality of growth need to be adequate; policy environment to support competitive economy at state and federal level.

Objectives

- To advocate enhanced competition and institutional reforms
- To bring about greater competition within the passenger transport sector across the states in India and also within the state boundaries - lubricate efficiency of development across borders.
- To attain the desired economic and social ends so as not to preclude any section while promoting competition and efficiency.

Scope

- The study would concentrate on six states in India with different levels of economic development within the same region facilitating comparison of the impact of respective state level competition policies on their sector performance.

- Focus - "internal learning and external lessons".

- External lessons: did competition help governments and consumers elsewhere.

- Internal Learning: state level constraints effecting efficiency, interviews and convenient sampling procedures.

Scope

- WESTERN ZONE: Maharashtra & Rajasthan
- EASTERN ZONE: West Bengal & Orissa
- SOUTHERN ZONE: Tamil Nadu & Kerela

The study will examine whether pro-competition policies has helped governments and consumers elsewhere in the world

Inter-state passenger transportation has numerous controls and permits and non-competitive policies that affect consumer welfare

External Learning to Increase Competition

- Effective Public-Private partnership
- Terms and conditions through competitive tendering
- Facilitators:
    - Small contracts sizes
    - Market finalization of rates
    - Contracts renegotiated every 5 years

Impact of Competition in Public Transport: Worldwide Evidence

• North America: 10% of fixed routes, more than 70% door-t-door services, 30% of school bus services and more than 50% of Canadian school bus services are competitively tendered.

• Commuter rail services are being competitively tendered in Sweden, Germany and the U.S

• Caracas, Santiago (Chile) & Bamako (Mali) have closed their publicly operated bus systems and converted to commercial operations. Sao Paulo has similar plans.

•All sub-urban bus services terms & conditions of operators in Montreal are tendered

• Istanbul and Calcutta are increasing the percentage of services provided by private operators.

Impact of Competition in Public Transport: Worldwide Evidence

- London: In 1999 London converted its entire bus system to competitive tendering. Nearly 40 companies provide service under more than 150 competitive contracts.

- Total cost reduced by 30%
- Unit cost reduced by 45.70%
- Service level increased by 28.7%
- Deregulation outside London not successful, competitive tendering is the only route

Impact of Competition in Public Transport: Worldwide Evidence

Table1: Summary of Competitive Tendering Results						
System	Period	% Converted	Total Costs	Service level	Unit Costs	Annual Unit Cost Change
Auckland	1990-96	100%	-21.20%	16.50%	-33.50%	-7.60%
Denver	1988-95	25%	3%	25.60%	-18%	-2.80%
Indianapolis	1994-96	70%	8.50%	38.40%	25.90%	-13.90%
Copenhagen	1989-96	56%	-18.50%	5%	-22.30%	-3.50%
Las Vegas	1993-94	100%	135%	243%	-33.30%	-33.30%
London	1985-96	57%	-30%	28.70%	-45.70%	-5.40%
San Diego	1979-96	37%	2.70%	46.60%	-30%	-2.10%
Stockholm	1992-95	59%	-18.50%	2.80%	-20.30%	-7.30%

Proposed Analysis in the Indian Context

Existing competition arrangements with respect to public transports in the six states will be analyzed taking into account the following aspects:

- Entry barriers
- Lack of Competition
- Anti-competitive practices:
  - exclusive dealing
  - tie-in arrangement
  - abuse of dominance
  - cartel; etc.

Schemes likely to have an adverse Impact on Competition

- Direct or Indirect fixing of fares
- The sharing of markets
- The raising of barriers to entry by setting standards of a quality partnership
- Bundling so that smaller operators may be able to tender for the services

Impact Assessment

1. Impact on Profits

2. Impact on Efficiency

3. Impact on Market Structure

4.Customer satisfaction in terms of punctuality, frequency, extent of coverage, fare, comfort, time-taken etc.

5. Estimating Own Price Elasticities, Cross-Price Elasticities & Income Elasticities

6. Impact on employees would be assessed based on Trade Unionism and Work Culture tracking

7. Impact on Quality of Life

8. Pricing Policy - fare structure, cross subsidization of non-viable routes.

Solution

- Innovative forms of Public & Private collaborations

- Contractual agreements - terms & conditions freezing