

Competition Issues in the Road Goods Transport Industry in India



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S.Sriraman

**Walchand Hirachand Professor of Transport Economics,
Department of Economics, University of Mumbai**

with

Anand Venkatesh

Manisha Karne

Assistant Professor,

Reader in Economics,

Institute of Rural Management, Anand S.N.D.T. University, Mumbai

and assistance from

Vidya Mohite

**Research Fellow, Department of Economics,
University of Mumbai**

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Rail – Road Share in India

	Rail	Road
Passenger	15	85
Freight	30	70

During the last decade, road freight has grown at a compounded growth rate of 11.9% compared to 1.4% on rail. Share of road in freight likely to stabilize around 85%.



Recent Trends

- In recent years, freight movement by road has not kept up with capacity – leading to lower capacity utilisation.
- The utilisation has gone down from nearly 70% in the early 1990s to less than 60% in 2001-02.
- This has affected profitability of operators – though freight rates have gone up, fuel costs have trebled.



Trucking Industry Ownership Pattern

- According to GOI (1966) – about 89% of road transport operators owned one vehicle each .
- The proportion owning 5 vehicles or less was 98% .
- UN mission (1993) claimed 95% of vehicles belonged to operators who had less than 5 vehicles.

Truck Industry Ownership

(continued)

- CIRT study (1998) –
 - 77% of fleet under operators who owned 5 trucks or less
 - 10% belonged to those with 6 to 10 trucks
 - 4% belonged to those with 11 to 15 trucks
 - 3% belonged to those with 16 to 20
 - 6% belonged to those with more than 20
- This ownership pattern continues (Deloitte Study 2003).

- The unique ownership profile has resulted in middle men – booking agents and brokers.
- With Fleet Operators shifting to a non asset based model, dependence of SRTOs on middle men is increasing.



Possible Market Structure

- Conceptually the presence of a large number of operators would lead us to infer that market is highly competitive.
- This indeed seems to be true in regard to general goods transportation – market forces determine freight rates.
- NCAER (1979) observed that due to intense competition, profitability was rather low in the case of SRTOs.

- In fact, GOI (1996) had been concerned with viability of operators especially from the financial point of view.
- GOI (1980), Sriraman (GOI 1998) had contested this since exit was an option. On the other hand, supply of services had, in reality, increased.
- Does it mean that a competitive regime prevails ?

- Given the segmentation of both in terms of market supply and demand (players) – the emerging feeling is that there are some dominant elements especially in the case of specialized traffic where shippers are likely to dominate.
- At the next level, the fleet operators, and other market players like the middle men could be exerting a certain influence.

Objectives of the Study

- 1. To understand the supposedly competitive nature of the market for general road freight transport services with a view to examining the role of different players in the industry in fixation of tariffs.**
- 2. To examine the possible use of supply/ area restrictions by the different players to derive some benefit.**
- 3. To look at the possibilities of a limited but possible dominating role in price fixation of the supplier of bulk services such as the fleet operator in the context of subcontracting orders to smaller operators to handle a part of the movement.**
- 4. To examine the role of bulk buyers of road transport services especially specialized services in the fixation of prices.**

- **Setting – Mumbai Metropolitan Region, Satara, Goa**
- **Work plan included :**
 - Literature Insights.
 - Developments of Analytical models of costing and pricing of road freight transport services.
 - Surveys of SRTOs, FOs, Booking Agents, Brokers, Associations, Financiers and Users.

Question : To find out whether there is a competitive regime in the context of the trucking industry in India ?

National Insights

This review leads us to conclude:

1. Trucking historically subject to very little regulation in India unlike many other countries which had regulations on routes, pricing, licensing of operators, etc.
2. The only deregulatory move that has taken place in India has been relaxation concerning movements all over the country.
3. The focus of the regulatory system has been on revenue collection (tax and otherwise) rather than enforcement of MV Act provisions.
4. Internally, industry characterised by skews – in terms of operators, users and intermediaries – there does seem to be an imbalance in the way revenue is shared by the various players.

National Insights (continued)

5. This imbalance is possibly a consequence of the intermediaries having access to greater information flows than the users and the operators.
6. The intermediaries appear to exert a far greater influence on the industry than what is normally thought of.
7. Maybe a need to bring intermediaries under the purview of regulation.

Analysis of freight rates and operator costs

This involved collection of data on a day-to-day basis relating to freight rates from 2002 prevailing in case of point-to-point movements between Mumbai and some major cities such as Delhi, Ahmedabad, Kolkata, Chennai, Bangalore.

Also attempted was an examination of the growth in fuel costs.

“ A sharp increase in fuel price along with a gradual increase in freight rates has implied a negative impact on operator profit.”

Truck Load freight Rates in Different Countries(2002)

Country	Average Unit per ton km(Rs.)
Pakistan	0.75-1.05
India	0.95-1.35
Brazil	1.20-2.20
United States	1.25-2.50
Central Africa	1.75-4.25
Australia	1.75
China	2.00-3.00

Analysis of freight rates and operator costs

- **Simple analytical model to look into various cost categories viz., fixed and variable**
- **To provide basis for simulation exercises considering for variations in loads, distances, fuel costs, capital costs, capacity, etc**

Analysis of freight rates and operator costs (continued)

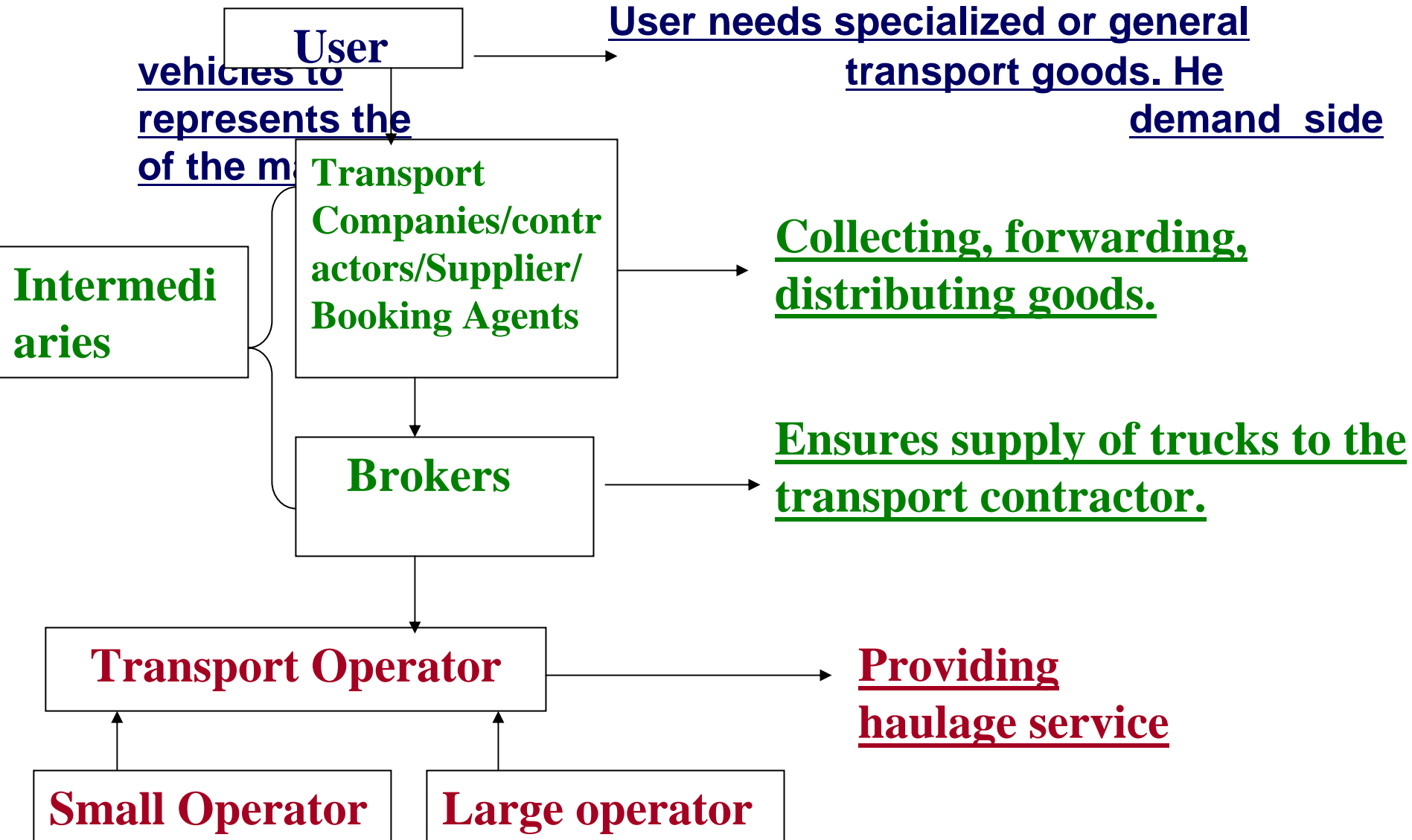
- **Given current freight rates, only a higher level of movement (350-400 Km, as against 250-300 km today) could prove viable**
- **Thus overloading order of day**
- **With judicial intervention, overloading likely to be thing of past**
- **Hence possibility of increase in overall demand and hence freight rates**
- **Efficiency improvements could partly counter the above**

The question: Would this possible higher realization eventually reach the operators?

Figure 1: Players and their functions

Players

Functions



Categories of players

➤ Users:

The users are typically expected to represent the demand side of the market.

➤ Intermediaries:

The intermediaries seem to play a significant role in the provision of transport services. These can be normally of two categories, namely,

Categories of players

(continued)

a) **Booking agents/Transport companies/transport suppliers:**

A booking agent is a person who represents the demand i.e. he negotiates on behalf of the users. He is responsible for collecting, forwarding or distributing goods carried by goods carriages. There are around 5000 operating in the Mumbai region.

b) **Brokers / Commission agents:**

A Broker is expected to represent the supply side i.e. the truck operators. He takes a commission from the truck owners and ensures the supply of trucks to the transport company/-booking agent. For every booking agent, it appears that there are 2 or 3 brokers giving us a figure of about 15000 brokers in the Region.

Categories of players (continued)

➤ **Operators:**

Operators are expected to provide the services in terms of movement. These can be categorized as follows:

➤ **Small Truck Operators:**

This category includes single (or small truck operators owning 1-5 trucks) truck operator, who are very large in number.

The Industry Structure: The Market Makers

- The traditional evidence is that the intermediaries dominate and are the real makers of the market.
- However, it is widely believed that the rate paid by the consignor is the competitive one

Questions to be Asked

- If the consignor is being offered a competitive rate, which is low, how much lower is the final rate offered to the operator given that the final rate has no relationship to the consignor rate ?
- Would the rate to the consignor be lower given reasonable margins to the booking agents ?

Market Surveys and Analysis

- 100 Booking agents, operators and brokers surveyed in and around Mumbai
- In addition dozen of these players surveyed in Satara and Goa
- **Focus Areas: Nature of Business, functions, areas of operations, nature of market, degree of competition and problems faced by these players**

Market Surveys and Analysis

(continued)

Any market has to be understood in terms of the following:

- product service that is offered
- the geographic area which it serves
- the nature of substitution possibilities within and outside
- the ease of entry and/or exit into the sector in terms of policy/regulatory elements and factors within the sector.

I. Service differentiation

- Parcels or small business
- Full Truck Load
- Container movement to take care of both
- Movement in Specialised Vehicles

II. Areas of Operation

Trucking operation can be classified as:

- Local
- Regional
- National

Areas of operation

- National operation
- Route based operation (Inter-regional)
- Route based operation (Intra-regional)
- Local operation

Specific Route based operation (Inter- regional)

(continued)

The main factors responsible for this kind development are:

- Market expansion requires finance.
- Requirement of permits for operating in different states and costs involved in it.
- The requirement of staff and hence staff costs will be higher.
- Infrastructure (or offices at different location, information to establish contact for return trip etc.) is also a constraint.

III. Substitution Possibilities

- Choice of railways as a substitute mode has always been a possibility especially long distance movements.
- But the railways have been consistently under performing in terms of their potential.
- As a result diversion of traffic to the roads has been a common feature despite higher explicit costs of movement.
- Given the emergence of a more dynamic approach on the part of the railways in recent times especially in regard to parcel traffic, some increase in railways share in the near future is an emerging possibility.

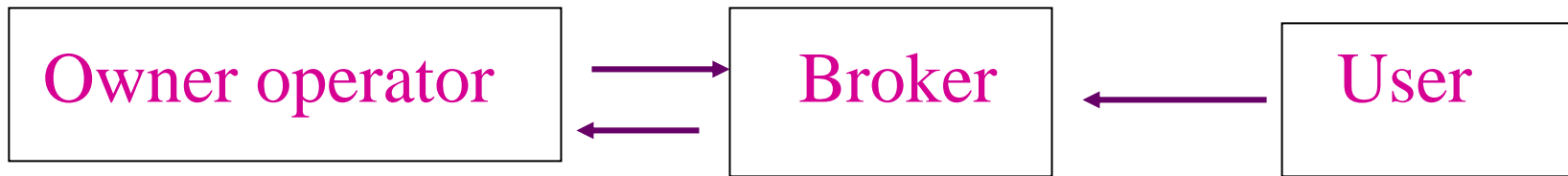
IV. Ease of Entry and Exit

- Entry barriers are almost nonexistent –this is a perception which is almost true.
- However, once entry is made, there is a problem of knowledge as to where the demand for the services existed – basic information requirements are not satisfied.
- As a result there is attachment to the intermediaries not only for traffic considerations but also for a host of other things.
- This preempts exit also.

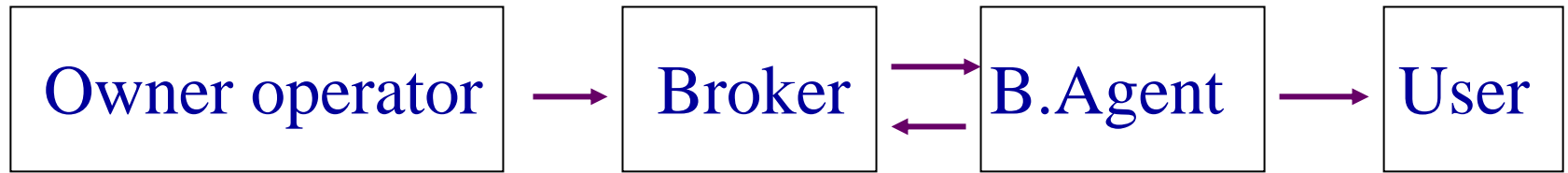
Interrelationships observed in surveys among players



- **In this model there is almost no role for intermediaries with movements being confined to local ones.**
- **This seems to be a competitive market with rates being determined by the operators and the users.**
- **However, there are instances in these movements where attempts are made to keep away outsiders and even fix slightly higher rates. These local attempts to fix rates are not based on any formal association.**
- **In the absence of return trips, higher rates are charged. Refer also to local cartels at Nhava Sheva.**
- **Solution**



- In this model, the presence of a broker who gets a fixed commission does not vitiate the competitiveness of these market since movements are confined to a State wherein informational and other requirements are limited.
- In case of some tie ups with brokers in other parts of the States, there does appear to be a possibility of a very low rate for the return load.
- In Goa, village panchayats perform the role of brokers for the local operators. No outsider is allowed entry in these movements which are mostly local.

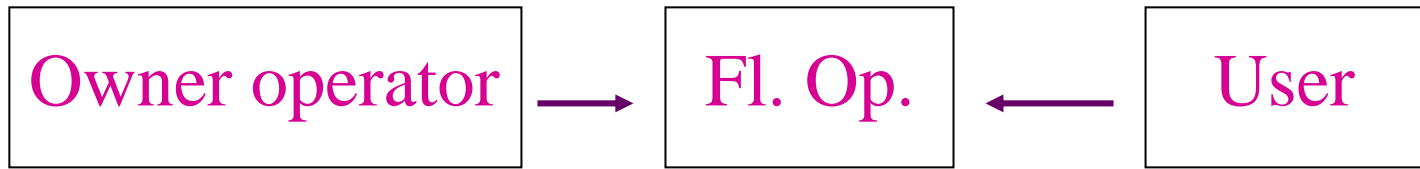


- This structure is reflected in the case of inter-State movements.
- A priori brokers seem to represent the supply side while booking agents the demand side.
- Since the brokers get only a commission, the booking agent really represent the supply as well as demand side.
- As a result the booking agents have a dominant role to play in terms of the freight rates also.
- In Satara, a group of small operators are organised in such a way so as to get allocations for movement on a day-to-day basis without really influencing price.



- This is a variant of the third model with the fleet operator also attempting to dominate vis a vis the smaller operator and the booking agent not being as powerful as given the presence of the fleet operator who is in a better position to obtain information.

The third and the fourth models do seem to represent a significant part of the movements. Even given segmentation of markets in terms of routes, these seem to constitute fairly competitive markets where the concerned intermediary plays a significant role in arranging movements but not in rate fixation given the presence of a large number of such intermediaries.



- Here the fleet operator has a multiple role.
- Given the dominance of the user the freight rate is often a competitive one.
- However, groups of operators bid for these contracts very often together.
- This is for the purpose of obtaining the contract and not deriving any price concessions.
- In the case of attached operators, there is invariably a problem of lower freight rates.

The Competition Act 2002 and the Findings of the study

- Segmented market for trucking services
- Markets segmented on basis of routes, areas of operations, etc
- Operators and commission agents have clear preferences for certain routes
- Route preferences mainly based on familiarity, contacts, infrastructure required so as to minimize risks
- Segmentation has empowered intermediaries by enhanced access to information
- Intermediaries leverage this power by charging higher commission
- Entry of larger number of players is ensuring that structure is driven by market forces

Findings of the study (contd)

- Role of intermediaries “useful” if viewed in terms of user requirements
- Though collusion is observed in rate fixing, existence of large no. of intermediaries shows an increasing tendency to market determined revenue sharing mechanism
- This is mainly prevalent in Mumbai Metropolitan region

Effects of Policy and Regulatory Regimes on Competitiveness of the Industry

- **Policy Effects**

- **Taxation Regime**

- **#Vehicle and Operation Related**

- A **High Tax** burden has naturally affected the competitiveness of services especially when viewed from the perspective of liberalisation and globalisation of markets.

Policy Effects (cont'd)

Commodity Related

- These have resulted in significant barriers to movement as has been noted in many studies in the past including the most recent World Bank report (2005) which observed "reliance on the trucking industry in India as an instrument for enforcing of varying state sales taxes across the states places an additional heavy administration burden on the sector".

Regulatory Effects

Ineffective implementation of the regulatory framework has seriously impeded efficiency of truck operations.

“The intermediary is a far lesser evil than the policeman/ the RTO official/ STA official”

- Operators, booking agents and brokers

Competition Advocacy Measures and Initiatives (CAMI)

- The State Governments through the RTA and with the help of Operators' Association could eliminate price fixation practices in local movements
- The RTA could fix price band within which the operators could compete until such time that the market has effective competition.
- Need to enhance the efficiency of competitive tendering through more careful attention to the tendering process
- the Commission's advocacy role would be to impress upon Governments for an active oversight of the competitive tendering process to ensure sustainability of competition failing which active competition enforcement would be resorted to by the agency.

CAMI (cont'd)

- An effective public sector role (Central and State) can be in facilitating applications and adaptability of information technology and Intelligent Transport Systems (ITS).
- This is useful in coordinating the working of the system of exchanges that can be expected to emerge at the regional levels.
- Promotion of Transport Operator Cooperatives – as a means of enabling viability of operations, information asymmetries etc

CAMI (cont'd)

- Need for competitive regime in container market
- need for a fair allocation of services in terms of access between the players (the multimodal operators) in the market.
- need to point out anomalies relating to bounding requirements associated with custom clearance in the case of inland truck movements.

CAMI (cont'd)

- Advocacy should cover the quality aspect of the trucking service (industry)
- Need to move beyond present institutional focus on “Revenue” to important provisions such as mobility, axle load controls, safety, fuel conservation, environmental protection etc
- Rate regulation is an anachronism and even provision for such regulation must be removed.
- relevant provisions relating to fixation of minimum and maximum rates contained in Section 67 (1) and Section 79 (2) (iv) are redundant and should be dropped from the Act to ensure that there is no more clamor for minimum rates under the existing regulatory framework..

CAMI (cont'd)

- Need to correct perverse financial incentives and tolls inhibiting the use of efficient trucking technology and road capacity
- An important advocacy measure encouraging the efficient mix of different modes
- As a matter for advocacy in this regard, to begin with, it may be useful to designate 'Trade Corridors' along the Golden Quadrilateral that has been developed under the National Highway Development Programme which connects the four metropolitan centers and the three major ports of the country