

RATE REGULATION AND ECONOMIC EFFICIENCY
IN RURAL ROAD GOODS TRANSPORT

by

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SUMMARY

The justification for the setting of rate maximums and minimums by the New Zealand Ministry of Transport for the rural road goods transport industry is reviewed in the light of the continuing need for greater efficiency in the farm servicing industries. Doubts are raised as to the validity of the original justifications in today's context. Because the rural road goods transport industry provides an unscheduled service, rate setting by Government is not clearly consistent with economic efficiency. The forces of price competition are not acting to reduce prices. Rather, farmers are paying for the luxury of service competition with rates being fixed by a third party, within a narrow range and on a cost-plus criterion. It is suggested that minimum rate controls should be removed, that rates charged should more closely reflect cost differences and that controls over entry to the industry should be relaxed.

"All forms of rate regulation are bad, and the more restrictive they are, i.e., the more they cause prices to deviate from the efficient prices, the more harmful they will be".

- Conrad J. Oort (1970), p.170

1. INTRODUCTION

The road transport industry in New Zealand is closely regulated by Government. This regulation extends beyond safety and technical regulations into the economic aspects of road transport. Entry into the industry is restricted, competition between carriers and against railways is restricted, and both maximum and minimum prices which carriers may charge are fixed by Government. The historical development of these regulatory practices, as is the case in most Western countries, has its origins in the 1930's.¹ Material shortages during the second World War constrained progress in road transport and set a precedent for tight regulatory control. During the industry's rapid expansion through the 1950's policies of close regulation were continued and restrictive practices consolidated. It is time for the fundamental justification for this close regulation over road transport to be reviewed in the interest of transport users.

1

The international influence of the Salter Report (U.K. Ministry of Transport (1932), Report of the Conference on Road and Rail Transport) was considerable. Many of the measures in the Report relating to economic regulation have subsequently been soundly criticised by economists e.g. Mundy, D.L. (1965), "The Economics of Road Haulage Licencing", Oxford Economic Papers, 17(1), pp.111-129; Joy, Stewart (1964), "Unregulated Road Haulage: The Australian Experience", Oxford Economic Papers 16(2), pp. 275-285; Conrad J. Oort (1970), The Economic Regulation of the the Road Transport Industry, International Bank for Reconstruction and Development, Economics Department Report EC-177.

The goal of economic efficiency in the transport industry needs to be given greater emphasis in the future. In the past economic efficiency has not always been the primary objective behind Government policies.² Nowhere is the need for economic efficiency more important than in the rural goods transport section of the road transport industry which meets the bulk of New Zealand's farming sector's transport needs.³ Falling profitability in farming has been threatening its viability⁴ and therefore has been threatening a large proportion of New Zealand's foreign exchange earnings and hence labour employment capacities. One means towards retaining profitability in farming is to minimise rural transport costs.

In this paper the justification for rate regulation in the rural road goods transport industry is reviewed and fresh objectives are proposed. Less restrictive regulatory controls are suggested.

2

For a discussion of objectives other than economic efficiency see Kolsen, H.M. (1974), "Regulation, Efficiency and the Public Interest", Int. J. of Transport Economics, 1(1) pp. 40-63.

3

Survey by the author, Ambler, T.I. (1975), Use Made of Transport by Farmers: A Pilot Survey with Results Relating to Ashburton County, A E R U Discussion Paper No. 30, Lincoln College.

4

Report of the Farm Incomes Advisory Committee (Zanetti Committee) to the Minister of Agriculture and Fisheries (1975), pp. 94-115, Wellington.

2. HISTORICAL DEVELOPMENT

Price controls over road transport in New Zealand were first officially mooted in 1933, shortly after the introduction of licencing to the industry in 1931.⁵ The Transport Department's Report of 1933 stated that

*".... it was abundantly clear that, with competition controlled by the licencing machinery, the question of fixing charges must ultimately be undertaken to protect the public against undue exploitation of the partial monopolistic position in which many operators will ultimately find themselves, and also to ensure that the full benefits of regulatory control are passed on to the public in the form of reduced transport charges"*⁶

A further justification for price controls in the same Report was

*".... to protect licenced operators from uneconomic 'rate cutting' by irresponsible competitors".*⁷

Licencing authorities were given the discretionary power to become involved in price setting but the policy of the day favoured the matter being left to competition and settlements between operators and users.⁸

5
Transport Act, 1931.

6
Appendices to Journals of House of Representatives (A.J.H. of R.)

7
Ibid

8
A.J.H. of R., H40, 1934, p.23

There was little price fixing before 1938. From about that year the principle of regional rate schedules was developed with their acceptance being required by Licencing Authorities in some regions as a condition for the granting of licences.⁹ Price fixation procedures became increasingly complex under the influence of the accountants associated with the wartime Goods-Service Charges Tribunal (appointed in 1942) and the Transport Charges Committee (constituted in 1949). In 1950 the responsibility for setting the industry's prices passed to the Commissioner for Transport¹⁰ (now the Secretary for Transport) and the procedure of setting regional rate schedules with maximum and minimum prices became established. Undoubtedly the granting to the Commissioner of the right to fix charges on his own initiative,¹¹ a right not possessed by previous rate fixing authorities, ensured that this procedure would evolve and apply universally in the industry. The procedure by which the Commissioner freely used his power to initiate the fixing of prices was so well established by 1958 that his right to refrain from fixing prices until operators and users had failed to agree on the matter had become redundant and was repealed.¹²

9

A.J.H. of R., H40, 1938, p.33

10

Transport Amendment Act, 1950

11

Ibid, s 123(2)

12

Transport Amendment Act, 1958

Today rate schedules are published by the Ministry of Transport for some 28 rural areas. These schedules are arrived at following an in depth study of operating characteristics experienced in the region by a sample of operators. These characteristics include vehicle types in use, laden miles, commodities hauled, average loads, availability of backloads, annual vehicle miles, annual vehicle hours in use, trip length distributions, and so on. Trucking costs in the areas are synthesised on the basis of these findings allowing a 10 percent mark-up on costs. Each schedule specifies maximum rates by distance and by commodity along with time-plus-milage rates for hires not specifically covered in the commodity classification. The schedules also specify the volume of use required before a contract may be negotiated between an operator and a user, backhaul rebates and a variety of special charges and discounts applicable to operating conditions in the region. Minimum rates are set at 10 percent below the maximum rates (which are those specified in the schedule).

Periodically, in response to cost increases, the Secretary of Transport grants percentage increases to apply to all rates thereby updating schedules which could be based on a survey conducted as long ago as 1963 as in the case of North Canterbury.

Government departments exercise price controls over most New Zealand industries; but over road transport the controls extend to price setting. Few other industries, especially industries whose private enterprise ownership is as fragmented as that of road transport,¹³ would countenance such government control.

13

There are some 2,000 firms engaged in rural goods transport in New Zealand according to figures given in King, M.A. (1971), The Structure and Ownership of the New Zealand Licenced Road Goods Transport Industry, Thesis, Victoria University of Wellington. It is not possible to make a precise distinction between carriers meeting urban and those meeting rural goods transport demand.

In the United Kingdom¹⁴ and Australia¹⁵ the industry has a history of freedom from government controls over price fixing. In the United States price controls over the industry exist but consist of a requirement for rates to be published and filed with a government authority, the Interstate Commerce Commission. Any interested party, including the Commission, may challenge the rates within a certain period in which case they are reviewed by the Commission in the light of its maximum and minimum price criteria.¹⁶

14

British Information Services (1974), Inland Transport in Britain H.M.S.O., p.10 and Thompson, A.W.J. and Hunter, L.C. (1973) The Nationalised Transport Industries, p.241, Heineman, London.

15

Joy, Stewart (1964), op.cit. and Kolsen, H.M. (1968) The Economics and Control of Road-Rail Competition, Ch.9, Sydney University Press.

16

Kolsen, H.M., op.cit, Ch.7; Campbell, Thomas C. (1960), "Agricultural Exemptions from Motor Carrier Regulation", Land Economics, 36, pp.14-25; Ulrey, Ivon W. (1969) The Economics of Farm Products Transportation, Marketing Research Report No. 843, Ec. Res. Serv., USDA Washington D.C.

3. JUSTIFICATION FOR PRICE FIXATION

The fixation of goods transport charges in New Zealand has the broad objective ...

*"... of preserving and promoting the social and economic welfare of New Zealand"*¹⁷

This objective is sufficiently general to be of little use as a guide to a rate regulatory authority. The legislators obviously realised that this was the case and provided more specific objectives. Those relating to goods transport are

*"... The promotion and maintenance of the economic stability of New Zealand."*¹⁸

Further relevant objectives specified in the Act are

*"... The desirability of increasing national production by granting concessions on the carriage of producers' goods."*¹⁹

*"... The desirability of maintaining a reasonable standard of living and satisfactory working conditions in the road transport (industry)."*²⁰

*"... The maintenance of the efficiency of the transport services to which the proceedings relate."*²¹

¹⁷ Transport Act, 1962, s151

¹⁸ Ibid s151 (a)

¹⁹ Ibid s151 (b)

²⁰ Ibid s151 (e)

²¹ Ibid s151 (f)

Stability is a dangerous objective in that it can too easily be interpreted as "a quiet life for established interests".²² This objective could well be removed from the Act.

Concessions for the cartage of producers' goods implies an advocacy of differential rating practices of the type traditionally practiced by railways and put forward as a major argument favouring the protection of railways from road competition.²³ In fact the Ministry of Transport has related the prices it sets for road transport to costs rather than adopt cross subsidisation in favour of certain commodities. Accordingly this objective is of little practical relevance today.

The third specific objective would appear to have been the leading consideration underlying the transfer of price fixation controls to the Transport Department in 1950. At that time a considerable number of ex-servicemen were entering the road transport industry as independent owner-operators. Indeed in 1950 nearly half of all goods service licences were held by ex-servicemen.²⁴ Few if any of these men were trained in business management. With price controls more or less unchanged from wartime controls, and with the cost increases of the post-war inflationary period, operators began to overload the Transport Charges Committee with requests for price rises.

22

Joy, Stewart (1964), op.cit. p.275.

23

A.J.H. of R., D2, 1954.

24

49.7 per cent of goods service licences were held by ex-servicemen in 1950 (A.J.H. of R., H40, 1950, p.31) under the active encouragement of the Rehabilitation Board (A.J.H. of R., H.18, 1946, p.6).

Serious consideration could then have been given to removing price control altogether from the increasingly competitive and rapidly growing industry. Instead price control was tightened and centralised with price fixation becoming the function of public servants who could set prices on their own initiative. Minimum prices became an important regulation. Initially being set at 5 percent below schedule, minimum prices are now set at 10 percent below schedule.

Undoubtedly the protection of the incomes of ex-servicemen operators was a leading factor behind the setting of price minimums. It is reasonable to hypothesize that the main reason for the industry's acceptance of the increasingly centralised government setting of prices was a consequence of the income protection policy. Its main impact was on the small owner-operator firms which dominated the industry in numbers. In 1950, 83 percent of firms owned three or fewer trucks and only 5 percent of firms owned eight or more trucks.²⁵ Price cutting among these operators in response to competition would have been in the interests of transport users. At that time, however, farmers were receiving relatively high incomes and it is likely that the government of the day gave priority to protecting the incomes of transport operators to assist the rehabilitation of ex-servicemen.

25

Wilbur Smith and Assoc. (1973), New Zealand Transport Policy Study, Govt. Printer, Wellington, Pt. IV, pp.1-86.

In 1961 distance restrictions were relaxed from 30 miles to 40 miles for road in competition with rail in the haulage of general goods.²⁶ All distance restrictions were removed for the haulage of livestock. This latter relaxation has been credited as being the cause of the major technical progress within the industry during the 1960's.²⁷ Trailers were more frequently used and the average truck size increased. For example from 1963 to 1971 the proportion of vehicles over 15 tons in weight in the goods service industry grew from 8.9 percent to 21.0 percent.²⁸ During this period of rapid productivity increase it was not difficult for operators to achieve efficiency levels above the average obtaining at the time of the last detailed regional survey, which could be several years out of date. With the rate schedules designed to provide an operator of average efficiency with a satisfactory income, most were able to achieve above average incomes. Indeed statistics of the average incomes of the self employed indicate that those in the road goods transport industry have been among the best rewarded of the non-professional self employed (see Table 1).

26

Transport Licencing Regulations 1960

27

Polaschek, R.J. (1969), "Transport and the Sheep Farmer Today", Sheep Farming Annual, Massey University.

28

Wilbur Smith and Assoc., op.cit., Pt. IV, pp 1-87

TABLE 1

Taxable Incomes of the Self Employed

	1974/75	1973/74	1972/73	1971/72	1970/71	1969/70	1968/69	1967/68	1966/67	1965/66	1964/65	1963/64
Agriculture and Livestock Production												
Sheep Farming	6,200	8,500	7,500	4,650	3,750	3,900	3,400	3,300	3,220	3,950	4,000	3,480
Dairy Farming	5,500	5,600	5,200	4,500	3,150	3,070	2,560	2,900	3,150	2,960	2,690	2,232
Other Farming	5,100	5,400	4,450	3,500	3,000	2,850	2,550	2,480	2,690	2,760	2,620	2,386
Manufacturing	6,200	5,450	4,450	4,050	3,500	3,100	2,650	2,620	2,750	2,700	2,770	2,360
Construction												
Builders	8,200	6,750	5,400	4,550	4,050	3,560	2,990	3,000	3,170	3,090	2,980	2,678
Building Ancillary Trades	7,100	5,900	4,900	4,300	3,900	3,440	2,950	2,980	2,140	3,120	2,860	2,530
Wholesale and Retail Trade	6,500	5,300	4,300	3,650	3,300	3,040	2,640	2,660	2,750	2,630	2,670	2,404
Transport												
Road Passengers	4,600	4,250	3,850	3,600	3,050	2,850	2,280	2,350	2,470	2,430	2,360	2,134
Road Freight	8,900	6,700	5,700	4,900	4,600	3,970	3,740	3,700	3,640	3,580	3,350	2,968
Services - Professional												
Medical Practitioners	21,900	18,900	16,500	14,500	12,700	10,700	8,840	8,700	8,590	8,370	8,190	7,746
Dental Practitioners	17,100	13,500	11,600	10,250	9,400	8,130	7,700	7,550	7,480	7,420	7,050	6,420
Legal Practitioners	20,100	21,100	16,750	13,600	11,950	10,750	8,500	8,340	8,200	7,990	7,360	6,574
Public Accountants	14,300	12,600	10,950	10,050	8,600	7,680	6,520	6,450	6,260	6,180	5,820	5,294
Services - Other	5,400	4,500	3,700	3,250	2,900	2,620	2,420	2,380	2,320	2,230	2,160	2,008
	(1)	(1)	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)	(4)	(4)

Sources:

- (1) Supplement to Monthly Abstract of Statistics, March 1976
- (2) N. Z. Official Yearbook, 1974
- (3) N. Z. Official Yearbook, 1970
- (4) Supplement to Monthly Abstract of Statistics, October 1967

Other considerations are also likely to have maintained the support of transport operators for price controls. With only a 10 percent negotiating range for all but large contract clients,²⁹ there is little point in transport users seeking several competitive quotes. Indeed a recent survey by the author revealed that of 1,664 South Island farmers only 10 percent made a practice of obtaining several quotes. Instead the survey showed that 83 percent of farmers indicated that they preferred to remain loyal to one firm in anticipation of better service. In practice the survey showed that 82 percent of South Island farmers used only one transport operator for 75 percent or more of their livestock transport; and 52 percent used only one operator for all their livestock transport. Competition in the industry has been shifted from price competition to service competition by the price fixation procedures. Service competition has its advantages but the question must be asked : is it a luxury that users can afford?

Rate schedules also remove a substantial cost accounting and price setting responsibility from operators. Owner-operators untrained in business management are assured of reasonable financial security by charging the schedule prices and by at least matching the industry's average throughput of work.

Finally, established operators may see the acceptance of government control over their pricing as a reasonable quid pro quo for the granting of protection against free entry to the industry.

29

The annual use which a client must make of a carrier before a contract discount may be negotiated must amount to a certain sum at schedule rates. The sum varies between area schedules up to \$1,500 but averages around \$1,000. An exception is the Nelson area where the amount is \$500 per job.

Returning to the list of objectives set down for price control, the last specified by the Act relates to efficiency. Price control in the rural road goods transport industry is inconsistent with the attainment of maximum economic efficiency.

Firstly, the principle of price control, as practiced over the industry, mitigates against operators going out of their way to increase their productivity. A cost increase is followed by an approach to the Secretary for Transport to grant a carefully calculated percentage increase in rates according to the effect of the cost increase on total operating costs. The industry³⁰ maintains an index of costs weighted proportionately by each cost item (wages, fuel, etc.) for this purpose. The Secretary for Transport is then placed in the difficult position of trying to reduce the allowed increase by an amount that he thinks the industry could absorb due to greater productivity.³¹ In a more competitive pricing system prices would undoubtedly rise due to inflation : but there would always be pressure on each firm to minimise the increase by improving productivity in order to maintain or improve its market share. The industry would be more likely to fully exercise its potential for productivity increase in this way than through an arbitrary estimation by a government department.

30

Road Transport Association (Inc.)

31

In Decision Number 3588 the Secretary of Transport granted a 3.3 percent increase in rural cartage rate schedules after NZ Transport Assn. Inc. had requested a 3.6 percent increase.

It can be argued that productivity in the transport industry has increased substantially and that much of the gain has been passed on to the users.³² The incentive to increase productivity at present is much more a carrot than a stick. By operating at greater than average productivity greater rewards are obtainable from schedule prices, as reflected by the relatively high average incomes in the industry cited previously, and market shares remain much the same. Firms operating at relatively low levels of productivity can also maintain their market share but simply make less profit. In the traditional competitive model market shares are variable with productivity due to the capacity of high productivity firms to undercut rates and draw off patronage. Low productivity firms have to improve their efficiency or lose their market.

Rate cutting should not be seen as a destructive and undesirable practice. Arguments assigning these characteristics to rate cutting arose during the 1930's. The justification for these arguments has subsequently been questioned³³ and the experience of deregulated road transport in Australia indicates that rate cutting does not assume these characteristics when it is permitted.³⁴

32

Habgood, J. (1976), "The Road Transport Operator's Situation & Views", paper presented at a Seminar on "Costs Beyond the Farm Gate", Lincoln College.

33

Macleod, W.M. and Walters, A.A. (1956), "A Note on Bankruptcy in Road Haulage", J. of Industrial Economics, pp. 63-67.

34

Joy, Stewart, op.cit. p.280

"This was shown in the trade recession of 1960-1 when rates rarely fell even below long run direct costs and owners unable to find work for their vehicles at profitable rates, either diverted them to other uses or laid them up."

Rate cutting is really just another term for price competition in which the high productivity operator has the advantage. To avoid the nuisance of small incompetent operators setting irrationally low prices to win traffic a solution of education and a maintenance of managerial standards is preferable to overall rate regulation.³⁵ The possibility of large firms undercutting to eliminate competition ("predatory pricing") is a case for special monopoly controls rather than overall rate regulation.

The second area where price control is inconsistent with economic efficiency also concerns market shares. As already noted service competition rather than price competition is a feature of industries with regulated price minimums. Some services are valued by users especially when they involve him in no additional costs. It is hardly surprising that a user will prefer to patronise a firm prepared to man a telephone at all hours rather than one which is not when both charge the same schedule rates. It is by this means, and by mergers and takeovers, that market shares are manipulated in the industry in New Zealand. In fact transport users are in danger of thinking that they are getting something for nothing. The various services provided by operators get built into their cost structure each time a regional survey of operating practices and costs is carried out by the Ministry of Transport. Users pay for additional services through higher overall transport costs. Because all users pay much the same prices it is rational for farmers to demand as much service as possible because the additional costs are shared by those making only moderate demands. Operators are faced with difficulties in meeting unreasonable demands.³⁶

35

E.E.C. requirements for road hauliers to be "reputable, possess adequate financial resources and to be professionally competent" are being developed. (Freight Transport, British Information Services, March 1975.)

36

Habgood, op. cit.

There is no doubt that transport users are paying more than they would if economic efficiency was a primary objective of rate regulation in rural road goods transport.³⁷ For example, between February 1969 and March 1970 a penalty clause was included in the Southland Area Rate Schedule (clause 14). It enabled Sunday premiums to be charged for livestock if tallies were not provided to the carrier by 6 pm. the previous day. While clause 14 was in force carriers made sufficient savings in costs to offer a 5 percent discount in standard livestock cartage rates, largely because of better vehicle utilisation due to better planning in advance of the next day's work.³⁸

37

Oort, C.J., op.cit., Ch.XVI covers the theoretical aspects of this question. Nelson, James, C., (1973) in "Impact of Entry Control on Transport Pricing", Criteria for Transport Pricing, ed. Fair, Marvin L., and Nelson, James R., Cornell Maritime Press Inc., Cambridge, U S A, reports on some practical experience:

"The USDA found the truck rates charged by carriers during 1956 and 1957, the first years of free entry, were approximately 33 percent below the 1952 regulated rates on fresh poultry, and 36 percent below the 1955 rate on frozen poultry. Truck rates on frozen fruits and vegetables during 1957 ranged from 11 to 29 percent below the regulated rates of 1955. Not only were the rates under free entry measurably lower, but USDA studies found that exempt trucking rates have been relatively stable and sufficiently high to attract enough capital investment to provide growing capacity and modern equipment for exempt trucking. When frozen fruits and vegetables were again regulated by the Transportation Act of 1958, rates changed notably, with increases predominating." (see p.274)

A review of the literature on the question is given in Johnson, James C. and Harper, Donald V. (1975), "The Potential Consequences of Deregulation of Transport", Land Economics, 51(1), pp.58-71

38

Refer to Secretary of Transport's Decisions No. 2618 (10 Sept 1968) 2687 (12 Feb. 1969) and 2770 (13 March 1970) under the Transport Act 1962.

With schedule prices being based on average cost there are few signals to inform users that they are demanding high cost services; or that they are saving costs for the carrier by moderating their demands. The Southland experience indicates beyond doubt the absurdity of trying to prescribe by rate schedules a matter which is far too complex to be reduced to a single clause. Operators, users and administrators recognised the need for a change but were unable to agree on the precise nature of the change. Competition with freedom in rate setting would be more likely to arrive at workable solutions to such matters than are administrative measures.

4. PROPOSALS FOR REFORM

The Transport Policy Study of 1973³⁹ has already raised the issue of road transport pricing and recommended a relaxation of the existing controls. In essence, the recommendations⁴⁰ follow the recommendations made by the authors (e.g. by Oort {1970}). The key changes proposed are the abandonment of minimum rates, the relaxation of quantity controls over entry to the industry and some control over the development of regional monopolies.

Firstly the fixing of a minimum rate in rural goods transport needs to be abandoned. Although it may have served a useful purpose in guaranteeing income for ex-servicemen owner operators during the 1950's, transport users, especially farmers, now have a more legitimate claim in the national interest than do the existing transport operators for protection of their net incomes.

It can be argued that licenced operators are bound, as a condition of their licences to meet certain "common carrier" obligations. They should therefore be protected against outside operators who undercut their rates for their more remunerative traffics - "cream skimming" as it has become known. In the case of scheduled carriers this argument is not unreasonable but "common carrier" obligations are largely mythical in the rural road goods transport industry where few scheduled services are offered.

39

Wilbur Smith and Assoc., op.cit.

40

Oort, Conrad J., op.cit

Minimum prices can be justified as a protection for small operators against attempts by large operators to drive them out of business. A large firm could accept a period of loss making in order to eliminate competition in anticipation of later freedom to charge relatively high prices. Such activity is contrary to the long term interests of both operators and users and provision should exist for it to be checked. Adequate protection could be achieved from some auditing procedure by the Ministry of Transport supplemented by a right for operators to initiate the exercise of such procedures over a rate cutting competitor. The criterion of prices not falling below variable costs should be applied by the Ministry, not a criterion of full or average costs as at present used to set minimum rates. The administrative load on the Ministry can be minimised by using an index of costs, by requiring rates to be reported and by investigating exceptions rather than all rates.

Secondly, the present average cost basis for rate making needs to be replaced by prices reflecting the consumption of economic resources incurred.⁴¹ By this means users making unreasonable demands, such as special trips just to deliver a small item, or demanding service at unreasonable times with unreasonable notice, would face the disincentive of having to pay a higher price to compensate the operator for the costs he incurs in providing extra services. With a regime of price competition replacing service competition it is unlikely that such particularly demanding users will get what they want cheaply from another firm. Rather than having to subsidise unreasonable users, transport users making reasonable demands will stand to be rewarded by lower transport charges. In due course significant changes in farming practices especially some spreading of the peaks in demand for transport services and more planning of transport needs could be expected to take place; and to result in better co-ordination of demand and supply in the industry and therefore lower overall transport costs for farmers.

41

A.J.H. of R., F.14, 1976, "Interim Report on Transport", Section 2

The price setting responsibility would pass to operators who would have flexibility to charge, as is the case in any other business, any price above variable costs provided that overall profitability satisfies shareholders and provided monopoly prices are not charged. Thus capacity is likely to be better utilised for example where low rates can be offered to make otherwise empty backhauls productive for both operator and user.

Informed operators are a prerequisite to making such a system workable. Education programmes, published data on costs and minimum education standards as prerequisites for entry to the industry⁴² are some of the alternative measures possible to ensure that operators are informed.

Thirdly is the need to relax quantity controls over entry into the rural goods transport industry and to free the existing restrictions on carriers operating in licencing districts other than their own. This measure would provide the incentive for operators to keep prices down and service levels up and therefore would mitigate against the development of regional monopolies. It would also mitigate against the development of unduly large firms in some regions, a development likely to lead to regional monopolies and one unjustified by economies of scale in trucking.⁴³

42

The E.E.C. has such entry controls in mind although their precise nature is not easy to decide since written examinations are not necessarily the best test.

43

Nelson, James C. (1965), "The Effects of Entry Control in Surface Transport", Transportation Economics, N.B.E.R. Spec. Conf. 17, New York, covers these issues fully.

Large firms are also unpopular with transport users. In a recent survey by the author 65 percent of farmers disagreed with the statement that large firms were better than small, 18 percent agreed and 17 percent had no opinion. In the answers to another question the proportion of farmers considering that they had no choice of transport firm in their area was 17 percent.

In spite of relaxed entry controls to the industry, pockets where regional monopolies can exist are almost certain to arise. This is especially so where "thin" market conditions apply, i.e. where demand is too low to support more than one operator. A maximum price control may still be required. The best form for this control to take is for the Ministry of Transport to have an auditing function checking against excessive profiteering. A criterion of maximum percentage mark up on over variable costs would be a suitably objective device.⁴⁴ There would have to be rights for users to call in the Ministry to carry out this function as well as for it to make routine checks. Because there will be few cases for thin markets, the administrators load on the Ministry would be light in the interests of taxpayers.

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A Canadian precedent exists where the maximum rate is set at 250 percent of the variable cost of the movement. Stenason, W.J. and Romoff, H.M. (1973), "Transport Pricing and Regulated Competition, the Canadian Experience", in Criteria for Transportation Pricing op.cit., pp 209-210

5. FARMER INITIATIVE

In the past Federated Farmers of N.Z. (Inc.) has had little to say about the principle of price fixing in the rural road transport industry although it is consulted when changes to schedules are proposed. The organisation's main interest has been in removing restrictions placed on competition by road transport with rail transport. Exemptions to these limits already granted to agricultural commodities much reduce the potential savings to farmers to furthering the issue. Much greater potential savings lie in a review of road transport price fixing procedures.

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