

Competition Reforms in the Philippines: Exploring Options in Bus Transport



The Philippines' return to democracy in 1986 was followed by reforms and liberalisation in many areas, but this liberalisation did not guarantee competitive markets. Many industries remain highly concentrated with entry barriers and regulatory requirements thwarting competition. The Philippines is currently one of the few Association of Southeast Asian Nations (ASEAN) countries without a national competition law, but has committed to have national-level competition legislation by 2015. At present, the Department of Justice (DoJ) has been designated as the country's competition body and the DoJ enforces the competition regime via the Office for Competition (OFC). There are also sector-specific laws and regulations regarding competition. This study assesses the state of competition and impact of competition-focused reforms in the bus transport and staple food (rice) sectors.

Transport in Metro Manila

The Philippines is a country of over 92 million people, concentrated in highly dense, urban agglomerations like Metro Manila. Metro Manila is an agglomeration of 16 cities and one municipality. Given low motorisation (9 cars per 1,000 people), bus transport offers an affordable mode of transportation. Several modes of mass transportation operate in Metro Manila including rail transport via three lines, road transport via public utility buses, public utility jeepneys, Asian Utility Vehicles (or Filcabs/FX), and tricycles or pedicabs. Bus routes mainly run along the main thoroughfares such as Epifanio Delos Santos Avenue (EDSA) and have designated stops, while jeepneys operate along secondary roads and stop at any point to pick up or drop off passengers.

This study focuses on two routes in Metro Manila: Alabang-SM Fairview (Lagro Commonwealth) and Baclaran-Novaliches (EDSA Mindanao Av.). These routes were selected to represent not only the issues being confronted in regards to these routes, but also in the broader context of the sector.

Regulatory Evolution of the Bus Transport Market

The Philippines' bus transport sector was under a highly regulated and concentrated regime in the 1970s until major reforms were introduced in the early 1990s to liberalise the sector. For instance, entry and exit were liberalised under Department Order No. 92-587 (1992), with provisions for at least 2 operators for each route. These reforms led to the influx of numerous small bus transport services, increasing the number of operators from four private operators plus one public operator in Metro Manila in the 1970s to 1,122 operators and 12,595 buses operating in Metro Manila today.

Multiple agencies govern the bus transport sector in the Philippines including the Department of Transport and Communication (DOTC), which regulates the sector through its line agencies – Land Transportation Franchising and Regulatory Board (LTFRB) and Land Transportation Office (LTO). The

former regulates entry and exit, and the latter regulates registration and inspection of operations. Other agencies including the Metro Manila Development Authority (MMDA), the Philippine National Police (PNP) and the relevant local government agencies regulate traffic.

Key Issues in Metro Manila Bus Transport

Liberalisation reforms of the 1990s led to the presence of numerous operators and extensive competition among bus operators in the Metro Manila area. While this had the potential for increasing competition in the sector, in actuality it led to over-congestion and thus delays, traffic snarls and air and noise pollution. This, coupled with insufficient transport infrastructure (roads) and issues in implementation of regulations due to lack of coordination among several regulatory agencies, has worsened the condition of the transport sector over time.

Recognising that unregulated entry may not enable the benefits of competition to be realised in the sector given the infrastructure constraints, the Philippine government passed a moratorium on the issuance of new franchises for provincial buses in 2000, followed by a nationwide moratorium in 2003 on the issuance of new licenses and franchisees on all buses. However, neither of the moratoriums have been strictly enforced and both can (and are) easily bypassed.

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Table 1: Number of Operators and Buses in Manila			
Route	Number of operators	Number of buses	Average Number of bus per operator
Manila EDSA Route	266	3,711	14
Manila Non-EDSA Route	128	1,632	13
Manila-Provincial North Bound	371	3,684	10
Manila-Provincial South-Bound	357	3,568	10

Source: LTFRB

In Metro Manila (Table 1), in case of the major routes, there are numerous operators (over a thousand) with a few buses per operator (11 on average). In fact, in the routes selected for study under this project, there are 266 operators with an average of 14 buses per operator.

Bus Transport

Reducing congestion in Metro Manila could save commuters and bus operators US\$293mn over the next three years and US\$442mn over the next six years

According to estimates, there are surpluses of buses on the 30 operational routes, with load factors well below capacity except for some short sections during peak morning hours. In fact, the EDSA super corridor is estimated to be oversupplied by around 50 percent. To raise the peak-hour load factor to 100 percent, it is estimated that the bus frequency would have to be reduced from 1 bus per 11.2 seconds to 1 bus per 22.5 seconds. When applied to the base fleet of 3,414, the oversupply is as much as 1,700 units. When applied to the operational buses during that day, the excess is 1,012 buses.

Thus, the key issue in the Metro Manila bus transport sector is applying the ideal combination of regulation and competition – be it with respect to an appropriate number of operators so that benefits of competition reforms can be realised and congestion (that involves external costs for the consumers in terms of time lost and also safety concerns) be reduced. Similarly, even with respect to fare determination, the right balance between market factors and consumer welfare is essential.

Impact of the Issue

The CREW findings reveal that travel time within the EDSA super corridor’s 12km stretch ranges from 20 to 140 minutes depending on the level of traffic and time of the day. Policy measures to address Metro Manila’s congestion should strive to decrease this huge delay in travel time.

Traffic congestion directly impacts the productivity of both the passengers and buses plying the routes along Metro Manila’s thoroughfares, as time delays

cut the number of bus trips that each bus and driver can take, and eat up the passengers’ productive time at work. The cost due to traffic congestion is not just limited to the bus passenger, but also influences other commuters. Estimating the marginal social costs due to congestion indirectly relates to the benefit streams from improved vehicular flow as a result of better transport management or policy. The range of total marginal costs as a result of congestion are the same as the range of overall benefits accruing to passengers and bus operators once the congestion conundrum (or part of it) is solved.

Results showed that the value of time wasted due to traffic congestion is immense. Focusing just on the public bus transport system within the 12 kilometer stretch of EDSA’s super corridor, the marginal social cost due to congestion is estimated to be **PHP 5,508,971,237** (US\$122mn) per year. This includes PHP 4,569,759,077 marginal external costs from forgone wages of passengers and PHP 939,212,160

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marginal cost of bus operators. It is worth noting that the marginal cost due to forgone opportunities for the passengers are almost **five times higher** than the marginal bus operators’ costs.

Potential Impact of Reform

The issue of over-congestion in Manila can be overcome by designing a regulatory policy for the optimal level of buses that addresses both competition and congestion issues. An optimal level of regulation regarding the number of buses must take into consideration the level of economic activity and infrastructure development. Bus reduction should be to the extent that it improves service, not to the point where it reduces quality due to overcrowding or leads to an increased cost to consumers due to the reduction in supply. The

challenge is to incorporate these concerns in future efforts to improve/enhance competition in the bus sector. There should be constant monitoring and evaluation of the policy to ensure that it does not limit competition and the intended benefits of the same are realised.

According to CREW’s research, effective enforcement of the 2000 and 2003 moratorium (and an effective decongestion policy) will lead to a **decrease in bus trips by 20 percent** within the EDSA super corridor, while still sufficiently servicing existing passenger demands. This will yield a net present value of **13.2 billion Pesos** (US\$293mn) in the medium term of 3 years and **19.86 billion Pesos** (US\$442mn) in the long term of six years at a 12 percent discount rate. However, there is a considerable risk that reduction

in number of buses might disturb the entire bus market which may have greater adverse effects on public consumer welfare.

Reducing congestion in Metro Manila could save commuters and bus operators US\$293mn over the next three years and US\$442mn over the next six years

Existence of large number of buses implies that they are able to operate profitably in spite of such ‘cut throat’ competition. This indicates a possibility that fares are set at high levels and could be lowered to instill some level of contestability in the bus market of Metro Manila.

This ‘Policy Options’ Note has been prepared under the CUTS CREW project (<http://www.cuts-ccier.org/crew/>) to initiate the discussions on competition reforms in two key sectors by highlighting implications on consumers and producers thereof

About the CREW Project

The Competition Reforms in Key Markets for Enhancing Social and Economic Benefits in Developing Countries project (“CREW”) is being implemented over three years in four countries (India, Ghana, the Philippines and Zambia) to develop an approach for assessing the impacts of competition enhancing (or reducing) reforms on consumers and producers in two selected markets (staple food and bus transport). Supported by DFID (UK), BMZ (Germany) and facilitated by GIZ (Germany), CREW aims to demonstrate to policymakers and development partners the impacts of competitive markets on consumers and producers to garner greater attention and support to this issue and motivate the allocation of resources for implementing competition reforms in developing countries. For more information see www.cuts-ccier.org/CREW.

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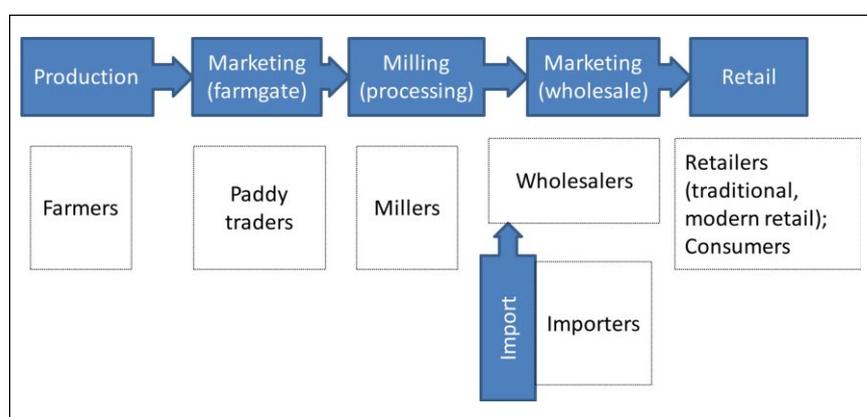
Competition Reforms in the Philippines: Exploring Options in Rice



The National Food Authority's (NFA) statutory monopoly in Philippines rice market along with a self-sufficiency target has restricted private entry in the import market, led to a decline in the import quota and intensified the protection of domestic producers, adversely affecting competition.

Rice Distribution Chain in the Philippines

The rice marketing chain covered in this study is shown in the figure below. Typically, the farm produce is sold to traders, who then sell paddy rice to rice mills. Rice millers process the paddy into milled rice. From the mill, the rice goes to wholesalers, who may also obtain milled rice from importers; rarely is rice imported in paddy form. Wholesalers then sell it to retailers, which in turn are divided into traditional retail outlets (rice sold in public or wet markets, or roadside stalls), as well as modern retail outlets (i.e. supermarkets and retail chains). The latter are often pre-packed and sealed, whereas the former are often sold loose.



namely tariff binding and minimum access volume. These reforms increased private sector participation in imports and also reduced NFA's financing burden. However, Philippines obtained a Special Treatment for rice up to 2005, allowing it to maintain its rice quantitative restriction. The country conceded a minimum market access, ranging from 30,000 tonnes in 1995 up to 224,000 tonnes in 2004. Volumes within the market access charged a maximum tariff of 50 percent. Upon expiration in 2005, the country negotiated and obtained an extension of its special treatment for rice up to 2012.

In exchange, the country raised its minimum access to 350,000 tonnes, of which 163,000 were in the form of country-specific quotas (CSQs) to Thailand, China, India, and Australia. Currently the Philippines has applied for an extension of special treatment with the WTO up to 2017, in the meantime maintaining *status quo* in its import policy pending approval. The import quota was increased to 404,702

Regulatory Evolution of the Philippines' Rice Market

The rice market in the Philippines is regulated by the National Food Authority (NFA) under a highly interventionist regime aimed at food security and price stabilisation. However, entry into the domestic rice market is easy depending upon the availability of capital, supply source, and potential market since NFA's licensing and registration requirements not onerous. Entry into the import market is difficult due to NFA's monopoly over rice imports. This is one of the reasons which have resulted in domestic price of rice being higher than imported price.

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Following trade liberalisation and due to compliance with WTO rules, reforms were introduced in the country's rice policy in 1995 –

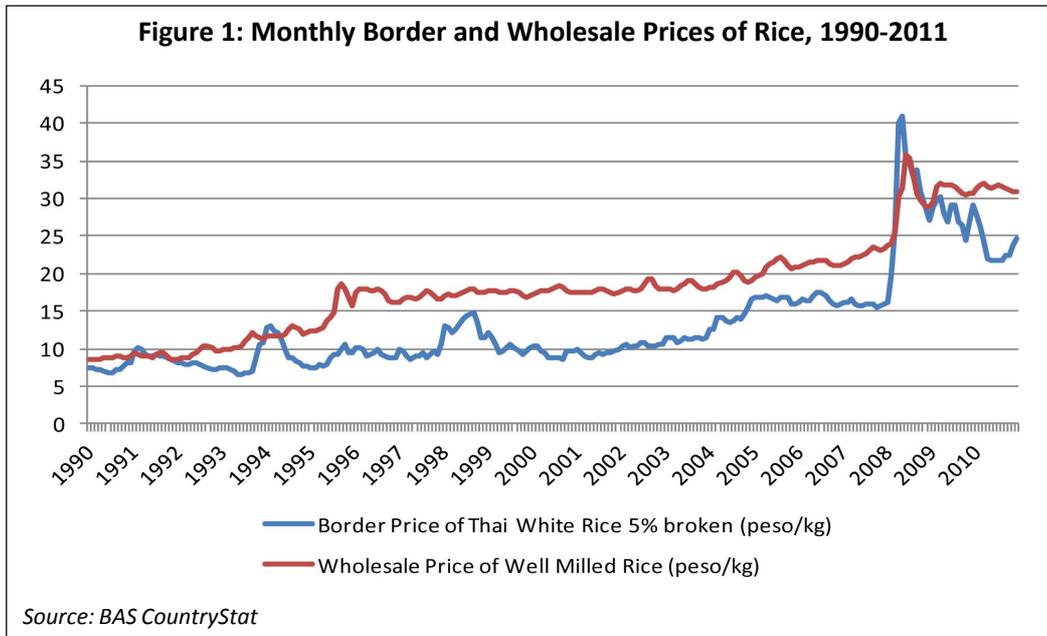
million tonne. These import restrictions, in conjunction with NFA's monopoly in the import for rice, have been responsible for a gap between the world and domestic prices of rice in Philippines – domestic price being higher. One positive note is that since 2008, NFA relaxed its exercise of import monopoly by authorising private traders to implement the government's import quota.

Key Issues in the Philippines' Rice Market

Past research on the rice market shows a high degree of competition in the domestic market at all levels from paddy production to retail marketing. Domestic production cannot keep up with domestic consumption, stressing the need for imports to fill the deficit. In turn, import restrictions limit the

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Figure 1: Monthly Border and Wholesale Prices of Rice, 1990-2011



amount of rice that can be imported, forcing up domestic prices. The use of CSQs is also limited by private traders due to the high prices of rice produced in these countries.

The annual import quota is restricted to the minimum market access owing to the self-sufficiency target of 100 percent by 2013, to be sustained up to 2016. In 2013 the import quota was 350,000 tonnes, of which 163,000 was assigned to the private sector under the CSQs. Restriction of competition from imports harm consumers as they pay a higher price for domestic rice than they would have done if the QR on rice imports was abolished.

Potential impact of reform

Two steps can be undertaken to promote competition through imports:

- Free trade – assume wholesale price would be the same as border CIF price
- Increase in the import quota – maintains the current policy but implements it more flexibly, i.e. avoiding the more onerous protectionism based on self-sufficiency targets.

According to estimates, if quantitative restrictions are eliminated and rice imports were allowed to freely enter the country, total rice imports would have reached 4.2 million tonnes, a tenfold increase over current imports. Such high level of imports would bring down the wholesale and retail price of rice from **PHP 30.04/kg** to **PHP 17.66/kg** and **PHP 33.08/kg** to **19.80/kg** respectively. Clearly, consumers would benefit from free trade given the low market price of rice. Consumer surplus would increase by **PHP 178,075.65 million** (US\$3.96bn) per year. However, there would be a tradeoff between consumer and producer surplus, with free imports

leading to a **PHP 33,985.01 million** (US\$756mn) reduction in producer surplus. The net benefit to the economy would be as much as **PHP 138,464.10 million** (US\$3.1bn) per year.

Liberalising rice imports could result in net gains worth US\$3.1bn per year

If instead of free trade the import quota is increased to 1,000,000 mt from previous year’s import of 404,702 mt, prices would still fall. At the wholesale level, the price would drop by P2.18/kg. At the retail level, the price of rice would have decreased from P33.70/kg to P 31.52/kg. Consumer surplus will increase by **PHP 25,706.18 million** (US\$571mn); however, producer surplus will decrease by **PHP 6,598.97 million** (US\$147mn). The overall impact will be a **PHP 25,203.32 million** (US\$560mn) increase in economic surplus, taking into account the change in importers’ revenue.

In view of the fact that full liberalisation of the rice import regime would have adverse implications on the plight of the domestic farmers – it has been suggested by the CREW project that gradual liberalisation of the rice import regime be undertaken. However, an ‘interim strategy’ would need to be developed in advance to provide adequate safeguards to protect the interest of small farmers.

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Conclusion

In light of the total benefits that Philippines can reap on account of greater trade liberalisation in rice market, it is suggested that an optimal balance of competition and regulation be implemented in terms of the country's rice import policy to protect the interests not only of the domestic producers but also of consumers and other market participants. Liberalised importation of rice subject to payment of import duty (tariff) can confer protection on producers, while increasing competition from other countries, reducing the price of rice, stabilising domestic supplies and prices, and deterring any attempt to control supplies to manipulate market prices.

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