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BULLETIN

FACILITATION OF TRADE AND TRANSPORT IN LATIN AMERICA AND THE CARIBBEAN



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COMPETITIVENESS AND EFFICIENCY IN LAND TRANSPORT

One of the consequences of the opening of the world's economies - an integral part of globalization - is increased focus on the efficiency and costs of transport services (on which competitiveness is largely dependent). Countries with inefficient and costly transport services lose out, in terms of economic activity and income, to those with more appropriate transport services. The issue is particularly important in Latin America, where exports mainly consist of bulk consignments of products with comparatively low value/quantity ratios and transport costs are a major determining factor of c.i.f. prices.

The determination of competitiveness indices in the long term, however, also needs to include the costs of pollution, congestion and accidents, in addition to the transport costs usually considered as part of the price of freight.

Competitiveness, efficiency and the global costs of transport were the main subjects of an international seminar organized in conjunction with the Chilean Institute of Engineers and held on 9 and 10 September 2004 at the Headquarters of the Economic Commission for Latin America and the Caribbean (ECLAC).

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1. INTRODUCTION

It could be said that many of the region's countries lack a coherent land transport policy, or that the existing policies basically consist of letting the market guide the sector. This is hardly appropriate given the insufficient efforts to ensure that prices charged reflect the relevant marginal social costs or to guarantee free competition. The many examples of discrepancies between prices charged and such costs include:

- Truck transit damaging infrastructure while only paying a fraction of that cost in compensation;

- Cars travelling through congested streets causing delays and higher fares for bus passengers using the same route; and
- All types of motorists being asked to pay third party accident insurance that is completely inadequate in the light of the risks involved.

At least directly, some of these discrepancies artificially lower the effect of transport on production and distribution costs, which could, in the short term, increase national competitiveness. Indirectly and in the long term, however, the effect would be the opposite owing to, inter alia, an increase in taxes (to rebuild roads) and economic (and other) losses resulting from the lack of road safety. Indeed, charging road users fees that are lower than the relevant social costs is tantamount to transferring income to those same users and away from the rest of the community.

2. THE RESPONSE OF THE ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN (ECLAC)

In response to the concerns of experts, politicians and the public alike, the Transport Unit of ECLAC, in conjunction with the Chilean Institute of Engineers, held a seminar on competitiveness and efficiency in land transport on 9 and 10 September 2004 at the ECLAC headquarters in Santiago, Chile. The seminar was also attended by representatives of the different branches of the transport sector in Chile, senior political figures and foreign delegates.

3. THE VISION OF CHILEAN SENATORS

The seminar was opened by the President of the Chilean Senate, Mr. Hernán Larraín, who gave a significant speech that emphasized the social implications of State actions in the sector, beyond transport's role in promoting exports and economic efficiency in general. He referred to the considerable social costs of land transport and the externalities imposed on citizens, particularly in terms of road security (in which Chile was lagging behind developed countries such as Australia, the United Kingdom or Japan) and time spent commuting to and from work. He commented that the national tax policy should be amended to send the right signals to the market. He also made mention of the spatial consequences of actions implemented in the transport sector and the danger of concentrating investment in large cities and ignoring the needs of rural populations, thereby running the risk of creating developed and underdeveloped areas within the same country. He remarked that, although Chile had made much progress in recent years, there was still a lack of integrated, harmonized and spatially balanced development. He concluded by saying that the country's adoption of the road as the main transport platform should not mean neglecting the railways, which could be of great benefit in many areas such as the environment and security.

An equally outstanding address was given by Senator Carlos Cantero, representative of the Northern area of Chile, who declared that the State should not shy away from its obligation to regulate and plan the transport system to guide the decisions of the private sector towards promoting the public interests and national objectives. Mr. Cantero stated that there was a convergence of opinions among policy makers from a wide range of political persuasions. He said he was convinced of the need for a strong market, but also a strong State to guide the market towards sustainable development with a human dimension. He stressed the important role of the State in planning urban transport, in which giving free rein to market forces was not the best social option, owing to the externalities and social imbalances prevalent in the sector. He did not limit his address to transport within national borders, but emphasized Chile's role in promoting regional

integration. He also referred to international trade, where the logistics chain included a series of stages that were not usually associated with transport per se, and which should be comprehensively optimized by making use of new advances in information technology.

4. SECTORAL PROJECTIONS AND PLANS

The President of the Chilean Directory of State Railways, Mr. Luis Ajenjo, gave a presentation on the enterprise's 2003-05 triennial plan, which included a billion dollars worth of investment in a series of railway-improvement projects. The improvements were mainly targeted at passenger services: medium- and long-distance services (Santiago - Chillán, Santiago - Temuco), as well as local services (Santiago - Rancagua), suburban services (Valparaíso - Limache, Greater Concepción) and rural services (Victoria - Puerto Montt). Planned works also included infrastructure projects such as station renovation, track restoration, construction of a tunnel in the centre of Viña del Mar, footbridges and signalling systems. The aim of this and previous plans was to recover the place of railways in the transport market, particularly passenger transport, and was the only one of its kind in Latin America.

The President of the Chilean national trade federation of rural, interurban, interregional and international passenger buses, Mr. Marcos Carter, presented his interpretation of the role of bus transport in the interurban market and commented on the balance of competition within that market.

5. TRANSPORT POLICY OBJECTIVES

Santiago, septiembre de 2004

II. Desafíos del transporte en la competitividad económica: Reducción de costos logísticos

Costos logísticos en el transporte

<p>✓ Componente Administrativo</p> <ul style="list-style-type: none"> - Trámites pre - embarque. - Trámites aduaneros. - Otros trámites (Migración - Fitosanidad, etc.). - Costos judiciales - Previsiones contratos - seguridad operacional. 	<p>✓ Componente Financiero</p> <ul style="list-style-type: none"> - Por tiempo de almacenaje. - Por tiempo de tránsito. <p>✓ Componente Operativo</p> <ul style="list-style-type: none"> - Transporte (flete). - Almacenaje. - Operaciones de carga y descarga. - Seguridad durante tránsito y almacenaje.
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Presentación "Objetivos de una política de transportes"
Erik Larrazábal - Superintendente de Transportes de Bolivia

Figure 1: Stages in the logistics chain, according to the presentation by Erik Larrázabal, Bolivia.

The Bolivian Superintendent for Transport, Mr. Erik Larrázabal, gave his view on how transport policy objectives should include not only the importance of the sector's contribution to competitiveness and economic efficiency, but also the need to ensure that the sector was part of a development that was environmentally, economically and socially sustainable. He also referred to the need for an integral optimization of the logistics chain including transport per se (recognizing the contribution of multimodal transport), in addition to the administrative, financial and other dimensions of transport (see figure 1).

The presentation by Ms. Ana Luisa Covarrubias from Freedom and Development, a Chilean research centre, underlined the fact that optimizing the economic efficiency of the transport sector required the appropriate social assessment of the projects in question. She suggested that such assessment may have been lacking in Chilean State railways in recent years.

6. EXTERNAL COSTS OF TRANSPORT

Several participants gave presentations on different aspects of the external costs of the transport sector, and how they could be internalized or reduced. Mr. Alberto Bull, consultant in the Transport Unit of ECLAC for many years, described the analyses that the Unit had carried out in the area of traffic congestion, which had recently been published in the book *Traffic congestion: the problem and how to tackle it*.

The Chief of the Transport Unit of ECLAC, Mr. Ian Thomson, gave two presentations: one on the external costs of freight transport, and another on the external costs of passenger transport. He concluded that the situation was very different in the two cases. He affirmed that heavy truck transit continued to be subsidized, even if the roads used are concessioned, mainly as a result of imbalanced toll structures. There was no easy solution to this, with the best mechanism appearing to be compensation paid to rail companies. Given that railways had also been concessioned, such compensation should be carefully structured to minimize costs for the national budget and avoid social injustices. As far as passenger transport was concerned, he concluded that, in Chile at least, there were no significant effective subsidies for bus transit on concessioned roads outside urban areas. As a result, although the subsidizing of passenger trains might be justified on suburban and occasionally on rural routes, it should be analysed with great care in the case of main lines.

In the round table that analysed whether there was fair competition between rail and road transport, Mr. Carlos Acuña stated that representatives of both sectors would probably say that each was at a disadvantage in relation to the other. However, Mr. Acuña stated that the issue should be approached objectively and that the current "rules of the game" enabled heavy trucks to use the road infrastructure without paying the costs generated, which could definitely be described as unfair competition. The situation was certainly even more unfair in the north of Chile, where there

were no tollgates. He also pointed out that such inequity would persist as long as the decisions of the (private and public) users of transport failed to incorporate all costs involved. Transport users and providers therefore had a responsibility at the stage prior to State intervention to regulate what could not be resolved through the “rules of the game” alone.

Mr. Ernesto Piwonka, from the Chilean National Traffic Security Commission, referred to the complex subject of the costs of traffic accidents, particularly in terms of the value of human life. He summarized the studies carried out in Chile and presented the unit costs adopted for the different types of accident, emphasizing the importance of including the issue of safety benefits in the social assessment of projects.

The increasingly important issue of the link between the transport sector and climatic change was analysed in the presentation given by Mr. José Eduardo Sanhueza, consultant and renowned expert in the field. He pointed out that the atmospheric temperature was rising at a rate over 50 times faster than at any time during the last one million years and described the attempt to control the situation through the not yet internationally adopted Kyoto Protocol. In this Treaty, industrialized countries undertook to control gas emissions that cause the greenhouse effect, mainly CO₂. One of the main mechanisms for this was the issue of CER (Certified Emission Reduction) bonds, which could contribute to the financing of transport projects in Latin American and Caribbean countries. Transport, particularly road transport, was responsible for 25% of CO₂ emissions worldwide.

Mr. Osvaldo Sepúlveda, President of the Railways Commission of the Institute of Engineers, and Mr. Patricio Piola, transport consultant, closed the meeting by making a presentation on the total costs of transport in the case of Chile, where road transport accounts for 95% of the movement of persons and 86% of freight, thereby generating a series of external costs related to, inter alia, road construction and maintenance, congestion and accidents. They reported on measures implemented by the European Community, where a reduction of external transport costs was a vital environmental policy objective. In Europe, external costs per road were calculated to be 200% higher than per railway, both in the passenger market (using cars rather than bus as the reference) and for freight. The presentation included a case study of iron ore transport between a mine and a port in the north of Chile, which was served by a railway. From this mine, truck transit would be completely unfeasible and the mine exploitation is made possible thanks to the railway. They suggest that it is essential for railways and coastal shipping to be given a more prominent role in Chile’s future transport market.

7. GENERAL CONCLUSIONS

Despite the variety of subjects covered, it is possible to identify some general recurring ideas that appeared in several presentations and discussions:

Emphasis was placed on the need to strengthen the role of the State in:

- Policy making; setting standards and monitoring compliance; formulating properly assessed infrastructure investment plans; and subsidizing and guaranteeing transport services;
- Safety standards;
- Ensuring economic, social and environmental sustainability in the sector’s development

and seeking political consensus for a programme based on long-term coordinated growth;

- Territorial development in accordance with adequate accessibility.

Participants reached consensus on the need to create the conditions for fair competition in the railway and road transport sectors and for complementarity between them, including the correction of distortions between social costs and transport prices, in terms of damage to the environment and the infrastructure and congestion.

In the context of international land transport, special mention was made of Chile's contribution to regional connectivity and to the connection between international trade and the availability of the appropriate infrastructure and effective border controls, which in turn were dependent on bilateral and multilateral frameworks in which to plan and coordinate such mechanisms.

Presentations made at the seminar: Most of the presentations given at the seminar held on 9 and 10 September can be found [here](#)
