

Missing the Bus? *The Political Economy of Regulation in the Bus Transportation Industry in Belize*

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ABSTRACT

The implementation of the new public bus transport system¹ on 17 October 2008 effectively ushered in a new political economy in the bus transportation industry in Belize – one characterized by heavy regulation where operations are guided by government directives². This is a far cry from the days of 'laissez-faire style open competition' in the 1980s and 1990s where it was, for the most part, guided by users and market forces. This new system which assigns operating routes within three different zones (north, south, and west) sought to restructure the bus industry by promoting a policy of 'managed competition' with a view to achieving a bus transportation system that is safe, reliable, adequate, and affordable. On assessment however, it seems the situation has grown chaotic and it is not certain that the new policy framework can achieve the intended objectives or improve quality of services and standards to internationally competitive levels for two reasons: it fails to improve the unviable fare structures imposed by the very authority; and it does not articulate Government's strategy for addressing the provision of transport services infrastructure. Instead, the changes raise serious questions about the sector's future in terms of its competitiveness, viability, and ability to contribute to national development. This brief discusses the limitations and challenges of the new bus transport policy within the context of regulatory and policy trends of the industry over the past ten years, and puts forwards some recommendations for key policy options for modernizing the sector.

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Introduction

Recently, National Transport Services Ltd. along with a number of other bus operators in Belize filed suit against the Department of Transport for a judicial review against the way in which transport permits were issued under the new bus transportation system implemented in mid-October.³ The new system has not only affected operators however, and a growing number of passengers have expressed their dissatisfaction with it. These issues are the latest in a series concerning the bus transportation system in Belize over the past ten years. The political economy of the industry which has emerged today is a direct result of years of consistent public policy failures. The Government of Belize for its part has always claimed that it has acted in the interest of passenger safety and ensuring affordability of bus services (i.e. it adopted a public interest theory of regulation approach) and therefore any restructuring was necessarily with a view towards achieving these objectives. However, while various shifts in policy position over the years have effectively maintained fares at 'affordable' levels, they have generally failed to increase both passenger safety and quality of services or standards levels, and the bus transportation system continues to operate inefficiently and at low levels of competitiveness and quality. To be sure, operators continue to use second hand (usually old and decrepit) buses that are often filled beyond their seating capacity, arguably rendering the system no safer today than it was ten years ago. In addition, the public transport road infrastructure continues to deteriorate and the bus services infrastructure, in particular terminals and bus stops, are not reflective, much less supportive, of modernization of the sector. Although the new policy framework attempts to address long standing deficiencies and failures of the system, at the end of the day it seems to have fared better at subjecting the industry to regulation and guidance by means of government directives, as opposed to by users and market forces. The pressing challenge now facing the industry is not only one of developing and implementing a bus transport policy, but of doing so within the context of a broader national road transportation policy which seeks to "encourage competitive forces where the structure of the industry permits ... and to regulate where it does not"⁴.

Policy Trends

Prior to the mid to late 1990s the political economy of the bus transportation industry in Belize was of a 'laissez-faire, open competition' type. This system had its roots in pre-independence Belize, and remained more or less unchanged for two decades. Within this system the private sector was seen as the key provider of transport services and could even initiate routes, while government had the responsibility for providing the road infrastructure. Entrance to and exit from the market was more or less unregulated but was subject to licensing requirements by the relevant authority under the Ministry of Transport. Within this environment, competition, particularly between the larger bus services operators

was fierce, and operators competed on both prices and quality of services and standards. At its zenith the system featured premier service bus runs by Batty's Bus Line which included complimentary snacks and drinks and even en-route movies. While this competitive environment helped to raise quality and standards and kept prices at affordable levels, it was at heavy costs and would eventually precipitate a series of buy-outs⁵ resulting in consolidation of the industry.

The result of such consolidation within the industry was the emergence of two very large players, namely Z-Line Bus Service and Novelos Bus Service. This signaled significant changes in the political economy of the bus transportation system in Belize, and by 1999 when Novelo's successfully bought out Z-Line, a single large market dominant operator which owned and operated over ninety percent of the routes⁶ along the main north-south and east-west bus transport corridors had emerged. There is evidence that this was facilitated by a policy shift by the then Government of Belize, and this was confirmed in 2004 by the then Minister of Finance and Home Affairs in a speech given at the Annual General Meeting of the Belize Chamber of Commerce and Industry where he stated that "the BZ\$30 million loan from the Government owned Development Finance Corporation (DFC) to the Novelos Bus Company was intended to achieve a national bus system"⁷. Oligopoly status however would prove to be short lived and in 2005 Novelo's Bus Line shut down⁸ throwing the industry into chaos.

In response to the deteriorated state of affairs within the industry, the Government of Belize moved in 2006 to "...re-structure the bus transportation industry ... to promote a policy of managed competition..."⁹ signaling another shift in policy position. The objective of the new policy was to "ensure continuity, reliability, safety and convenience of commuters"¹⁰ through zoning of routes, public ownership and management of the terminals, and the formation of a Transport Authority amongst other things¹¹. During this period the old Novelo's Bus Company was placed under receivership, and although this structure allowed for industry wide management of the terminals, public ownership and management was not fully realized. Receivership however failed to remedy the chaos within the industry, and things became more complicated when Novelo's opened a new bus company, National Transportation Limited, using temporary permits received in 2005 for providing services to fill gaps along the western route.¹²

After more than two years of public feuding between and amongst operators and the receivers, the Government of Belize's announced in October 2008 that it would once again re-structure the bus transport industry. In terms of intended objectives and approach the new policy is not fundamentally different from that which it replaced to the extent that it aims to achieve safety, reliability, and affordable fares through managed competition and re-organization of the routes market across the country. Besides strengthening public regulatory control of the

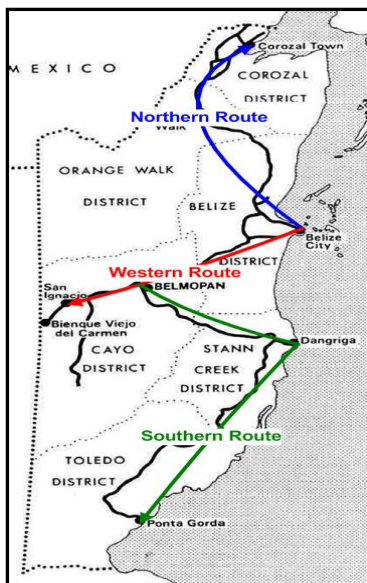
industry however, the new policy fails to either improve the unviable fare structures suffered by operators or to improve the quality of services or standards levels across the industry, and remain completely silent on Government's strategy for addressing the transport infrastructure issues which plague the industry. The result has been more chaos in the operating environment, disenchanted commuters, unhappy operators, and a bus transportation system which continues to operate with low fares but with characteristic low levels of quality of services and standards.

Key Policy Issues

Generally speaking, the aims and objectives of the bus transportation system (i.e. reliability, safety, and affordability) have remained somewhat similar over the past ten years. Nevertheless, it is now evident that despite the periodic route market gerrymandering the different policies have consistently failed to achieve their stated objectives. This failure may be the result of policy failures in two key areas, specifically bus fares/routes and the financing of the bus services infrastructure.

Bus Fares & Routes: In general, the viability of bus fares is directly related to (a) route markets (and hence market shares), and (b) operators cost structures across the industry. Because the public interest theory of regulation has dominated the political and economic thinking about inter-urban bus services in Belize, the public authorities' approach has been one whereby both bus fares and the routes market have been key instruments for promoting and achieving their public interest objectives. This has inevitably led to 'heavy handed' regulation of the industry and this has in turn served to undermine both the quality of services and standards, as well as the potential for investment and development.

Figure 1 - Current Bus Routes



Demographic and geographic realities dictate that the inter-urban bus system in Belize is a 'hail-and-ride' (sometimes referred to as stop-and-go) system. As a result the routes market has traditionally been structured around north-south and east-west orientations reflecting the different corridors of travel across the country.¹³ In a perfect market environment, the different routes would generate sufficient revenues to cover the service provider's costs. In a competitive market environment on the other hand operational profitability requires internally efficient firms, of optimum scale and structure. This dictates that service operators compete on price and quality of services and standards. In the case of Belize where services operators can only earn their revenues

from ticket collection but don't compete on prices, and where the route market suffers from structural deficiencies resulting from low population densities thereby rendering certain routes (i.e. feeder routes or runs at certain times of the day) unattractive if not unviable, the only way to achieve optimum scale, if not structure, is to increase market share to the largest extent possible by competing on quality of services. However competition by quality of services has been absent and remains unlikely because by limiting market share potential (no operator will be allowed to dominate more than one route) the new policy has effectively rendered the current fare-basis unsustainable, even though the cost of fuel has fallen in recent times.

The problem is not that the new policy has removed any opportunity for cross-subsidizing unviable routes with revenues from more viable ones, but rather that it has done so without remedying the unviable fare structures in place¹⁴. While it is accepted that fares need to be controlled in order ensure their affordability, it is equally true that they need to be subsidized in order to achieve certain policy objectives especially where those objectives are political. According to the Chairman of the Transport Board however, "the new policy has not yet dealt with the issue of fares"¹⁵. This is interesting because service operators have to deal with the reality of sunk costs resulting from the long standing practice on the part of the authorities of consistently attempting to achieve social objectives (i.e. affordable fares for everyone across all routes within the market) without the use or offer of any sort public subsidies, and the current fares fail to cover for such costs. This has had the effect of transferring the burden of financing such social objectives from the public authority onto the private service operators. In the absence of viable fares and without subsidies or an acceptable system of pricing, bus travel will continue to reflect low quality of services, standards, and safety levels as operators have no incentive to improve.¹⁶ If this is true, then it undermines the potential for the new policy to achieve the reliability and safety objectives.

Bus Services Infrastructure: Over the years the public transport infrastructure, in particular the services infrastructure, has progressively deteriorated, and at the very least has shown no or very little levels of improvements. The responsibility for road infrastructure is clearly within the ambit of the public authority (i.e. the Government of Belize) and in this case falls under the same ministry as transport, but that is not the focus here although the failure to address this area serves to underscore the policy failures and broader problems of the last few administrations. Instead the focus is on the bus services infrastructure (terminals, bus stops, signage, etc.). The problem here is the way in which this has traditionally been financed. In the 1980s and even the 1990s it was politically expedient for the bus services operators to provide and maintain their own terminals and bus stops. This served to protect them from new entrants and competitors to an extent, but it effectively removed any opportunity for equal

access to use of the facilities as such infrastructure was in fact proprietary. In other words, because different operators and companies owned their respective terminals, other operators –usually main competitors and many smaller operators- had little to no access to such terminals or where there was access it was quite costly. Because the financing of terminals, bus stops, etc. were sunk costs for the services operators, against an operating environment characterized by unviable fares, limited market shares, and the stop-and-go nature of services there was little if any incentive on the part of the owners and operators of such terminals to improve or modernize them. As a result the terminals and bus stops were invariably in varying stages of dilapidation and disrepair, and often lacking basic functioning amenities (i.e. toilets, waiting areas, etc.). Because the services infrastructure is critical to the development of the industry consistent failures to address this have only served to sustain the inefficiency, low levels of quality and standards of services, and poor service provisioning across the industry. Consequently the bus services infrastructure, particularly terminals and bus stops, have failed to serve as platforms from which the transport network configuration could be optimized (i.e. from which the terminals could serve as efficient hubs facilitating transfers to and from the feeder routes) and this together with the failure to meet international standards and or quality requirements have led to the current uncompetitive state of the industry.

Conclusions

This brief has found that despite periodic route market gerrymandering and multiple policy changes they have consistently failed to achieve their stated objectives for the bus transport industry. As an example, the current fragmented and chaotic nature of bus services operations in Belize are directly the result of years of policy failures. The fact that the recent restructuring of the industry has failed to improve both the unviable fare structures imposed by the very authority, and to put forward government's strategy for addressing financing of the bus transport services infrastructure only serve to underscore this trend. If the desired objective is to deliver a uniform transport system which is affordable, and capable of ensuring safety, reliability, and improved quality of services and standards then it is important that as part of the planning and policy process we:

- *Draft, adopt, and implement a coherent and realistic public (bus) transportation policy, as one component of wider national transportation policy.* In order for any public (bus) transport policies to have optimal effect, it is important for those to be situated within a broader national transportation policy and strategy for the country. The rationale for this is premised on the widely recognized need for policy directions and legislation to be consistent with a national vision and strategy, and would allow for the general recognition of the importance of public transportation to infrastructure development and maintenance, as well as overall economic well-being of the country.

- *Reconfigure the transport network and allocate the routes market on a competitive tendering basis.* This would provide an opportunity for the public authority to improve bus service delivery by selecting from among different operators with varying price/ quality ratios. It would also improve the economic efficiency potential of providing bus transport services and facilitate optimization of the bus transport network by removing overlaps and eliminating unfair and anti-competitive practices, while enabling smaller operators an opportunity to continue to service 'feeder' routes but at improved levels.
- *Adopt and implement fare-setting mechanisms which balance market based approaches with social objectives and which allow service operators to recover their costs.* This may be supported through the use of subsidies not necessarily built into the fares but which provide an incentive for the development and modernization of the sector (i.e. exemptions on duties for vehicles not older than three years; duty exemptions on fuel for operators which meet their service obligations for economically unviable routes; etc.) while meeting those objectives.
- *Develop and upgrade the road transport infrastructure.* The recommendation here is for the public sector to assume full responsibility for the provision and maintenance of all public transport services infrastructure including roads, bridges, terminals, bus stops, signage, etc. The costs for these may be recovered through the use of economic instruments (i.e. permits, licenses, fees, etc.) which address the internal costs (e.g. construction and maintenance) and which minimizes the external ones (e.g. congestion, pollution, noise, etc.).
- *Build more effective institutions to implement transportation policies and plans.* The Department of Transport needs to be staffed with more people qualified in the areas of transportation planning and regulation.

Perhaps it would be prudent for the public authorities to revisit the reasons for their policy shift in October and to recognize that the recent changes effectively placed the bus transportation sector under the sway of the regulatory authority in such a way as to exert enormous influence and pressures on the industry and its spatial and operational structures. As a social construct, what constitutes a problem and the means for addressing those problems within transport policy is a matter of political judgment. But public policy prescriptions can and sometimes do generate problems – this seems to be the case with Belize's new bus transportation policy■

¹ This author attempted to reach the CEO in the Ministry of Transport via email and telephone on at least six different occasions without any success. Eventually one employee of the Ministry advised in a

telephone conversation that only a “draft policy” exists. This is important for it reveals that such a policy has been implemented even before it has been finalized and or adopted.

² There is an ongoing debate regarding the extent to which regulation should over-ride market forces in bus transport systems.

³ See “Novelos go to Court!”, *The Reporter*, Sunday November 23, 2008.

⁴ “Final Report –Towards a National Transportation Policy,” available at URL: <http://www.reviewcta-examenltc.gc.ca/english/pages/final/ch20e.htm>, accessed November 6, 2008.

⁵ The result was Z-Line’s buy out Shaw’s Bus Line in the West, and Escalante’s, Gilharry’s and Urbina’s in the north effectively giving them control over lucrative northern routes between Belize City and Corozal and providing direct competition for Novelo’s on the western routes further stiffening competition.

⁶ James Bus Line of Punta Gorda had refused to sell its routes and operations to Novelo’s and remained with roughly 5% or so.

⁷ See Ministry of Finance and Home Affairs press release through the GoB Press Office of 22 April 2004.

⁸ “National Transportation Services Limited,” available at URL:

http://en.wikipedia.org/wiki/National_Transportation_Services_Limited

⁹ See Cabinet Brief of Meeting of February 7, 2006.

¹⁰ See brief of Cabinet Meeting of February 7, 2006, available at URL:

http://www.governmentofbelize.gov.bz/press_briefings_feb7_2006.html accessed, 14 November 2008

¹¹ Ibid. Zoning would have resulted in three zones namely: Zone A (Western Highway – Belize City to Benque Viejo); Zone B (Southern and Hummingbird Highways – Belize City to Punta Gorda); and Zone C (Northern Highway – Belize City to Corozal).

¹² See “Transport Board approves new bus road service permits,” Government of Belize Press Release, Belmopan 12 December 2005, available at URL:

http://www.governmentofbelize.gov.bz/press_release_details.php?pr_id=3384 accessed 18 November 2008

¹³ For example, the new policy designates routes according to three different zones, namely the Northern Zone (services between Corozal, including Chetumal, Orange Walk and Belize City); the Western Zone (services between Benque Viejo, San Ignacio, Belmopan, and Belize City); and the Southern Zone (services between Punta Gorda, Independence, Dangriga and Belize City).

¹⁴ Ironically this was the line of argument (of unviable fares) of Novelo’s in 1999 when they sought an increase in bus fares shortly after achieving near monopoly services status.

¹⁵ Telephone interview with John Flowers, Friday 12 December 2008.

¹⁶ See for example Final Report on Ferries, Intercity Buses and Passenger Trains, available at URL:

<http://www.reviewcta-examenltc.gc.ca/english/pages/final/ch11e/htm>