

Regulatory efficiency in the transport sector

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Introduction



In mid-2013 the Ministry of Transport issued an request for proposal (RFP) for a study of regulatory efficiency in the transport sector.

It included the following guidance:

- ▶ The government's objective is to create a regulatory environment which is effective but minimises unnecessary costs; the government should only intervene when the benefits of intervention outweigh the anticipated costs.
- ▶ While there has been a lot of focus on reducing administrative costs, the purpose of this project is to seek to reduce costs created where transport regulation unnecessarily prevents or reduces the effective operation of markets.

Introduction



Motivation stemmed from the Ministry's experience of regulatory review in the previous three years.

Led to the vehicle licensing reform project and the warrant of fitness changes announced in 2013

Question: Is there an economic framework which helps identify priorities for regulatory review?

This presentation outlines the findings of a report by NZIER (the successful bidder) and refers to some other work on regulation.

The Ministry's regulatory plans and stewardship



Better quality regulation is not just about careful management of the flow of new rules and regulations, or amendments to existing regulations, but about selective in-depth review of the existing stock of regulations.

The Ministry (in conjunction with the NZ Transport Agency, Maritime NZ, and Civil Aviation Authority) is responsible for 270 Acts, rules, and regulations

As well as for New Zealand's compliance with or response to many international conventions

The Ministry's regulatory plans and stewardship



The Ministry has developed a regulatory reform programme which focuses on efficiency and effectiveness:

- ▶ efficiency: minimises unnecessary costs
- ▶ effectiveness: enables (or avoids creating obstacles to) the effective operation of transport and related markets

The NZIER study focused on both of these but especially the second.

Productivity Commission Inquiry: Headlines



In June 2014 the Productivity Commission reported on its Inquiry into Regulatory Institutions and Practices.

The Commission was asked to develop guidance on how to improve regulatory regimes. Some headlines were:

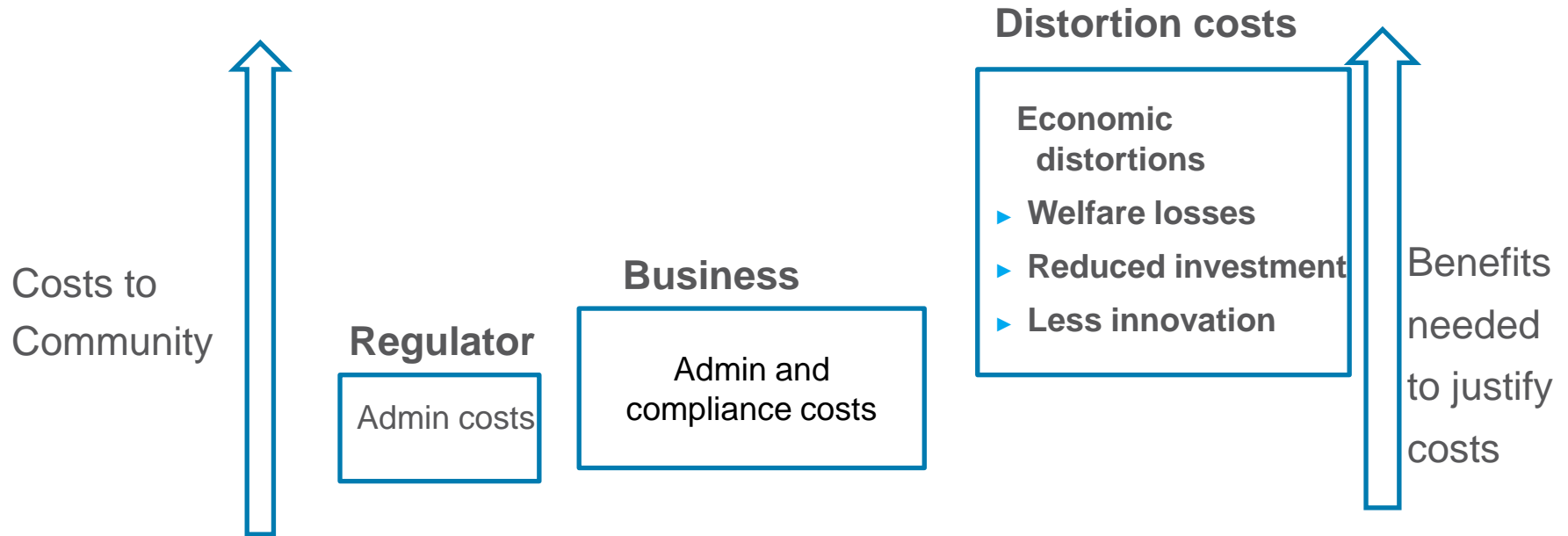
- ▶ Regulation ... can quickly become obsolete and fail to keep up with technology or public expectations.
- ▶ Almost two thirds of regulator chief executives surveyed by the Commission reported that agencies often work with legislation that is outdated or not fit-for-purpose.

Productivity Commission Inquiry: Headlines



- ▶ New Zealand has a large and growing stock of regulation.
- ▶ The large stock makes it difficult for ministers and officials to know whether specific regimes are still needed, or are delivering the outcomes that were originally intended.
- ▶ Parliamentary time is scarce, which means that it can be hard to deal with outdated legislation.

Categories of regulatory cost examined by NZIER



Source: NZIER adapted from Victorian Competition and Efficiency Commission

Distortionary costs of regulation



Regulatory impact

- ▶ Diversion from core business activities
- ▶ Changes required to production, marketing, transportation procedures
- ▶ Delays in the introduction of goods or services to the marketplace and/or restrictions in product availability

Efficiency cost

Productive efficiency

Allocative efficiency

Dynamic (innovation) efficiency

NZIER approach



- ▶ Screened transport legislation for characteristics (style, level, reach, duration) with potential to create or sustain inefficiency
- ▶ Assess economic materiality
- ▶ Estimate gains from reform
- ▶ Test findings with regulatory experts
- ▶ Undertake high-level *Structure Conduct Performance* analysis of markets for transport
- ▶ Develop four case studies to test how the screening approach might work in practice.

Key findings and implications



NZIER found that:

- ▶ Transport is heavily influenced by international requirements which can limit choice around New Zealand specific regulation. Despite this we have significant bespoke rules and regulations.
- ▶ The dominant regulatory approach in transport is control of product market entry conditions through safety and security standards
- ▶ Because of high degree of interconnectedness between transport and the rest of the economy...product market effects of inappropriate transport regulation are likely to be pervasive

Key findings and implications



For the Ministry (and transport agencies):

- ▶ The research flags the need for a broader set of questions i.e. about potential costs when we consult on existing or new legislation
- ▶ These should be built into our business as usual, for example, scanning for regulatory issues and developing regulatory impact statements

Thank you

