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Mexican enforcer urges freight industry deregulation

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Mexico's competition authority has said local regulations in the state of Sinaloa restrict competition in freight services, leading to stunted growth and reductions in service quality.

In a preliminary report published yesterday, Mexico's Federal Competition Commission said Sinaloa's Traffic and Transportation Act gives too much discretionary power to the technical council that issues permits to companies allowing them to operate in the Sinaloa market.

The authority also said the membership of the local technical council – which includes regulators and transport companies – creates conflicts of interest that hinders the ability of new companies to enter the market, and places limits on the growth of companies already present in the industry.

The restrictions have created a highly concentrated market dominated by expensive and low quality service, the authority said.

The enforcer said that seven of the Sinaloa state's 18 municipalities feature one company controlling 50 per cent or more of available licences to operate. The authority found that 40 per cent of new permit applications had taken more than 10 years to process.

The authority also found that chronic underinvestment caused by the resulting lack of competition has harmed the region's freight industry.

For example, the average age of vehicles that carry agricultural goods in the region is 18 years older than the national average, and vehicles handling construction transportation are on average 10 years older, leading to knock-on effects on operating costs. According to the report, fuel costs are 12 per cent higher in older vehicles, and maintenance costs can be up to 40 per cent higher.

The authority said these restrictions are harming productivity in the local economy, as farmers and the construction industry have to spend up to 40 per cent more for services compared to counterparts in other areas of Mexico.

To bring more competition into the market, the authority suggested removing conflicts of interest on the technical council; removing the discretionary issuing of permits, territorial restrictions, and other restrictions on the type of assets that can be transported; and allowing farmers and builders to vertically integrate with transport providers.

Interested parties, including transport companies and the state government of Sinaloa, have 45 days to present evidence and arguments against the authority's preliminary findings.

The authority said it has found similar regulatory restraints on competition in several other industries and other geographical markets across Mexico.

The authority lacks the power to implement its findings. To do so, the authority will need to cooperate with Sinaloa's state government.

Fernando Carreño at Von Wobeser y Sierra in Mexico City, who expects that similar market studies in other areas will follow from yesterday's report, said this will be an important test for the authority, which has proven its determination to recommend remedies to improve competition. However, he said it remains to be seen whether "local and federal authorities are willing to work with the authority to make these recommendations a reality."