Trade and Investment Barriers, and Domestic-Foreign Price Differentials in Transport Services

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3.1 Introduction

Just as with communication services, energy services, and others, it is not an overstatement to say that transport services are in some way connected to most businesses in other industries. In this day and age, as economic borderlessness proceeds at an accelerating pace and the world looks for ways to build a more desirable international division of labor, the importance of the "infrastructure" for this division of labor -- the movement of goods and people -- increases day by day.

But the fact is, until now transport services in Japan have not attained the level that would satisfy consignors, i.e., those who demand these services, in terms of either quality or price. Consignors feel increasingly that distribution costs are higher than in other countries[1]. These comparatively high fees, that is to say, the domestic-foreign price differential, is without a doubt weakening the competitiveness of Japan's consignors[2].

Economic regulations[3] are said to constitute the biggest cause of this situation. This chapter will take a moment to evaluate the significance of the diverse and large number of regulations on the transport industry, and then advocate that they be relaxed and eliminated. The recent series of moves in this direction are highly changeable, as they are easily influenced

1) JAPAN ASSOCIATION of CORPORATE EXECUTIVES (1994), p. 112.
2) For the means of reducing the distribution cost , see Terashima (1995).
3) Generally there are two types of restrictions: economic and social. This chapter deals with the former.

by political factors. This chapter attempts a brief examination of what may happen in the future, but the reader should keep in mind that it is entirely limited to the time this was written[4].

3.2 The Transport Industry and Its Regulations

3.2.1 Present State of the Transport Industry

To understand the current state of Japan's transport industry, let's compare the volumes of domestic carriage by transport means, and their proportions, with those of other countries (Table3-1). We can see that in the passenger transport sector, road transport (automobiles , especially passenger cars) has a high proportion in all countries. By way of characterizing individual countries, railways have a relatively high proportion in Japan, and airlines in the U.S. In England and Germany, on the other hand, road transport has very high proportions. Assuming for the moment that we can judge the importance of the various transport means by their respective proportions, it would be necessary to analyze and examine the passenger transport sector in the order of road transport, railways, passenger shipping, and airlines.

In the cargo sector, on the other hand, there are major differences from country to country (Table 3-2). In countries other than the U.S., road transport (automobiles) has a high proportion. Some characteristics of Japan are that coastal shipping has over 40 percent, high relative to other countries and that pipeline transport is almost nonexistent. While pipelines are used mainly to carry petroleum and the like, Japan's oil refineries, petrochemical plants, and other such facilities are located near ports, and there are no oil fields inland or in territorial waters. In terms of cargo, therefore, importance runs in the order of road transport, coastal shipping, railways, and airlines.

In consideration of conformity with the areas to be analyzed in APEC (1995b) (Table 3-3), the areas subject to analysis in this chapter are the six services of oceangoing

4)As of Feb.10th.

shipping, coastal shipping, international air transport, domestic (internal) air transport, railway transport, and road transport.

Table 3-1 The Volume of Domestic Passenger Transport by Type(100 million passenger-km 1)

COUNTRY	JAPAN	AMERICA	ENGLAND	GERMANY
FISCAL YEAR	1993	1992	1992	1992
RAILWAYS	4,027(29)	225(1)	380(6)	475(6)
AUTOMOBILES	8,899(66)	27,112(81)	5,580(93)	6987(91)
PRIVATE PASSENGER CARS	7,870(58)	26,726(80)	5,150(86)	6,100(82)
OTHERS	1,029(8)	386(1)	430(7)	687(9)
PASSENGER SHIPS	61(—)	(—)	(—)	(—)
AIRLINES	571(4)	5,905(18)	50(1)	195(3)
TOTAL	13,558(100)	33,242(100)	6,010(100)	7,487(100)

Note1 : The product of the number of passengers and transportation distance(kilometers).
Note2 : Respective proportions (shares) is in the parentheses.
Source : Ministry of Transport (1996b), p. 53-64.

Table 3-2 The Volume of Domestic Cargo Transport by Type(100 million tonnage-km [1])

COUNTRY	JAPAN	AMERICA	ENGLAND	GERMANY[2]
FISCAL YEAR	1993	1991	1992	1992
RAILWAY	254(5)	17,345(37)	153(7)	568(18)
AUTOMOBILES	2,759(51)	12,196(26)	1,260(61)	1929(60)
COASTAL SHIPPING	2,358(44)	7,434(16	551(27)	555(17)
AIRLINES	8(—)	161(—)	n.a.	5(1)
PIPELINES	(—)	9,300(21)	112(5)	133(4)
TOTAL	5,357(100)	46,436(100)	2,076(100)	3,190(100)

Note1 : The product of the quantity of freight (ton) and transportation distance(kilometers).
Note2 : Date cover only West Germany.
Note3 : Respective proportions (shares) is in the parentheses.
Source : Ministry of Transport (1996b), p. 53-64.

Table 3-3 A CLASSIFIED LIST OF TRANSPORT SERVICES

11A		Maritime Transport Services(Oceangoing Shipping)	11 D		Space Transport
11aa	a	Passenger Transportation	11E		Rail Transport Services
11ab	b	Freight Transportation	11ea	a	Passenger Transportation
11ac	c	Rental of Vessels with Crews	11eb	b	Freight Transportation
11ad	d	Maintenance and Repair of Vessels	11ec	c	Pushing and Towing
11ae	e	Pushing and Towing	11ed	d	Maintenance and Repair of Rail Transport Equipment
11af	f	Support Services for Maritime Transport	11ee	e	Support Services for Rail Transport
11B		Internal Waterways Transport(Coastal Shipping)	11 F		Road Transport Services
11ba	a	Passenger Transportation	11fa	a	Passenger Transportation
11bb	b	Freight Transportation	11fb	b	Freight Transportation
11bc	c	Rental of Vessels with Crews	11fc	c	Rental of Commercial Vehicles with Operator
11bd	d	Maintenance and Repair of Vessels	11fd	d	Maintenance and Repair of Road Transport Equipment
11be	e	Pushing and Towing	11fe	e	Support Services for Road Transport Services
11bf	f	Support Services for Internal Waterway Transport	11 G		Pipeline Transport
11C		Air Transport Services(INTERNATIONAL)	11ga	a	Transportation of Fuels
11ca	a	Passenger Transportation	11gb	b	Transportation of Other Goods
11cb	b	Freight Transportation	11 H		Services Auxiliary to all Modes of Transport
11cc	c	Rental of Aircraft with Crew	11ha	a	Cargo-Handling
11cd	d	Maintenance and Repair of Aircraft	11hb	b	Storage and Warehouse
11ce	e	Support Services for Air Transport	11hc	c	Freight Transport Agency
11C		Air Transport Services(INTERNAL)	11hd	d	Other
11ca	a	Passenger Transportation	11 I		Other Transport Services
11cb	b	Freight Transportation			
11cc	c	Rental of Aircraft with Crew			
11cd	d	Maintenance and Repair of Aircraft			
11ce	e	Support Services for Air Transport			

Note1 : The shaded categories are subject to analysis in this chapter.

Note2 : Air transport services are divided into two categories ,i.e., international and domestic(internal).

Source : Basically following the WTO (1994) classification.

3.2.2 The Nature and Characteristics of Transport Regulation

This chapter takes the position that generally economic restrictions should be eliminated across the board. Ordinarily, however, an argument like this necessitates a variety of preparations to set the stage for the ensuing discussion, so for that purpose the following paragraphs will, albeit very briefly, prepare the reader for the sections below by describing the nature and characteristics of transport regulation.

What we mean by "transport services" actually differs greatly by nature depending on the sector. Of course there are many ways to work through the problem, but in proceeding with this argument, the most important perspective is whether economies of scale are working. Economies of scale means that the bigger the scale of an enterprise, the lower its production costs become[5]. These are called decreasing-cost industries. The market structure becomes monopolistic or oligopolistic. Some examples of these industries are, for monopolistic ones, railways, while oligopolistic industries are international airlines, domestic airlines, route trucks, route buses, and the like. If left to their own devices, it is said, a variety of problems will develop[6]. This is the reason for regulating market entry and prices as ways of restricting monopolies.

By contrast, businesses like area trucking, charter buses, and taxis have small economies of scale and many competing companies. Excessive competition can readily occur in such industries. When the consignors, who buy these services, are a handful of large corporations, this could even give way to a market structure advantageous to buyers. Thus, regulating market entry and prices as ways of restricting competition was the justification for protecting medium, small, and micro-enterprises, providing for stable industry growth, and the like.

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5) If economies of scale are very large, there are instances in which production can offer lower social costs if only one company produces something instead of two. This is known as the natural monopoly. In the transport industry natural monopolies are applicable to the construction and operation of railways, ports, and airports, road construction, and the like. Okuno, Shinohara, Kanemoto (1990), p. 90.

6) While having supply at an efficient production level as seen from society as a whole, there are problems such as those of efficiency when becoming too small, and those of income distribution when

Regulations for adjusting supply and demand in the transport industry overall are divided into two types according to purpose. This matter requires attention also when arguing for the relaxation and elimination of regulations. This chapter uses contestibility theory to conclude that monopoly restrictions are unnecessary. It was believed that even if there is a monopoly or oligopoly, no harm from this would occur in markets where the following two conditions held[7] : (1) companies can freely enter and leave the market, neither of which costs any money, and (2) when existing companies are about to enter for the first time, it takes a certain amount of time to change prices[8]. Railways have very high sunk costs, so the first condition does not hold. Therefore this chapter goes only so far as advocating partial deregulation.

On the other hand, no problems will arise even if all controls on competition are eliminated. Building balanced power relationships with consignors should be done with different policies (such as creating enabling environments for joint ventures and reorganizations). In certain situations, perhaps, exceptions should be made to the Anti-Monopoly Law for the formation of "cartels" employed in oceangoing shipping, as long as this never becomes an entrance barrier to companies that do not join them.

In such discussions "the public good" is often used to justify regulations. Transport services constitute what we might call the "infrastructure" of our social and economic lives, and should not be discussed only from the perspective of efficiency. However, when a service always runs a deficit no matter how efficient an operator runs it, and when that service is judged to be essential in terms of its public benefit, this chapter takes the position that the service should be given direct subsidies, and should not be maintained by a cross-subsidy system through regulations to adjust supply and demand[9]. Here the case of domestic airlines in the U.S. is very useful.

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monopolistic or oligopolistic companies realize excessive profits. Kanemoto, Yamauchi (1995), p. 63.

7) Recently, even in the aviation industry, which is said to be a typical example of a contestable market, a great deal of research has been published saying that in fact contestibility theory does not work in this market because of computer reservation systems and high airport gate fees. For details see Borenstein (1992). Kanemoto, Yamauchi (1995), p. 67.

8) Kanemoto,Yamauchi (1995), p. 66.

9) Maintaining services that are unprofitable but necessary is more efficiently done by competition plus direct subsidies than by restraining competition and granting cross-subsidies. Chujo (1995), p. 17.

3.2.3 Discussion by Area

A. Maritime Transport Services (Oceangoing Shipping)

Table 3-4 Legal Restrictions in Maritime Transport Services (Oceangoing Shipping)

Related Law	Type of Business	Entry	Exit	Fare
Marine Transportation Law	Oceangoing Passenger Liner Service	Notification	Notification	Notification
	Oceangoing Cargo Liner Service	Notification	Notification	
	Oceangoing Non-Regular Cargo Liner Service	Notification	Notification	

Source : Ministry of Transport (1995a), Kanemoto, Yamaushi (1995), p. 28.

The oceangoing shipping industry is a very liberal market. Even the "shipping conferences" (cartels)[10] prohibited in other industries are allowed. Below this chapter shall therefore focus mainly on actual barriers than on legal regulations.

<Entry Restrictions>

Entry into the oceangoing shipping market is very free, but there are partial restrictions on foreign capital. Companies with foreign capital or with foreign management personnel cannot own Japanese vessels (their operations will have no problems as long as they do not use Japanese vessels). In the first place, such restrictions have little significance because in terms of cost, there is little advantage to owning Japanese vessels. In fact, even

10) The matter of whether shipping conferences (cartels) violate anti-monopoly laws has been debated by many countries for a long time. Most countries currently exempt them from such laws.

Japanese shipping companies make aggressive use of flags of convenience[11] [12].

APEC (1996a), APEC (1995), and WTO (1994) say that there are restrictions on pushing and towing services ,marine transport agency services, salvaging and refloating services , fueling services , and garbage collecting services, but there are no legal restrictions. And studies of these actual services also found no restrictions, as far as the studies went.

In the way of international regulations for adjusting supply and demand, there is the Code of Conduct for Liner Conferences[13] signed at the 1974 UN Conference on Trade and Development (UNCTAD), but it is already an empty shell and not legally binding.

Now let's examine the actual entry barriers that exist in the oceangoing shipping market. Marine transport services are provided by liners and trampers. Both new entry and freight charges are free for the latter. Consignors themselves can freely provide their own marine transport, so the principle of competition is fully functional in this market.

But the former requires closer examination. Ships participating in the shipping conferences, which are cartels for each route, are called insiders, while those not participating are called outsiders, which is because it is possible that insiders have taken measures against outsiders. Hearings conducted on shipping companies revealed that in the past such actions were an everyday occurrence[14], while at present most such actions are strictly proscribed by national governments. This has made it quite difficult to take actions excluding outsiders. Not only can outsiders freely enter shipping routes, they are doing so well that their market share is steadily growing.

The foregoing discussions shows that the oceangoing shipping industry is, both legally and in reality, an industry with very low entry barriers.

<Price Regulation>

11) Shipping companies set up paper companies in countries such as Panama and Liberia, and transfer their ships' registries to them. Having done so, they use crew members from low-wage countries.

12) The Japanese Shipowners' Association (1996), p. 12-13.

13) Determines that, in addition to the countries involved in trade, third countries get about 20 percent of the income and cargo allotment. However, this Code of Conduct is not functioning at present because of opposition from EU members and other developed countries.

14) "Loyalty contracts," "dual rate systems," "deferred rebate systems," and the like. All of these interfere with free contracts between consignors and outsiders.

The industry has a notification system for freight and fees. It is a very free market in which the price mechanism works.

B. Internal Waterways Transport (Coastal Shipping)

Table 3-5 Legal Restrictions in Internal Waterways Transport (Coastal Shipping)

Related Law	Type of Business	Entry	Exit	Fare
Coastal Shipping Law	Coastal Shipping Service	Permission	Notification	None(Standard Fares)
	Coastal Ship Ownership	Permission	Notification	None(Standard Fares)
Marine Transportation Law	General Passenger Liner Service	License	Permission	Permission
	Specific Passenger Liner Service	Permission	Notification	-
	Non-Regular Passenger Liner Service	Permission	Notification	Authorization
	Cargo Ferry Liner Business	Permission	Notification	Authorization

Source : Ministry of Transport (1995a) ,Kanemoto, Yamaushi (1995), p. 28.

Regulations to adjust supply and demand in the industry consist in controls on competition instead of on monopolies. Because the coastal shipping industry has a very high proportion of medium, small, and micro-enterprises[15], this was done to prevent excessive competition. There are also double and triple controls on foreign capital.

<Entry Restrictions>

15) Japan Federation of Coastal Shipping Association, Fund for Stabilization and Development of Coastal Shipping (1996), p. 10.

Entry by foreign capital is prohibited under cabotage restrictions (which reserve domestic transport for that country's shippers). Foreign capital entry is prohibited across the board, as well as by the reserve conditions described in APEC (1996a). This chapter will examine the various types of regulation on domestic shippers.

For new entry, there is a permission system for shippers using vessels of 100 tons or more, and a notification system for those whose vessels are under 100 tons. Permission criteria, however, are vague, which gives the regulating authorities a great deal of room for intervention. Additionally, conditions imposed on the coastal shipping industry include: a certain percentage of the vessels used must be owned; at least three vessels must be in use; and owned vessels and liners (or bareboats) with at least three-year operating periods must account for at least 60 percent of use. These conditions make it impossible for shippers with no capital backing to operate flexibly.

Tonnage adjustment is another way to restrict entry. This is called the scrap and build system, under which new entry, business expansion, or changes in operations require shippers to dispose of vessels in numbers that fit their plans. Specifically, this means getting rid of one's own vessels, or purchasing more needed vessels from the mortgage market as a right of pledge. This could be considered an entry barrier in terms of cost.

<Price Regulation>

Shippers are generally free to set their freightage. It is even possible for coastal tankers, coastal chemical tankers, and others to enter into freightage agreements, which are not subject to the Anti-Monopoly Law. Such agreements do not function as actual entry barriers.

While entry restrictions are very harsh, there is no price regulation, which means that adjusting the supply-demand gap in coastal shipping services is done only by price. The large fluctuations in freightage caused by the business cycle occur precisely because of this situation.

It is one example in which regulation resulted in weakening the constitution of the industry overall, and in decreasing cost competitiveness.

As written above, this industry has many medium, small, and micro-enterprises, which is advantageous for buyers. By custom this industry has an original contractor system.[16] Although regulation must be eliminated, consideration for this state of affairs is also essential. In some instances, it might be all right to allow the formation of organizations that have power to countervail consignors (such as the cartels seen in oceangoing shipping). In future it will perhaps also be necessary to enact some kind of policy measures that encourage mergers, reorganization, and the like.

C. Air Transport Services (International)

Table 3-6 Legal Restrictions in Air Transport Services (International and Domestic)

Related Law	Type of Business	Entry	Exit	Fare
Civil Aeronautics Law	Scheduled Air Flight Operation	License	Notification (Temporarily: Authorization)	Authorization
	Non-Scheduled Air Flight Operation	License	Notification	Authorization
	Aerial Work	License	Notification	
	Air Transport Agent	Notification	Notification	
	Air Freight Forwarder Business	Notification	Notification	

Source : Ministry of Transport (1995a), Kanemoto, Yamaushi (1995), p. 28,The Economic Council (1996a).

16) Under this system, consignors enter into fixed shipping contracts with certain companies in order to assure stable shipping service. These companies, or original contractors, cannot transport all their consignors' cargo with ships procured themselves, so they hire lower-level subcontractors to carry cargo over the amount they can handle. Those subcontractors further contract other subcontractors further down the line.

In both its international and domestic sectors, the aviation industry is a decreasing-cost industry in which economies of scale are at work. But if an operator enters the market by acquiring aircraft under lease arrangements, most fixed costs can be recovered instead of becoming sunk cost[17]. It is a comparatively contestable market. Perhaps one can find this theory behind open-sky policies.

<Entry Restrictions>

The Convention in International Civil Aviation (Chicago Convention) of 1944 holds that the right to convey cargo and passengers between two countries resides into both those countries, meaning that it adopts a bilateral agreement system.

In other words, entering the international aviation market or establishing new routes is done according to agreements with the other country's government, and new entry by a country other than those two (i.e., a third country) is impossible unless the route concerned is a beyond right[18] route.

But recently the industry is making steady progress toward the "open sky," an effort to completely do away with the regulation of routes, number of flights, and fares, regardless of whether carrying passengers or freight, of scheduled or charter flights. The result is the unconditional and mutual liberalization of the international aviation market. While this is being advocated chiefly by the U.S. government and companies, there are already agreements with Canada, and 10 European countries including Germany. Countries including South Korea, New Zealand, Singapore, and the Philippines are showing signs that they go along with this. On the other hand, Japan, Britain, France, and Southeast Asian countries (except Singapore) show themselves to be opposed. Their arguments are that the U.S. market, which accounts for about 40 percent of the world aviation market, will not be opened; that there are concerns that this policy will further the oligopoly by big airlines; and the like. However, it is very

17) Much research likewise says that contestibility theory does not work in the aviation industry, either. For details, see Borenstein (1992). Kanemoto, Yamauchi (1995), p. 67.

difficult to continue taking this stance as more and more countries adopt open-sky policies. No doubt in the future it will be possible for airlines to decide on new entry and opening routes under their own discretion, pursuant to a multilateral principle.

There are also restrictions on foreign capital, which serves as a kind of "investment" in Japanese airlines. The Civil Aeronautics Law limits foreign capital equity in airlines to 33 percent. The same trend can be seen in other countries, with the percentages in the U.S. being 25 percent for stock with voting rights, and 49 percent for stock without. But as seen in the EU's adoption of the Third Common Aviation Policy (Package III) in 1993, recently countries are moving toward a major reconsideration. Just as with open skies policies described above, the world trend is steadily moving in the direction of liberalization.

<Price Regulation>

Basically, international air fares come under the double approval system that mutually authorizes fares decided by the International Air Transport Association (IATA). The thinking behind the previously described bilateral agreement underlies this system. Japan too subscribes to IATA principles, for the Civil Aeronautics Law exempts fare agreements from the Anti-Monopoly Law. Determined here are the fares established in local currency.

For this reason there are basically no foreign-domestic price differentials in international air fares. One differential that does occur is direction imbalance.[19] International air fares are determined by totally taking into account price levels and costs in the country of departure, exchange rates, and other factors, for which reason price differentials arise due to large fluctuations in exchange rates.

But in addition to these regular fares, there are unofficial economy tickets. In April 1994 GIT fares[20] were abolished, and PEX fares[21] became substantially cheaper, which

18) One of the rights airlines have. It is the right to fly on to a third country from the destination country.
19) Hasegawa (1995), p. 38-42.
20) Group inclusive tour fares, a kind of special fare. These are meant for package tours, but economy tickets emerged when these tickets were sold separately to individuals.

considerably lessened the differential between regular fares and economy tickets. In reality, however, the economy ticket market still exists thanks to the support of many consumers.

The present situation, in which supply-demand adjustment in aviation services is performed by this distorted economy ticket system, is not necessarily a desirable one[22]. It would perhaps be better to liberalize all fares by instituting the above-described open skies policy, which would most probably eliminate both the economy ticket problem and the price differential problem.

D. Air Transport Services (Internal)

<Entry Restrictions>

The Chicago Convention, described above, allows parties cabotage. Japan also prohibits air transport by foreign capital, both by statute and by actual conditions. Following is a discussion of restrictions on domestic companies.

Entry in the air transport industry requires separate licenses for each air transport route that a company wants to enter, and there are also regulations for adjusting supply and demand. Until now, when three companies enter the same route (triple track) there must be an annual demand of at least 350,000 passengers, when then there are two companies (double track) the minimum demand is 200,000[23]. It is likely that these criteria will be further relaxed in FY1997.

Still, the most desirable is the elimination of entry restrictions on all routes. There are of course many problems to solve, such as what to do about routes that have low productivity

21) Special excursion fares that anyone can use as long as purchase conditions are satisfied. These are tickets for individuals that have fewer limitations than economy tickets.

22) Economy tickets are also found in the U.S., Canada, and Europe, but since special fares themselves are cheap, economy tickets are not as attractive there as in Japan. For details see Hasegawa (1995), p. 29-30.

23) These criteria are to be further relaxed in 1997. It is quite possible that triple-track licensing criteria will

but are necessary to people's livelihoods, like those to small islands, but certainly it is just such entry restrictions that begot the "inter-route cross-subsidy system." In order that airlines achieve more transparent and efficiently run operations, the government should perhaps begin by eliminating all entry restrictions, and then introducing a direct subsidy system for unprofitable but socially necessary routes[24].

Recently there has been heightened activity, by companies such as HIS, which is known for economy tickets, for new entry in anticipation of events such as the landing and takeoff slot increase due to the completion of a new runway at Haneda Airport in the spring of 1997. There will be many problems to solve on the extent to which the authorities will allow things such as outside orders for construction work, pilots, and crew, as well as leases of aircraft and other equipment. Under current law, self-maintenance is the rule, and companies are prohibited from using foreign-owned aircraft. But to ensure safety, other laws should be passed to accommodate these concerns, while present rules on maintenance and the like should be quickly phased out. In either case, if new entry such as that above becomes a reality, it will no doubt -- as in the United States -- contribute greatly to downward pressure on fares along main routes.

<Price Regulation>

The general rule for domestic air fares has until now been the same fare on the same route, and there has been an authorization system for this. Permission criteria include provisions that preclude the occurrence of unfair competition between airlines. It was under these circumstances that a zonefare system was introduced in April 1996.[25] Already by that time discount fares with discounts of up to 50 percent of normal fares had switched

be abolished, and that consideration will be given to abolishing double-track licensing criteria.

24) A similar opinion is found in Chujo (1995), p. 19.

25) In addition, the advance purchase excursion fare system was introduced in 1995. From the consumer's perspective, this is a very useful system. Until that time, many systems -- for example, skymate, family discounts, and weekday senior citizen discounts -- were based on user attributes such as age, sex, and family relationships, but advance purchase excursion fares are available to anyone as long as

from an authorization system to a notification system, which had made for considerably mitigated regulation, and this brought the industry one step closer to deregulation. This system works by setting the highest amount at a standard cost which is the average operating cost for all carriers plus an appropriate profit, then allowing each company to freely set its own fares as long as they are no lower than 25 percent off the standard cost. This system supposedly provides airlines with an incentive for streamlining because they can make bigger profits by holding their costs below the average. At this time there are no big fare differences among carriers, but if further deregulation of route entry criteria is effected as described above, this will probably lead to greater diversity in fares.

E. Rail Transport Services

Table 3-7 Legal Restrictions in Rail Transport Services

Related Law	Type of Business	Entry	Exit	Fare
Law for Railway Business Enterprise	Railway Business	License	Permission	Authorization
	Aerial Cableway Business	Permission	Notification	Notification

Source : Ministry of Transport (1995a), Kanemoto, Yamaushi (1995), p. 28, The Economic Council (1996a).

The railway business is a decreasing-cost industry in which economies of scale work. This is also a typical industry in which natural monopolies arise. Regional monopolies are also usual, and along most routes those companies can enjoy a monopolistic position. Sunk costs are very high, so contestibility theory doesn't work. Here we can see the grounds by which people argue for railway regulation, and in fact Japan's railways are heavily regulated. This chapter does not argue for completely eliminating regulations of this nature, though it does call

conditions are met. This is generally used in the U.S. and other Western countries.

for partial deregulation of mainly type II businesses[26]. There are no restrictions on foreign capital, so the following discussion concerns regulation on Japanese railways regardless of their capitalization.

<Entry Restrictions>

A license is needed from the Minister of Transport in order to enter the transport business, and licensing criteria include the necessity for supply and demand balance. In this sector it appears that over the next three to five years, regulations for adjusting supply and demand will be eliminated. In view of this sector's special nature, type II and others should be deregulated, and one can surmise that in fact this will happen.

There are no legal restrictions on new entry by foreign capital. WTO (1994) says this is technically impossible for only the maintenance and repair services for railway transport equipment.

<Price Regulation>

Normal fares and regular fares are under an authorization system by the Transport Minister, but by giving advance notification, railways can discount their fares to an extent that does not reduce their total revenues, to a maximum of 50 percent. Advance notification is also needed for coupon ticket discounts and group discounts.

Total cost pricing[27] is used in granting authorization for fare revisions and for fare levels. This method presents some institutional problems, such as the lack of incentives for railways to streamline their operations, and the huge costs incurred by both the regulator and

26) Type I: Ordinary railways that operate trains on their own tracks. Type II: Railways that do not have their own tracks, so use others' tracks. Type III: Railways built for the purpose of being turned over to type I railway operators; or railways owing tracks that are used by type II railways.

27) Determination of fares and fees so as to exactly cover the costs needed in production. Kanemoto,

the regulated. In view of these problems, the Ministry of Transport decided to introduce price caps for application to the passenger sector in November 1996 and to the cargo sector in January 1997. Under this system, railways can freely set their fares by advance notification as long as they are within the authorized price cap. The yardstick method was enhanced as well, making it possible to compare oneself with other railways in terms of progress in the streamlining and efficiency of operations.

Albeit partial, the rail transport industry is now exposed to competition from other kinds of transport. Some good examples of this are the Shinkansen (Bullet Train) vs. airlines, and commuter trains vs. automobiles. As the railways' share of total transport volume declines year by year, it would seem the time has come for the industry to provide more diverse services in addition to just cheaper fares.

Yamauchi (1995), p. 36. For details see p. 116-120 of this same book.

F. Road Transport Services

Table 3-8 Legal Restrictions in Road Transport Services

Related Law	Type of Business	Entry	Exit	Fare
Road Transportation Law	General Passenger Motor Carrier Business	License	Permission	Authorization
	Specific Passenger Motor Carrier Business	Permission	Notification	Notification
	Free-Hauled Passenger Motor Carrier Business	Notification	Notification	-
	Light Vehicle Passenger Carrier Business	Notification	-	Notification
Trucking business Law	General Trucking Business	Permission	Notification	Notification
	Specific Trucking Business	Permission	Notification	Notification
	Light Trucking Business	Notification	Notification	Notification
Freight Forwarding Business Law	Non-Actual Transport Business	Permission	Notification	Notification
	Forwarding Agency Business	Registration	Notification	Notification
	International Non-Actual Transport Business	Permission	Notification	Notification
	International Forwarding Agency Business	Registration	Notification	Notification
	Through Freight Counting Business	Notification	Notification	Notification

Source : Ministry of Transport (1995a), Kanemoto, Yamaushi (1995), p. 28, The Economic Council (1996a).

A highly diverse array of providers offer road transport services. Because of limited space, this discussion will proceed by assuming that buses and taxis handle passenger

transport services, while trucking companies handle freight transport services.

Beginning with bus and taxi businesses, one must note that regulation of entry and prices in both these industries consists in regulating competition, not monopolies. Costs incurred in new entry are very small, so if entry restrictions were relaxed or eliminated, there would be a huge influx of new operators. If that happened, supply would far exceed demand, making for excessive competition. The purpose is protection of medium, small, and micro-enterprises, but in this case it is more efficient, and assures greater transparency, to use direct subsidies instead of regulations to adjust supply and demand.

In the trucking business, supposedly, route trucks (especially parcel delivery services) have economies of scale or economies of networking, which leads them toward oligarchies and *keiretsu*. But their sunk costs are small, and they are always under potential entry pressure from using their own trucks. These and other factors work to weaken the grounds for the regulation of trucking businesses.

There are no restrictions on foreign capital, except for the legal restrictions that apply in all areas (in actuality, entry by foreign capital is impossible due to technological limitations and other factors). The following discussion, therefore, concerns regulation on Japanese road transport businesses regardless of their capitalization.

<Entry Restrictions>

Supply and demand in bus and taxi businesses are adjusted by regulation. In the trucking sector, however, the Two Distribution Laws were passed in 1989 and took effect in 1990. Under these laws, entry was relaxed from a licensing system to a permit system, but the laws also have provisions under which the Minister of Transport can under certain conditions make an emergency adjustment of supply and demand when the supply of transport capacity far exceeds transport demand. Other regulations include the service area system and rules on the minimum number of vehicles. It goes without saying that such regulations should be relaxed and eliminated. In future the government should also allow companies to enter the

market and operate using leased vehicles. Increasing trucking operators' discretion promises to develop further diversification and to lower prices.

<Price Regulation>

Both bus and taxi fares come under an authorization system. Fare authorization criteria are not specific, thus making for a great possibility that regulating authorities will intervene.

It was against this backdrop that in 1996 regulations on taxi fares were substantially relaxed, which consisted in the introduction of a zone system[28]. [27] Though partial, this gave taxi operators some discretion in running their businesses.

The trucking business, meanwhile, has had a notification system since the Two Distribution Laws came into effect. But even in the trucking business, the regulating authorities can issue change orders when a company has turned in an improper notification. Judgments of whether the freight charges calculated by trucking businesses are unjust should be left to the market mechanism, not to regulating authorities. It is only right that we expect still more deregulation.

3.2.4 Reassessing APEC(1995) -- Quantifying Regulation

On the basis of the foregoing analysis, Table 3-9 quantifies the economic restrictions imposed on Japan's transport industry (oceangoing shipping, coastal shipping, international air transport, domestic air transport, rail transport, and road transport services). Table 3-10 - 3-15 presents the underlying data. The left section is a check by Tom Warren[29], while the middle and right sections are reassessed figures, with the middle being checked according to legal

28) A system that authorizes fares differing from those of other countries within a range 10 percent higher or lower.

institutions, and the right according to the actual situation. The assessments were conducted on the basis of interviews with the related government offices, companies, industry associations, and other bodies after having studied the Transport Laws[30] and other documents. While assessments of 1 and 0 may pass, there will be unavoidable criticism claiming the figures are indeed vague and inadequate, making for problems of how to interpret ranges of 0.5. Below I should like to offer some supplementary explanations primarily on items, among those rated 0.5, that seem particularly important.

Something common to all areas is that all the items assessed 0.5 in mode 4 have his figure because the employment of simple laborers is prohibited, which is not unique to the transport industry. There are no citizenship requirements with regard to skilled workers or brain workers. Mode 2 assesses whether foreign passengers can get the services offered in Japan, but this was left blank because coastal shipping, domestic air transport, rail transport, and road transport are services offered only on the assumption that customers are in the country.

The 0.5 in modes 1 and 3 of oceangoing shipping is because, as discussed in detail in Section A, there are foreign capital restrictions on the ownership of Japanese ships. And because there is cabotage in both coastal shipping and domestic air transport, they were both assessed 0. In many cases an assessment of 0 is given for international air transport as well because basically there are restrictions on new entry by third countries owing to bilateral agreements according to the Chicago Convention. Meanwhile, railway and road transportation do not have definite written restrictions on foreign capital, but since new entry is in actuality very difficult, the figures under legal institutions and actual situation are quite different in magnitude.

Getting back to Table 3-9, the closer a figure to 100, the stricter the regulations in that sector. This shows that while maritime transport has been considerably liberalized, the services for coastal shipping, international air transport, and internal air transport have figures

29) See APEC (1995).
30) Ministry of Transport (1995a), and the like.

of 60-90 percent under both legal institutions and the actual situation, thus indicating heavy regulation. On the other hand, the rail transport and road transport sectors have few regulations expressly provided for by law, but the actual situation shows they have high entry barriers of over 80 percent.

Table 3-9 Quantifying Regulation in Transport Industries --Reassessing APEC(1995)--

	APEC(1995)	Legal	Actual
Maritime Transport Services (Oceangoing Shipping)	73	31	31
Internal Waterways Transport (Coastal Shipping)	73	83	83
Air Transport Services(International)	69	62	62
Air Transport Services(Internal)	69	80	80
Rail Transport Services	84	17	83
Road Transport Services	71	15	83

Table 3-10 The Underlying Data of Table 3-9 (Maritime Transport Services)

11A			Market Access				National Treatment			
		MODE	1.0	2.0	3.0	4.0	1.0	2.0	3.0	4.0
11aa	a	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.5	1.0	0.5	0.5	0.5	1.0	0.5	0.5
		ACTUAL	0.5	1.0	0.5	0.5	0.5	1.0	0.5	0.5
11ab	b	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.5	1.0	0.5	0.5	0.5	1.0	0.5	0.5
		ACTUAL	0.5	1.0	0.5	0.5	0.5	1.0	0.5	0.5
11ac	c	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.5	1.0	0.5	0.5	0.5	1.0	0.5	0.5
		ACTUAL	0.5	1.0	0.5	0.5	0.5	1.0	0.5	0.5
11ad	d	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	1.0	1.0	1.0	0.5	1.0	1.0	1.0	0.5
		ACTUAL	1.0	1.0	1.0	0.5	1.0	1.0	1.0	0.5
11ae	e	PECC	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		LEGAL	0.5	1.0	0.5	0.5	0.5	1.0	0.5	0.5
		ACTUAL	0.5	1.0	0.5	0.5	0.5	1.0	0.5	0.5
11af	f	PECC	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		LEGAL	0.5	1.0	1.0	0.5	0.5	1.0	1.0	0.5
		ACTUAL	0.5	1.0	1.0	0.5	0.5	1.0	1.0	0.5

Note1 : PECC means APEC (1995) REPORT.

Note2 : For the Categorizing , see Table 3-3.

Table 3-11 The Underlying Data of Table 3-9 (Internal Waterway Transport)

11B			Market Access				National Treatment			
		MODE	1	2	3	4	1	2	3	4
11ba	a	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.0		0.0	0.5	0.0		0.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11bb	b	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.0		0.0	0.5	0.0		0.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11bc	c	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.0		0.0	0.5	0.0		0.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11bd	d	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.0		0.0	0.5	0.0		0.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11be	e	PECC	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		LEGAL	0.0		0.0	0.5	0.0		0.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11bf	f	PECC	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		LEGAL	0.0		0.0	0.5	0.0		0.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5

Note : The same as Table 3-10 .

Table 3-12. The Underlying Data of Table 3-9 (International Air Transport Services Transport)

11C(A)			Market Access				National Treatment			
		MODE	1	2	3	4	1	2	3	4
11ca	a	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5
		ACTUAL	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5
11cb	b	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5
		ACTUAL	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5
11cc	c	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		ACTUAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11cd	d	PECC	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5
		LEGAL	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5
		ACTUAL	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5
11ce	e	PECC	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		LEGAL	1.0	1.0	1.0	0.5	1.0	1.0	1.0	0.5
		ACTUAL	1.0	1.0	1.0	0.5	1.0	1.0	1.0	0.5

Note : The same as Table 3-10 .

Table 3-13. The Underlying Data of Table 3-9(Internal Air Transport Services Transport)

11C(B)			Market Access				National Treatment			
		MODE	1	2	3	4	1	2	3	4
11ca	a	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.0		0.0	0.5	0.0		0.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11cb	b	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.0		0.0	0.5	0.0		0.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11cc	c	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	0.0		0.0	0.0	0.0		0.0	0.0
		ACTUAL	0.0		0.0	0.0	0.0		0.0	0.0
11cd	d	PECC	1.0	1.0	0.5	0.5	1.0	1.0	0.5	0.5
		LEGAL	0.5		0.5	0.5	0.5		0.5	0.5
		ACTUAL	0.5		0.5	0.5	0.5		0.5	0.5
11ce	e	PECC	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		LEGAL	0.0		0.0	0.5	0.0		0.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5

Note : The same as Table 3-10 .

Table 3-14. The Underlying Data of Table 3-9 (Rail Transport Services)

11E			Market Access				National Treatment			
		MODE	1	2	3	4	1	2	3	4
11ea	a	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	1.0		1.0	0.5	1.0		1.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11eb	b	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	1.0		1.0	0.5	1.0		1.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11ec	c	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	1.0		1.0	0.5	1.0		1.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11ed	d	PECC	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		LEGAL	1.0		1.0	0.5	1.0		1.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11ef	e	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	1.0		1.0	0.5	1.0		1.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5

Note : The same as Table 3-10 .

Table 3-15. The Underlying Data of Table 3-9 (Road Transport Services)

11F			Market Access				National Treatment			
		MODE	1	2	3	4	1	2	3	4
11fa	a	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	1.0		1.0	0.5	1.0		1.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11fb	b	PECC	1.0	1.0	0.5	0.0	1.0	1.0	0.5	0.0
		LEGAL	1.0		1.0	0.5	1.0		1.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11fc	c	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	1.0		1.0	0.5	1.0		1.0	1.0
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11fd	d	PECC	1.0	1.0	1.0	0.5	1.0	1.0	0.5	0.5
		LEGAL	1.0		1.0	0.5	1.0		1.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5
11fe	e	PECC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		LEGAL	1.0		1.0	0.5	1.0		1.0	0.5
		ACTUAL	0.0		0.0	0.5	0.0		0.0	0.5

Note : The same as Table 3-10 .

3.3 Domestic-Foreign Price Differentials in Transport Services

3.3.1 Domestic-Foreign Price Differentials

In most sectors, transport service rate levels in Japan are higher than those in other countries (Table 3-16). The table shows that this differential grows with discount fares, or long-distance or large-lot transport, which signifies that fee structures in Japan have become rigid.

Further, in transport services as well as others, it is difficult to standardize aspects of "quality," such as fee structures and what services include. Natural conditions, demand structure, subsidies, tax systems, and other given conditions differ greatly from one country to another. The table shows this in a simple manner, but it is important to keep in mind that figures do not have absolute meanings.

For the most part data from the Economic Planning Agency were used with the intention of eliminating arbitrariness and assuring objectivity to the greatest possible extent. There were also data from a variety of industry associations and government offices controlling the industry, but these were put to only subsidiary use[31].

By nature, transport services could not exist without taking advantage of infrastructure such as airports, ports, and roads. There are services that can be provided only after having built distribution infrastructure. This chapter will regrettably leave out a discussion of this for lack of space, but suffice it to say that in terms of infrastructure as well, Japan's costs are higher than in other countries[32].

31) The following surveys and research have studied the domestic-foreign price differentials in transport services.
①Economic Planning Agency (1996b), ②Economic Planning Agency (1996d), ③Ministry of Transport (1995b), ④Research Institute for International Price Mechanism (1996), ⑤Daiwa Securities Research Institute (1994), ⑥Japan Federation of Coastal Shipping (1996b).

32) For details see Terashima (1995), p. 6- p. 11.

Table 3-16. Domestic-Foreign Price Differentials in Transport Services

SOURCE	AREA	TYPE OF BUSINESS		JAPAN	AMERICA
A	INTERNATIONAL AIR TRANSPORT	PASSENGER TRANSPORT	ECONOMY CLASS ①NORMAL	100	73
			②DISCOUNT	100	85
A	DOMESTIC AIR TRANSPORT	PASSENGER TRANSPORT	100km ①NORMAL	100	183
			②DISCOUNT	100	54
B	〃	FREIGHT TRANSPORT	①2kg ・ 600km	100	110
			②100kg・1,200km	100	142
C	COASTASL SHIPPING	FREIGHT TRANSPORT	40F.CONTAINER(PER 100 MILES)	100	133
D	RAILWAY TRANSPORT	PASSENGER TRANSPORT	SHINKANSEN (BULLET TRAIN)	100	102
			EXPRESS	100	141
			LOCAL	100	52～72
B	〃	FREIGHT TRANSPORT	20FT CONTAINER ① 417KM	100	97
			②1,315KM	100	48
D	〃	SUBWAY	INITIAL FARE	100	88
A	〃	SUBWAY	5 MILES	100	86
B	ROAD TRANSPORT	TRUCK	100kg・ 50km	100	197
			10 t ・1,000km	100	51
D	〃	BUS		100	70
D	〃	TAXI	DAYTIME , 5km	100	37

Note : <Exchange Rate> A: 1$= \103.20, B: 1$= \96.26 , C: 1$= \96.3 ,D: 1$= \94.06.
<Research Period> A: Nov.1995 ～ Jan.1996, B: Jan. ～ Mar.1995, C: Oct.1995, D: 1995.

Source : A: Research Institute for International Price Mechanism (1996), p. 15., B: Ministry of Transport (1995b), C : Japan Federation of Coastal Shipping Association (1996b),Economic Planning Bureau (1996d).

3.3.2 Effects Anticipated by Deregulation

Many research reports and other documents have discussed the effects on the transport market if regulations were to be relaxed and eliminated, as well as the spillover effects on other sectors. Due to space limitations, this chapter will go into this matter only briefly.

First, let's have a general look at overall effects (Table 17), which presents calculations of deregulation effects in the U.S. It shows that society as a whole can enjoy a yearly benefit of, at the least, $36-46 billion. The total of consumer and producer surplus is social welfare. Clearly, the contributions of transport sectors such as aviation, railways, and trucks are considerable. The transport sector heavily influences other sectors.

As noted in 3.2.3 D, the U.S. domestic aviation sector is not open to foreign capital (such as that of Japanese companies), so deregulation is meant for domestic businesses. That is to say, this is far from total deregulation meant for foreign capital as well, but it acts to greatly increase social welfare. Japan too needs to do away with regulations on foreign capital as well as other areas, but the first order of business is phased deregulation on a large scale for domestic businesses.

Table 3-17. Economic Effect of Deregulation in U.S.A(1990 constant price , 1 billion U.S.$)

INDUSTRIES	CONSUMER'S SURPLUS	PRODUCER'S SURPLUS	TOTAL(SOCIAL WELFARE)
AVIATION	8.8～14.8	4.9	13.7～19.7
RAILWAY	7.2～9.7	3.2	10.4～12.9
TRUCKING	15.4	▲4.8	10.6
COMMUNICATION	0.73～1.6		0.73～1.6
CATV	0.37～1.3		0.37～1.3
OTHERS	0.14	▲0.14	0.0
TOTAL	32.6～43.0	3.2	35.8～46.2

Source : Clifford Winston, "Economic Deregulation : Days of Reckoning for Microeconomist," Journal of Economic Literature／Deregulation Privatization Study Group (1994), p. 49.

Let us now specifically examine the effects of deregulation, with the U.S. domestic aviation industry as an example. After deregulation in 1978 until 1984, the number of airlines grew twofold from 43 to 87, but then the number fell to 61 in 1991. Small and weak companies were eliminated by market oligopolization, which occurred because of computer reservation systems (CRSs) and frequent flyer programs (FFPs).[33]

But a look at fares shows that during the decade after deregulation they fell an

33) These programs attempt to keep regular customers by offering perquisites such as providing discount tickets and the like in accordance with miles flown. Just as with CRSs, they are advantageous to large airlines with far-flung networks.

average of 21.6 percent.[34] Though this decline has more or less stopped recently, fares are far lower than the pre-deregulation level. There had been concerns about safety, but the number of accidents suggests no worsening. Japan has a lot to learn from this example.

3.4 Future Orientation for Government Control of Transport

As mentioned before, there are not a few mistaken descriptions of Japan's restrictions on foreign capital, such as in APEC (1996a), and APEC (1995). Except for a few restrictions such as cabotage and the prohibition on foreign capital owning ships of Japanese registry, there are no regulations limiting foreign capital. Although actual conditions in road transport and rail transport limit entry, it is inconceivable that foreign capital will in future express a strong desire to enter these markets.

In fact, Most of the demands by foreign countries for deregulation are unrelated to relaxing the restrictions on foreign capital[35]. This chapter does not subject such demands to analysis, instead leaving the general description to WTO (1994) and APEC (1995). Examples would be the demands for deregulation of transportation services in harbors, as well as demands for improvements in the system for prior consultation with harbor workers' unions required when shipowners want to increase the size of their ships, and for improvements in Sunday work. Recently the U.S. Federal Maritime Commission began considering sanctions, claiming that Japan's port and shipping practices are highly disadvantageous to foreign shipping companies.

Except for two or three special cases, it seems that when discussing deregulation of Japan's transport services, there is no great need for attention to eliminating restrictions on foreign capital. Rather, the subject that currently needs urgent discussion and action is relaxing and eliminating the controls on market entry and price imposed to an unnecessary extent on

34) P. S. Dempsey, A. R. Goetz (1996), p. 244.
35) See Ministry of Transport (1996g).

domestic companies. Japan should make the switch to a free market that is in principle deregulated and governed by the price mechanism.

Against this backdrop the Ministry of Transport in December 1996 unveiled a plan for substantial deregulation[36] that would involve abolishing regulations to adjust supply and demand in all areas of transport including passengers and freight generally over a period of three to five years. It makes no foreign-domestic distinction. Seven areas specifically named are domestic air service (passengers, freight), railways, taxis, buses, harbor transportation services, coastal shipping vessel coordination services, and passenger ships. Surely these are the areas mentioned in 3.2.3 that should have restrictions on entry removed. In conjunction with this, a path toward deregulating fees and prices has also been worked out. A close look at the plan reveals that it is undeniably vague, and it's not sure that it could be implemented, but it deserves attention for the milestone effort it represents. There are hopes that in the future discussion will be accorded to a wide range of issues including user protection and safety, and that Japan will gradually convert to a free competition market.

3.5 Conclusion

Let us synopsize the foregoing discussion.

A reassessment of the PECC report shows that Japan's transport industry has a number of strict economic regulations that conceivably constitute barriers -- both legal and situational -- to companies wishing to enter the market.

The existence of such regulation is said to be one cause of the domestic-foreign price differential that is often regarded as a problem these days. Here we have seen an example in which deregulation of the U.S. domestic air transport industry resulted in precipitous decreases in fares and fees, which in turn greatly increased social welfare. Though a simple relationship, it shows how deregulation and social welfare are connected.

There are many industries in the transport sector that have no legal restrictions on

foreign capital. While there are of course real restrictions on the entry of foreign capital, in actuality one hears nothing about demands for market entry by foreign capital.

Owing to its relationship with other chapters, this chapter tends to slightly exaggerate in its discussion on the few foreign capital restrictions in the transport sector. Still, urgently needed now is the elimination of entry and price controls existing in Japan to an unnecessary extent, and it means little whether such deregulation is aimed at domestic businesses, or whether it also includes foreign capital. In this respect I should like to beg the reader's understanding.

36) See Ministry of Transport (1996a).