

Traffic regulations for the metropolitan area of Monterrey hinder competition in the market for cargo and freight transportation

- *COFECE's Board of Commissioners recommends Nuevo Leon's Executive and Legislative, as well as the municipalities that comprise Monterrey's Metropolitan Area, to reform regulations to eliminate obstacles that hinder competition.*
- *The discretionary license regime is opaque and costly which generates uncertainty among market participants, reduces incentives for market entry, and increases the prices of this service.*
- *Trucking or cargo and freight transportation services is a strategic activity for any region and economic sector's competitiveness. Nuevo Leon's 129 thousand vehicles comprise a fleet used for the transportation via road of goods and merchandise.*

Mexico City, September 7, 2018.- The Federal Economic Competition Commission's Board of Commissioners issued opinion OPN-004-2018 in which Nuevo Leon's Executive and Legislative bodies are recommended to harmonize traffic and roadway regulations of the municipalities that comprise Monterrey's Metropolitan Area¹ (ZMM as per its initials in Spanish), as they incorporate a discretionary and costly license regime for trucking or cargo and freight transportation in these localities, which generates uncertainty, reduces market entry incentives and the expansion of competitors as well as hinder the activity's continuity.

In May of this year, the Ministry of Economy requested COFECE issue an opinion on the *regulations* and competition and free market access considering the deterioration of competitiveness in multiple economic sectors and the adverse effects on competition and free market access in the ZMM.

Between 2016 and 2017, ten municipalities in Nuevo Leon passed reforms to their traffic and roadway regulations which, in a harmonized manner, restrict transit of heavy load cargo and freight transportation vehicles on roadways that are not part of the primary road

¹ The municipalities of Guadalupe, San Nicolás de los Garza, Apodaca, General Escobedo, San Pedro Garza García, Santa Catarina, Juárez, Santiago, García and Monterrey, in the state of Nuevo León.



transportation network as well as a temporary license regime for certain heavy load vehicles to transit along *restricted and limited* roads in said municipalities.²

Cargo and freight transportation vehicle regulation has the initial purpose of achieving public policy such as the establishment of security conditions to which vehicles and drivers must adhere. Notwithstanding, when analyzing the *regulations*, the Commission identified diverse obstacles to competition, of which the following are noteworthy:

- **Discretionality and temporality in the granting of licenses;** as regulations do not stipulate objective criteria or parameters to resolve these requests.
- **Excessive and inflexible license costs;** municipalities apply a wide range of fees while lacking defined criteria or parameters to do so. Furthermore, transiting on restricted or limited roadways, from one municipality to the next requires applying and paying for the license every thirty days in each locality.

These obstacles generate uncertainty and reduce incentives to participate in the market, which diminish supply, increase prices and affect the quality of cargo and freight transportation services to the detriment of clients and/or end consumers, mainly in *last mile delivery*, for which there are fewer substitutes. Additionally, they generate high costs for potential market participants, as well as high service costs for suppliers from other regions in the state, public federal or private federal cargo and freight transportation, as well as small firms. Said economic agents are at a disadvantage compared to current suppliers or larger companies.

The Commission recommended enacting regulatory reforms to eliminate said distortions and incorporate a scheme that clearly and predictably establishes technical and safety requirements, so they are objective, reasonable and verifiable. The foregoing, considers international best practices and Mexico's federal legal framework (Roads, Bridges and Federal Transportation Law) which provides more flexible regulatory mechanisms for the market of cargo and freight transportation services. This will foster greater competition in an activity that is strategic for the competitiveness of the region.

² The ZMM primary road transportation network is comprised by 124 transit ways. Among which are "limited roadways" which may only be used during specifically appointed days and schedules. The restricted roadways are those that do not belong to said network and are generally in the first quadrant of municipalities and residential areas.



Cargo and freight transportation is the predominant means for the collection of goods at production centers and their delivery to the end market for consumption. In 2017 it represented 3.1% of Mexico's GDP, nationally it was comprised by more than 917 thousand vehicles. Specifically, Nuevo Leon's cargo and freight transportation fleet is comprised by 129 thousand units that provide service to 169 thousand economic units, and 94 industry or technological parks in the state.

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