

INQUIRY INTO NSW TAXI INDUSTRY

Organisation: The University of Sydney
Name: Dr Peter Abelson
Position: Professor
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To the Select Committee on the NSW Taxi Industry

Short Additional Response to Questions Posed by the Committee 3

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Peter Abelson

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Thank you for inviting me to give evidence on the performance, governance and reform of the NSW Taxi industry. I would like to add a short note to the responses I gave to the Committee on 3 February. In particular I would like to address two main issues raised by members of the Committee during my evidence, namely the principle of “universal or equal access” to taxi services and compensation of taxi plate holders for any loss of plate values. These issues seem to be at the heart of the Committee’s concerns.

Briefly by way of introduction I have argued that:

1. The Department of Transport and Infrastructure (DTI) should conduct a wide-ranging survey of actual and potential users of taxi services (both households and firms) to determine the view of consumers about the availability, quality and prices of taxi services. For reasons given previously, the current key performance indicators are a partial and inadequate measure of the performance of the industry.
2. Either the DTI or an independent regulator should be responsible for administering the regulation(s) of the industry. Regulation should not be out-sourced to the taxi radio networks or any other supplier of taxi-related services.
3. Any fit person or firm should be allowed to establish and run a taxi service. This service may be local or regional. There should be no requirement that the business must be able to service the whole of the metropolitan area. Specialization of services should not be discouraged.
4. Operators of taxis should be able to:
 - a) Provide a service without having to pay a fee simply for the right to provide a service. The license fee is a reflection of an artificial scarcity created by government. It is a barrier to trade, employment and customer service. Operators would pay a fee to a

public regulator for administration of basic vehicle and driver standards and supervision of the industry.

- b) Purchase from any supplier such communications, security and payment systems equipment as the regulator may determine to be necessary. Operators would not be required, as at present, to purchase such equipment from a nominated taxi radio network or to join that network.
- c) Choose their own vehicle(s) for the supply of taxi services, subject to safety standards.
- d) Set their fares, which could vary with conditions, subject to the fares being published on a website run by the regulator and readily available to customers in the taxi.

The two main concerns that these recommendations appear to raise are that they may:

- (i) Conflict with the an important objective of public transport namely universal or equal access for everyone;
- (ii) Create a case for compensation for taxi plate holders that would not be affordable.

The issue of universal or equal access for taxi services

This issue is a complex one and not easily dealt with in response to questions in a public hearing without some preparation. There are, I suggest, five questions to be answered

- What does the principle of universal or equal access for taxi services mean?
- Is this a reasonable principle?
- Does the present regulatory regime for taxi services provide approximately universal or equal access?
- Can a regulated regime provide universal or equal access?
- Would the reforms proposed above provide more universal or more equal access?

Note that in responding to these questions, I am not going to discuss the special case of wheelchair accessible taxis. I recognize that this is an important issue and could discuss this separately if the Committee so wished.

What does the principle of universal or equal access to taxi services mean?

A starting definition of universal or equal access could be that all members of a community would have similar levels of access, defined perhaps as waiting times, and pay similar fares for, a

basic and safe taxi service. This definition would presumably allow fares to vary with distance and by time of day or night. This does allow discrimination against people who want to travel long distances or at night.

However, the “community” and a “basic service” also need to be defined. The community could be defined as all people in NSW or all people within separate defined urban areas. It would be hard to apply the principle to the whole of NSW. So presumably the principle applies to people within a defined urban area. For example all people in Sydney should have equal access and all people in Coff’s Harbour should have equal access, but this may be a different level of access.

The definition of a basic taxi service is also an issue. Even with currently regulated taxi standards, the NSW taxi industry is requesting higher fares for an undefined “premium” service. It has been suggested that the premium could be time-related: a basic service could involve a waiting time of say 15 minutes, whereas a premium service could be a waiting time of less than 5 minutes. Further issues of definition would arise if operators were permitted to run smaller, older and cheaper taxis. On the other hand, in a competitive environment customers could choose the level and price of service they wished subject to basic safety standards being met.

Policy makers who wish to base public policy on the principle of universal or equal access to taxi services need to define what they mean by the principle including the pricing implications.

Is the principle of universal or equal access for taxi services reasonable?

The principle of universal or equal access for taxi services (or indeed to other public transport services) certainly sounds reasonable. But there are two cogent reasons why it may be accepted only with qualifications.

First, supply and demand conditions (and hence the returns to operating a taxi) may vary greatly even within an urban area. In areas of low population density, few firms and low employment, the cost per taxi trip is likely to be higher because of relatively low demand and greater down time. If a household locates in an area where for whatever reason other households do not use public transport, they cannot reasonably expect a level of service similar to that in an area where other households are active users of public transport. In other words, equality of access does presumably have to be qualified to some extent by considerations of costs.

Secondly, it is questionable whether public transport disadvantage is a separate category of disadvantage. Households on any given level of income can choose less housing and better public transport or more housing and less public transport. It is true that the latter group has chosen less public transport, but the two households have equal real income. Of course income disadvantaged households have less of both housing and public transport. But it is not clear that public transport disadvantage is a separate category of disadvantage to income disadvantage.

The policy response to income disadvantage is generally different from the policy response to transport disadvantage

Does the present regulatory regime for taxi services provide approximately universal or equal access?

Turning to more practical matters, it is clear that the current regulatory regime does not provide universal or equal access. There are numerous examples of taxi drivers selecting their passengers and ignoring those that are less profitable or unwanted. The following are some examples

- IPART (2009) reported that the taxi radio networks put 12.7 million booking requests to taxi drivers annually. However taxi drivers rejected 34.6 million requests and accepted only 10.1 million jobs. In other words, for each booked job accepted taxi drivers turned down three jobs although they had no passenger at that time.
- My understanding is that it is far harder to get a taxi in outer suburban areas such as the Northern Beaches or North-West Sydney, to mention but two areas, than in inner city areas. See for example http://blogs.smh.com.au/newsblog/archives/your_say/oo8743.html. Indeed in the Northern Beaches area, the lack of services is allegedly a cause of high traffic accidents in the early hours of Saturday and Sunday mornings.
- My family and their friends inform me that, late at night and in the early hours of the morning, taxi drivers routinely drive around with their doors locked and windows virtually closed and select passengers to preferred destinations, especially turning down requests for relatively short trips.
- Likewise senior citizens in the area where I live have told me that it is hard to get taxis to pick them up for a short trip of 1-2 km to local recreational or other facilities.

The selection of passengers in these ways is inconsistent with the principle of universal or equal access. While some of the observations above are anecdotal, the anecdotes are so common that they are highly plausible. It seems most unlikely that the current regulatory regime provides anything approximating to universal or equal access. Of course a user survey (as suggested above) would provide validation or otherwise of these behaviours.

Can a regulated regime provide universal or equal access?

The lack of access to taxis that people in Sydney experience reflects three main factors: the barriers to entry due to the license fee and the prohibition on independent businesses (described in my previous submissions), the excess demand for taxi services in peak hours, and price regulations that do not reflect the real costs of taxi operations. The first two factors are related but have different consequences.

The licence costs and difficulties of setting up a taxi business (both due to regulations) restrict the services supplied to lower demand areas of Sydney. They also create the excess demand for taxis in virtually all areas of Sydney in peak hours.

The regulation of prices is such that some taxi trips are more profitable than others. When there is excess demand, or even when there is a choice of passengers at other times, taxi drivers try to choose the more profitable trip.

Thus the lack of access for some people is directly related to the regulated nature of the industry. The regulation that the taxi radio networks should be able to serve the whole the metropolitan area within 15 minutes is ineffective and demonstrably unrealistic. In any case networks' booked services are only 15% of all taxi trips.

The policy question then arises: could the industry regulations be redesigned to ensure equal access? It is hard to see how this can be done. There are limits to the extent that a regulator can order taxi operators or drivers to provide an unprofitable service. There are some industries in which businesses agree to supply some subsidized services as a condition of participation. For example licensed insurers in the Compulsory Third Party (CTP) vehicle market must provide insurance to anyone who requests CTP insurance at certain ceiling prices even if the policy is unprofitable to the insurer. But the CTP regulatory system is complex and not replicable in the taxi market.

So long as entry to the industry is restricted and there are taxi fare regulations, taxi services will not be universal. Taxi drivers will attempt to select the most profitable passenger(s) and discriminate against the others. Indeed, taxi fare regulations alone would cause taxi drivers to refuse some demands for trips for which passengers would be willing to pay but cannot do so.

Would the reforms proposed above provide more universal or more equal access?

The reforms proposed above would, I believe, provide far more widespread and universal services. There would be lower and fewer barriers to entry and service provision. Given the high excess demand for taxi services at present, as evidenced by the size of the license fee, the deregulation of entry would probably increase taxi services by at least 20% to 30% in some 2 to 3 years (as suggested in Abelson, 2010). The market would be far more competitive and driven by user demands.

The provision of food is a much more important commodity than taxi services. But few people would argue that households in Sydney would be better and more universally served by a public Department of Food Supply than by competition amongst numerous suppliers.

If, as part of the reform package, taxi fares were deregulated, fares would reflect taxi costs (including opportunity costs of no return fare). This is likely to increase accessibility for the various groups, young and old, who face discrimination for various reasons. This will enhance equality of access in that taxi drivers will not discriminate against these groups. However, if equal access is defined as equality of fares across all trips, greater fare price variation would be regarded by definition as less equal access.

The compensation of taxi plate holders

Reform of the price barrier to entry into taxi industry (*though not necessarily other reforms*) is invariably constrained by claims that compensation of taxi plate holders for the loss of plate values is an unacceptable cost to government. This was, indeed, raised again by the Select Committee.

It is generally accepted, I believe, that there is no legal requirement to compensate taxi plate holders for any reduction in the value of the plates (see Deighton-Smith, 2000).

The size of compensation, if any, is therefore a political judgment. This judgment may of course be informed by evidence about past purchase prices and returns on investment and the like.

In my view, it is not obvious that government would need to compensate license holders at current market values. I believe that reforms elsewhere have not always involved compensation (though this would need more research)..

Be that as it may, my purpose here is to mention briefly some strategies that would reduce the cost to government (see also Deighton-Smith, 2000, and Johnston, 2000).

- (1) One cost-reduction strategy for government is a slow reform process over say 10 to 15 years. This allows plate holders to continue to gain a significant income and allows government to offer much reduced compensation amounts in the longer term. However, this approach delays the substantial benefits of taxi reform and risks an about-turn on the reform process.
- (2) Another strategy for reducing costs to government would be to maintain existing regulated taxi fares in the peak or even allow them to increase notwithstanding an increase in taxi numbers. This would soften the fall in value of taxi plates (as shown in

Abelson, 2010). In effect the taxi user would be paying compensation out of part of their potential gains. Taxi users would still be better off on a net basis because of the fall in waiting times in peak hours. Deregulating prices would have a similar effect.

The next two strategies are variations on a buy back strategy. However the key point is common to both of them. This is that once government owns a license, it would lease it out on the market. Thus the plate lease revenue over say 10 years would partly offset the capital cost of the buy back. The net cost to government is a fraction of the gross costs. I have modeled two strategies / scenarios.

- (3) In one strategy the government would buy back all licenses at an average cost of \$330,000 over the next three years and lease them out plus a 6% annual increase number of licenses at rates falling from \$25,000 to \$5000 per annum over 15 years to 2015. The plate sales to government would be optional but in the sellers' interest given the falling lease rates.
- (4) The second strategy combines a rights issue with a buy back. The government would substantially increase the plates in the market by an annual rights issue. In the tested scenario, all existing license holders receive a 10% increase in their holding free of charge for four years and a 3% annual increase thereafter. The plate holders can either sell this entitlement on the market to an amalgamator or sell it back to the Government at a discount rate. The government would also buy back full plate licenses at a discount to the market. And as in the first strategy, government would lease out plates at a declining annual price.

Clearly the net cost to government would depend on the detail of the scheme design. However, in both strategies modeled, the net cost to government is less than 50% of the gross cost. Moreover, this cost would be lower if strategy (3) or (4) were combined with (2).

This note concludes that, if compensation is deemed necessary, there are ways by a combination of (2) and (3) or (4) that can produce reform to the considerable benefit of taxi users and at an acceptable cost to the taxpayer.

References

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