



Submission to 2018 Essential Services Commission (ESC) Consultation Paper Fare Review for the Unbooked Commercial Passenger Vehicle Services

13CABS welcomes the opportunity to respond to the 2018 Essential Services Commission (ESC) consultation paper *Fare review for the unbooked commercial passenger vehicle services*. This submission has been constructed in close consultation with Dr John Shannon from Delta Financial Services and the Monarch Education Institute. We are happy to discuss our submission further should you require it.

We wish to address four key issues:

1. Equitable recognition of Taxi Driver contribution
2. New market structures
3. The unique contribution taxis make to the community
4. The unfair impacts of the \$1 levy on Taxi Driver returns.

13CABS is of the view that it is necessary to increase taxi fares. Our submission emphasises the need to establish a vibrant and fair labour market with available returns that reflect the hard work and contribution that Taxi Drivers make to Victoria. The earnings of Taxi Drivers have not kept pace with National wage growth across the economy, nor with the cost of living, and this needs to be rectified. For too long Taxi Drivers' returns have been unfairly suppressed, often as the result of flawed economic assumptions or for political benefit.

We know from experience that marginal increases in the price of taxi fares do not result in a reduction in demand for taxi services. We believe we can retain healthy levels of demand while ensuring Drivers are properly rewarded for their work.

Finally, we discuss the impact of the \$1 levy and explain why an adjustment is required to fix the negative impact the \$1 levy would have on Taxi Drivers.

1. Equitable Recognition of Taxi Driver Contribution

The key objective in providing this response to the ESC is to ensure that Taxi Drivers are treated fairly and properly rewarded for their effort.

For too long Taxi Driver earnings have been suppressed to serve political sensitivities rather than economic and commercial realities. The returns to the businesses these individuals run have been limited by the suppression of regulated fares to meet political objectives. They have not taken into consideration the basic matters of equity and market particularities that a regulated price should account for.

The first issue we address in detail is the current returns to Taxi Drivers being set at unfairly low levels. Society needs to consider both the current social issue of having thousands of workers on earnings that are below the basic wage, and the longer term issue of attracting and retaining enough Drivers to deliver services of a reasonable quality to Victorians and visitors in the future.

Australians have a very strong commitment to fairness. Our minimum wage is currently set at \$649.90 for a 38 hour week which equates to \$18.29 per hour. (This is significantly higher than the rate in the US where Uber is based.) The latest data shows that the average hourly earnings for Taxi Drivers however is only \$13.50 which is just 73.8% or less than three quarters of the minimum wage rate. Another way of looking at this issue is to note that Taxi Drivers have to work at least 48 hours (ie an extra 10 hours) to generate the same income as a worker on the minimum wage for 38 hours of work. If we think that the minimum wage is what people need to sustain a reasonable life how can we justify a situation where Taxi Drivers receive less than three quarters of this minimum wage?

The long term effect of inadequate Taxi Driver returns is lower quality service, a cost borne by the passenger and ultimately society. To ensure the important services offered by the taxi industry are of a sufficient standard returns for Taxi Drivers must keep pace with the cost of living and with the wages earned by other Australians. The returns to Taxi Drivers have not increased at all since 2014. During the same period:

- a) CPI has increased by 6.36% from 105.4 to 112.1
- b) Average weekly earnings for other Australians have increased by 6.94% from \$1114 to \$1191.

Not only are Taxi Drivers currently earning less than three quarters of the minimum wage, the returns to Taxi Drivers over the last three years are falling further and further behind both living costs and the wages of other Australians. If this situation continues it is difficult to see how the taxi industry could attract the quality staff needed to provide this essential service to the community.

The situation with returns to Drivers for ride share companies is complicated and opaque. While high surge prices in peak hours are widely publicised and can attract more ride share Drivers these extra ride share Drivers can serve to reduce the total returns to Drivers in both the taxi industry and in the ride share industry by reducing the fares per Driver. It is somewhat ironic but it is true to say that the future survival of the taxi industry is of great importance to ride share Drivers because it reduces the risk that multinational ride share companies will misuse their market power because they are forced to offer their Drivers returns that are comparable to the returns available to Taxi Drivers.

2. New Market Structures

There are several issues we believe need to be considered in what is now a radically different environment to the one which existed when the previous inquiry took place. Previously the industry was dominated by large players and entry to the industry was limited by the requirement that participants required scarce and expensive taxi licences. The new industry structure is one in which large players no longer have a dominant role as you can see from the following table:

Type of Operator	Number of Operators	Number of cabs	Percentage of market
1 cab	2583	2583	63.80%
2-5 cabs	207	514	12.70%
6-19 cabs	39	391	9.70%
20+ cabs	14	560	13.80%

In earlier inquiries there was a suspicion that big operators had a degree of market power that potentially could be exploited. The focus in that environment was on preventing big operators from exploiting their notional market power by setting prices which were consistent with operating costs and which also required operators to improve the level of efficiency in the industry.

Reforms to industry entry and exit have removed any degree of market power from all but the large multinational players. In the current environment it is difficult to argue that the traditional large fleet owners possess any market power that they could exploit to the detriment of consumers. If any organization does possess such power it is the large multinational operators of ride share firms. The extent of this power is difficult to measure because of the lack of transparency associated with their operations. This is particularly true of the way in which they use surge pricing algorithms to set fares in a way which they say the Drivers achieve higher returns and both consumer surplus and producer surpluses are increased. Their lack of transparency makes it difficult to assess whether their variable pricing structure is achieving their stated objectives at all. Here and in overseas markets it has been argued their pricing structure algorithm is designed to attract more Drivers into the market in a way which increases the returns for the firm but leaves Drivers worse off. Preventing the emergence of dominant market power no longer relies on price regulation but on facilitating meaningful competition. It is unrealistic to expect taxi services to compete with providers of substitutable services that have no regulation on prices whilst taxi services are priced at maximum fares that artificially suppress Driver earnings.

In the demand models which were designed to explain outcomes in the taxi industry before these major changes took place, originally there was strong focus on the impact of fares on demand. In later years it was acknowledged that both prices and quality (as measured by waiting times) affected demand. It was also recognised that there was a complex relationship between waiting times and returns to Drivers. You can only increase demand using shorter waiting times by increasing the number of Drivers. With more Drivers however, the number of fares per Driver falls. For Drivers to be better off the impact of shorter waiting times on demand will have to be quite large for individual Drivers not to have a smaller number of fares.

In the coming decade it is anticipated that demographic changes like the rapid aging of the population will be another important factor affecting the demand for taxi services. Once these extra factors affecting demand are recognised we then need to recognise that the size of the price elasticity of demand will not be anywhere near as large as what it was previously assumed to be.

Consistent with this change in market structure the consultation paper notes the new focus of the Act is on safety and provision of customer protections. In our submission we intend to explain in more detail what this new focus should mean in practice. We want to pay particular attention to the major contributions to both the welfare of people in relatively disadvantaged groups and to the success of key industries in the ever expanding services sector. We will pay particular attention to the ways in which the taxi industry produces significant positive externalities in a social environment which values public safety and greater inclusiveness. Unfortunately, there is only a limited awareness of the benefits which the taxi industry provides and it is also difficult to attach a meaningful value to such benefits which Taxi Drivers cannot charge for. We will however try to explain how such positive externalities arise.

In industries where significant positive externalities exist outputs will be lower than what is optimal for the economy. When producers do not receive the full value of their output they will produce less than what they would if they were receiving the correct higher returns. When assessing the costs of setting fare structures that undermine the provision of taxi services we should include the reductions in these positive externalities. It also needs to be noted that in the presence of positive externalities it can also make sense for government to subsidise these activities to ensure their consumption levels are appropriate.

3. The Unique Contribution Taxis make to the Community

There are three key groups who are important users of unbooked commercial passenger vehicle services. When providing these services the taxi industry generates significant positive externalities ie benefits to the community and the wider economy which the taxi industry is not paid for. These benefits are usually taken for granted but if they were to disappear there would be substantial social and economic consequences.

Group 1: People who face major personal and financial challenges

The first major user group consists of people who either cannot afford a car, do not have reliable public transport services or who have natural or age related disabilities. For people in this group the existence of a reliable unbooked passenger transport service makes it easier for them to access essential medical services and to more actively participate in their local communities. This is particularly true for people who cannot afford to live in areas where there is adequate public transport. Without quality taxi services it would be much more difficult for them to do their own shopping, socialise with friends, and attend activities at their community centres such as exercise activities for seniors.

As is explained in ABS document 3101.0 – Australian Demographic Statistics the number of more vulnerable older people is increasing rapidly. The actual numbers in the ABS document 3101DO002_201709 Australian Demographic Statistics, Sep 2017 show that in 2017 there were 2.786 m people 75 or older but in 5 years' time there will be over 4.7 m people in this age group (an increase of nearly 69%). As roads and retail parking spaces become increasingly congested the presence on these roads of larger numbers of people with deteriorating driving skills could significantly increase the number of road accidents which will lead to major increases in health costs. This at-risk group of people will be more likely to leave their cars at home if they are confident that cabs will be at the rank when they want to return home with their shopping or after receiving medical treatment.

The relatively rapid rate at which the number of older people is growing could lead to a major change in the nature of the market for taxi services. In the past taxi services were perceived as an inferior good in the sense that as incomes increased people preferred to purchase a car or cars for themselves rather than utilise taxi services. Compared with earlier generations this group of older people have higher income levels which will make it easier for them to access taxi services if they want to.

A rapidly aging population has significant implications for many of our businesses and public and private institutions. It is fair to say that we need to pay closer attention to what might happen so that we can better prepare for these changes. It is also fair to say that as taxi services have been widely available over a long period of time most people take them for granted. People will, however become very aware of the importance of taxi services if we fail to ensure that this industry can meet the needs of these older Australians.

More importantly, it is hard to foresee any market participant that will be as well-equipped as the Taxi industry to meet the needs of older Australians and Australians who live with a disability. The Taxi industry is far better placed than any other market participant to deal with the needs of, and engage with, schemes like the National Disability Insurance Scheme (NDIS). State based regulators have simply overstated the ability of increased competition in the personal transport market to provide transport solutions for these important groups within our society. In simple terms, the many years of experience providing such services, combined with very high levels of infrastructure and human capital make the Taxi industry the key to successfully ensuring that the transportation needs of these groups are adequately met. Earnings must reflect this positive externality to ensure the Taxi industry can continue to attract Drivers and supply these vital services.

Group 2: The Tourism Industry

The second major user group is tourists. In Australia tourism contributes just over 3% of GDP and it is a key component of a growing services sector that governments at all levels are trying to promote. Both International and domestic tourism businesses would find it very difficult to function effectively without a reliable taxi industry. While it is difficult to place a numerical value on the contribution that a reliable taxi service makes to the tourism industry it is reasonable to say that having a reliable taxi service helps to create the perception that Melbourne and Victoria are enjoyable places to visit. It is also reasonable to argue that fewer tourists would come to Melbourne if they were not confident that reliable taxi services were readily available.

<https://www.tra.gov.au/research/international-visitors-to-australia/international-tourism-statistics/international-tourism-statistics>

Group 3: The Entertainment Industry

As was noted in a 2015 Price Waterhouse Coopers report

(<https://www.pwc.com.au/press-room/2015/entertainment-media-outlook-grow-jun15.html>)

the Australian entertainment and media market is forecast to grow to \$43.4 billion by 2019, a compound annual growth rate of 4.2 percent. The more recent 2017 report from TEG Analytics, which mapped the entertainment preferences of more than 12 million Australians,

(<https://which-50.com/data-analysis-finds-australias-entertainment-sector-booming/>)

found that entertainment is becoming an increasingly important industry in Australia. While we are attending more local entertainment events, as our incomes increased it has become more “Normal” for Australians to spend more on entertainment away from home with 36% of Australians travelling interstate purely to attend entertainment and sporting events. In 2016 TEG Analytics found that Australian travelled over 200 million kilometres to entertainment and sporting events. Like any other tourists these tourists will rely heavily on taxi services.

It is however not just the number of people who wish to attend sporting and entertainment events. Over several decades there has been a concerted attempt by governments at every level to reduce the incidence of serious road accidents associated with the consumption of various drugs including alcohol that often occurs at entertainment and sporting venues. This has been a key factor affecting the demand for taxi services. It is unlikely that penalties for breaking rules such as the 0.05 rule will in the future be reduced which implies that the demand for taxi services for the entertainment industry will continue to grow.

Once again it is difficult to put a figure on the contribution that taxi services make to the entertainment industry but it is safe to say that if there was a reduction in the quality and reliability of taxi services particularly at the ranks close to major sporting and entertainment venues, attendances would suffer and both consumer and producer surpluses would be reduced.

In general it is reasonable to claim that encouraging an efficient, sustainable taxi industry should be an integral part of any government strategies that are designed to promote growth in the entertainment sector.

4. The Unfair Impacts of the \$1 Levy on Taxi Driver Returns

The initial legislation that imposed a \$2 levy (now \$1) to fund a compensation scheme for licence holders was never intended to fall on Taxi Drivers. The initial legislation envisaged total deregulation of booked taxi fares and rank and hail taxi fares. The final legislation does not reflect this. Rather, it prescribes that while pricing in the booked Taxi market should be deregulated, pricing in the rank and hail should remain regulated.

This change in the legislative outcome means that a Driver accepting a fare from a rank or hail effectively has to pay \$1 to the Government to cover the levy. This was clearly not the intent of the Government or the legislation. As a result, the regulated fare for rank and hail trips must include an adjustment to account for the levy.

Given the average fare sits at approximately \$25 and the proposed levy is \$1, a 4% adjustment in the fare level is required.

Conclusion and Recommendation

Beyond issues of natural justice and equity a price adjustment is required to Taxi fares to ensure the positive externalities generated by the industry continue to flow to the community. Drivers are absolutely pivotal in ensuring this. Without adjusting fares upward Driver returns will fall further and the ability to attract and retain Drivers will diminish.

For these reasons it is necessary to adjust Taxi fares upward by at least 11%. This movement accounts for the 4% levy adjustment plus a 7% increase to ensure that returns to Drivers are increased in a way that is consistent with both the increases in the general level of costs and the average wage level. Only with an increase of this nature will we be able to ensure that Taxi Drivers are treated in the fair and equitable way that most Australians assume is reasonable.