

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

13CABS welcomes the opportunity to provide this response to the 2018 Essential Services Commission (ESC) draft report - *Fare review for the unbooked commercial passenger vehicle services*. This response has been developed with Dr John Shannon, Delta Financial Services and the Monarch Education Institute.

13cabs is grateful to have an opportunity to consider the draft report and the matters raised within it. 13cabs remains of the view that taxi fares for unbooked trips should be increased as outlined in our initial submission to the ESC in April 2018. Taxi Drivers are as entitled as any other member of the community to be able to earn a fair income, particularly when what they are able to earn is regulated by Government authority. While Australian wage indexes and CPI are not perfect measures, they clearly demonstrate that the ability of taxi drivers to earn an income is not keeping pace with other sectors of the community whilst being unfairly anchored to maximum price limits set back in 2014.

We do not regard the potential for unpredictable consequences as a reason for the ESC not to act. In fact, failing to act will have the entirely predictable consequence of eroding Taxi Driver returns even beyond the 7% they have fallen behind other Australians since 2014. It is entirely predictable that the long term effect of inadequate (and declining) Taxi Driver returns is lower quality service, a cost borne by the passengers and ultimately society. As outlined in our previous submission, our aging population, the tourism industry and the entertainment industry will all be impacted by extending the regulatory suppression of Taxi Driver earnings.

Price elasticity

13cabs understands the ESC's contemplation of the impact of price increases on demand. However, we believe the ESC is overstating the impact of price on demand, and not paying sufficient attention to 'value' as a key determinant of demand. In short, the commercial passenger vehicle industry (CPVI) is not designed, nor able, to compete with a number of other transport services due to the subsidised nature of their business models.

The ESC attitude towards pay increases for drivers is based on the implicit assumption that the price elasticity of demand for unbooked taxi services is at least unit elastic i.e. the price elasticity has a value less than - 1 which implies that any price increase will reduce demand to such an extent that the revenue received by taxi drivers falls. That assumption is contrary to the experience of the industry. For example, the first several years of this century featured concurrent and sustained increases in both fares and trips.

The empirical evidence for a price elasticity of demand less than - 1 is not particularly strong. In the most recent available study by Rose and Hensher (2013) they note that while the estimates of the price elasticity of demand in other significant studies vary from - 0.23 to - 1.75 the majority of estimates lie in the band from - 0.5 to -1.0. In other words in the majority of studies a price increase will not reduce the returns to drivers.

On p 18 of the Rose and Hensher study we see that in the table containing the results of their study the price elasticities for 5 different market segments have a weighted average of - 1.042 which is very close

to -1. We also see that in three of the five market segments the values are not close to - 1 with values of - 0.645, - 0.753 and - 0.605.

The value of the price elasticity of demand is affected by a range of factors such as those set out in Litman (2017) on pages 13 to 19. One important factor is the quality of the service because typically demand is less sensitive to price increases when customers feel they are receiving better quality service.

The CPVI industry has to find other ways to attract demand. By offering a service that is seen as providing 'value for money' and increasing our 'value proposition' to consumers 13cabs believes we are able to increase demand even while there are relatively minor adjustments made to the price of unbooked taxi fares – as outlined in our first submission to the ESC. The ESC's draft report acknowledges the improvement in satisfaction ratings in their draft report. This is an example of increasing the value proposition to consumers.

Inequitable application of the theory

13cabs is also concerned that while the ESC argues that price increases to the fare would have a detrimental impact, we have seen a number of significant increases to the fare in the recent past. None of these increases in components of the fare do anything to improve the earnings of a Taxi Driver. While 13cabs appreciate the ESC's decision regarding the Government's \$1 levy on CPV trips, this has increased the price yet none of the additional dollar paid by the consumer goes to the Driver.

Further price increases by parties external to the Driver, such as the Airport access fee and increases to toll road charges have had the same impact as the levy – increasing the price to the consumer. While this is a challenging issue to resolve and more work needs to be done, it would be inequitable for the ESC to take the view that Airport fees, toll charges, and government levies have crowded out the potential for increases in Driver earnings. It is simply unfair to say external parties may effectively increase the price of a taxi fare to meet their own commercial and economic objectives but a Taxi Driver cannot.

Signals to the market

The draft paper suggests that an increase in fares may send misleading signals to the market and attract even more taxis and CPVs on to the road. This paternalistic concern fails to properly regard both sides of market forces and is at odds with the new regulatory framework that governs the industry.

Market forces may well result in attracting more taxis and CPVs on to the road and equally, if earnings are reduced, vehicles will be retired from service and the fleet size will contract. The Victorian Government has clearly contemplated this mechanism when removing the previous system of taxi licensing. The existence of market forces in the new framework cannot validly be used as a rationale to extend the suppression of Taxi Driver earnings.

In light of how the industry is currently structured, considering the potential to attract more taxis on to the road as a reason not to act takes too narrow a view of the market in which taxis operate. Even if the ESC was to ignore the ability of the market to find its equilibrium, regard must be had for the fact that Uber alone claims a fleet size in excess of 30,000 vehicles in Melbourne, dwarfing the taxi fleet in just a few short years since promoting its app in the market. The ongoing suppression of fares will further limit the ability of the taxi industry to compete with new entrants by limiting supply (ie availability for passengers) and impairing value (ie the quality of vehicles and Taxi Drivers).

Cleaning fee

In regard to the specific question asked by the ESC in their draft report, 13cabs support the introduction of a soilage fee. Rules and process would need to be investigated in regards to how this charge would be implemented, but 13cabs broadly supports it. In terms of the cost of the charge, 13cabs is of the view that this fee should be equivalent to the loss of a shift.

Time and Distance

13cabs also broadly support the idea of introducing a time and distance charge option when it comes to unbooked Taxi fares. 13cabs would be happy to discuss this further with the ESC and understand better

how they see it as working. 13cabs do believe that this approach could create greater price transparency for consumers.

In summary, 13cabs reiterates its view that an increase of 7% (initially 13cabs submitted it should be 11% but the levy component has now been accounted for by the ESC) should be provided to Taxi Drivers to ensure they are able to earn a fair living. It is important to remember this is a 'maximum fare' and if Drivers believe it is too high they are able to lower it.

In our initial submission, 13cabs urged that greater consideration be given to the overall value Taxi Drivers contribute to the Victorian community. The value proposition of their service is broad, extending well beyond the needs of individual passengers. The value they provide to important sectors of our community and the economy (as described in our initial submission) often cannot be provided by other service types. The importance of this contribution to our society warrants adequate and competitive fare levels to ensure labour can be attracted to the sector providing these vital services.

The draft report which is based on a highly questionable assumption about the price elasticity creates a situation where the quality of drivers attracted to the industry and hence the quality of service provided has little chance of improving. Lower quality levels tend to increase the price elasticity which make price increases less likely and this in turn leads to further reductions in the quality of drivers and the quality of service in the industry. The people most affected will be the more vulnerable passengers.

We request that you consider taking the step required to at least put Taxi Drivers back on terms with other Australians. In doing so you will be enabling taxi industry stakeholders to compete on value and strengthen their important contribution to society.

13cabs again thanks the ESC for the opportunity and would be happy to discuss the matters raised.