



MELBOURNE AIRPORT

Essential Services Commission

Taxi Fare Review 2013-2014

Response to Call for Ideas Paper:

Submission

January 2014

Introduction

Melbourne Airport is the second busiest airport in Australia for passengers and the largest for air freight exports. Located 22 kilometres north-west of Melbourne's central business district (CBD), adjacent to the Tullamarine Freeway and Western Ring Road, the Victorian and Australian Governments recognise the airport is a key component of Victoria's and Australia's transport infrastructure.

More than 30 million passengers travelled through Melbourne Airport last year with that number expected to exceed 60 million passengers per annum by 2033. As the airport continues to grow, getting passengers, staff, visitors, goods and waste to and from the airport precincts in a timely and efficient way will become increasingly important and challenging. Melbourne Airport's vision is for an interconnected ground transport system that supports safe, secure, efficient and reliable journeys for all modes of transport.

Access to the airport is currently limited to road based public and private transport. Demand levels at peak times result in congestion and queues on some roads leading to the terminal precinct. The road network is well structured, as the original airport development includes excellent connectivity to state arterial roads and a sound internal road network.

Around 30,000 vehicles enter the forecourt every day to pick up or drop off passengers travelling through Melbourne Airport comprising private vehicles, taxis, hire cars (VHA), public bus services, off airport shuttles and tour coaches of which taxis and private hire vehicles account for more than 23%. It is the busiest airport forecourt in Australia, the most heavily used part of Melbourne Airport's internal road network and can become significantly congested during peak periods. It is essential that this traffic is managed proactively to ensure the safe, secure and efficient passage of all airport users.

The current charging regime for forecourt access, which has been broadly in place since 2002, is focussed on delivering safe and efficient use of the finite forecourt resource. Where transport operators derive a commercial benefit from their operations at Melbourne Airport, there is an expectation that they will contribute to the capital and operating costs incurred by Melbourne Airport that support their businesses.

The airport's growth now calls for the internal transport network to be reinforced to meet the increased demand, as well as a renewed emphasis on making greater use of high-occupancy vehicles, including non-road based transport. These initiatives must be supported by reliable and efficient transport links between the airport, the Melbourne CBD, the local region and the wider metropolitan area. For further information, please see section 9 of the Melbourne Airport Master Plan approved by the Deputy Prime Minister in December 2013.

Melbourne Airport has made significant investments in its internal road network in recent years. We have extended Francis Briggs Road to improve the flow of taxi traffic, we have increased the capacity of our main entry road – Terminal Drive - by increasing the total lanes from two to four, we continue to work on the duplication of Melrose Drive which is a major arterial road for our southern precinct and business park area. In 2014 we will commence work on the extension of Airport Drive that will provide access to the airport precinct from the M-80 ring road. All of these projects benefit taxi operators and their customers without impacting on taxi charges.

We will be investing approximately one billion dollars in our infrastructure over the next two years. This will include the development of a new multi-level ground transport hub to support a new domestic terminal, more internal road improvements and subject to final approvals, we will also start work on the new elevated road network, prioritising the elevated forecourt. All of these initiatives will improve the operating environment for all ground transport operators and users, including taxis.

Taxi Fare Review

Melbourne Airport supports the Essential Services Commission (ESC) in its goal to establish a structure for the setting of taxi fares to promote the efficient provision and use of commercial passenger vehicles and to promote the long term interests of consumers by having regard to the price, quality and reliability of taxi services.

Through the investment in ground transport infrastructure and operational resources to manage the provision of taxi services, Melbourne Airport plays an essential role in supporting the quality and reliability of taxi services to and from the airport and welcomes the opportunity to make a submission to the ESC in that regard.

That said the services that Melbourne Airport provides, including those provided to the taxi industry, are subject to the Commonwealth Government's price monitoring regime set out in the Direction made by the Assistant Treasurer on 12 June 2012 and pursuant to section 95ZF of the *Competition and Consumer Act 2010* (Cth).

The current regulatory framework has served Victorians and Victoria's taxi industry well since it was introduced in June 2002. It has also subsequently been endorsed by the Productivity Commission following extensive reviews in 2007 and 2011.

The market for and pricing of ground access services at Melbourne Airport

At Melbourne Airport, there is a wide range of options for access to the airport using public roads (provided by the airport on its leased premises and state and local government to the airport boundary). The ground access options in relation to the airport are set out in the table below.

Personalised Options	Scheduled or group options
1. Private vehicles using the kerb	8. Skybus
2. Private vehicles using airport provided long and short term car parking	9. Orbital Smart Bus
3. Privately operated buses servicing off-airport car parking	10. Metropolitan public bus services
4. Private vehicles using airline provided valet car parking	11. Privately operated buses servicing regional centres
5. Taxis	12. Courtesy buses operated by hotels, universities and other organisations
6. Private limousine hire cars licensed by the Taxi Services Commission	13. Tour coaches
7. On-airport car rental operations	14. Off-airport car rental operations

The predominant mode of access is by private vehicle (35% for pick-up/drop-offs at the terminal, plus 27% for private vehicles using car parking at the airport) while approximately 23% involves taxis/hire cars and 12% involves bus travel.

It is Melbourne Airport's policy that operators obtaining a commercial benefit from access to the forecourt should contribute to the costs of providing and maintaining those facilities. All modes using the kerb for

pick-up/drop-off apart from private vehicles and currently public buses pay for the access they enjoy to the services provided by the airport. By way of comparison to a taxi charge of \$1.32, Melbourne Airport charges are \$2.30 for a small commercial bus, \$3.44 for a medium sized commercial bus and \$6.89 for a large commercial bus. The charge for VHA operators is a parking charge of \$3.00 for thirty minutes.

In addition to recovering costs, pricing for car parking and terminal access for commercial operators also seeks to efficiently manage access to the kerb in front of the terminal complex as well as the safe and efficient flow of traffic in the forecourt area. Furthermore Melbourne Airport considers the amenity provided by the service in conjunction with relative pricing with competing onsite services. For example for private vehicle, kerbside pick-up/drop-off and short term car parking are relatively strong substitutes. This reflects the high level of amenity offered by short term car parking at the airport, which given close proximity of the short term car park to the terminals, can be considered to be similar to the amenity provided by kerbside pick-up/drop-off. A similar observation can be made with respect to taxis.

While this process is by no means precise, it is aligned with most market based pricing frameworks and Melbourne Airport believes it delivers efficient pricing outcomes while also recognising locational value and capacity to pay as well as covering total cost and the avoidable cost for each service types.

To minimise the potential for consumer confusion, Melbourne Airport proposes to implement this revised access charge concurrently with the new fare structure currently under determination by the ESC. It is relevant to note that when considering this matter on the basis of 2011 prices, the Productivity Commission found that ground access charges of this type at Australian airports were not excessive.

History of taxi charging at Melbourne Airport

Taxi charges were first introduced at Melbourne Airport in 2002 following detailed public consideration by the Australian Competition and Consumer Commission (ACCC). The purpose of the price was to provide for necessary new investment in roads, holding areas and call up technology and to recover operating costs associated with the management of taxis at Melbourne Airport. The price approved by the ACCC and implemented by Melbourne Airport was 60 cents (plus GST). In 2002, the price was increased to \$1.20 (plus GST). Since that time, the price has remained unchanged meaning that the charge levied by Melbourne Airport, in real terms, has fallen by around 35% whilst invested capital and operating costs have grown.

At the time the charge was introduced, the then Victorian government permitted taxi drivers to recover a \$0.68 (including GST) handling fee from each passenger they picked up at Melbourne Airport.

This handling fee is separate to the flag fall and added to the customer's charge at the end of the journey along with other public infrastructure tolls, including the Melbourne Airport charge.

Melbourne Airport notes that this handling fee, which is unique to Victoria from a national and international perspective, has remained unchanged since its introduction in 2002.

Melbourne Airport considers that a positive way to enhance customer perception about public infrastructure tolls would be include them as part of the flag fall.

The following table demonstrates that taxi charges at Melbourne Airport are low by Australian standards and constitute the smallest proportion of a standard CBD fare of any major Australian Airport.

Airport	Airport Access Fee Portion	Standard Fare to CBD	Access Fee	Amount retained by airport
Sydney	9.86%	\$38	\$3.75	\$3.38
Melbourne	3.70%	\$54	\$2.00	\$1.20
Brisbane	9.70%	\$34	\$3.30	\$2.97
Perth	8.33%	\$24	\$2.00	\$1.80
Adelaide	12.50%	\$16	\$2.00	\$1.80

Melbourne Airport investment in taxi infrastructure

Recent significant improvements to Melbourne Airport's internal road network and forecourt have resulted in substantial efficiency improvements for all ground transport users, particularly taxis.

Following the movement of the Terminal 3 Taxi rank to Terminal 2 and the addition of new bays to create a super rank at Terminal 1, taxis have experienced significant efficiency gains with a 20% increase in throughput.

Recognising the important role taxis play as the second most utilised source of ground access to and from Melbourne Airport, taxis continue to be allocated direct kerbside access to the terminal buildings.

Melbourne Airport also provides infrastructure to allow drivers a safe environment in which to take a break during their shift and to wait for fares. Melbourne Airport maintains two taxi waiting areas which have a holding capacity for 680 and 200 vehicles respectively which occupy in total approximately 26,000 sqm of lighted and security monitored pavements. Movements are supported by an electronic call up and queuing system. These large waiting areas incentivise drivers to dwell at the airport and are vital to ensure there is sufficient quantity of taxis to meet passenger demand during peak periods.

Melbourne Airport has also provided additional infrastructure for drivers within the airport precinct, including a cafe, a multi-faith prayer room, restrooms, car washing facilities and a petrol station. These facilities are also regularly cleaned and maintained at the airport's cost. Melbourne Airport is currently finalising plans for the upgrade of the prayer and toilet facilities and aims to complete this project in 2014.

This infrastructure (valued at \$5.6 million) is supported by substantial operating costs which not only facilitate proactive management of the rank but also streamline the activities of other transport modes to ensure there are no impediments to the efficient flow of taxi traffic.

This combination of infrastructure and operational investments ensure that Melbourne Airport is able to maintain a high level of service for taxi customers, this means that at present 95% of people will wait for less than five minutes for a taxi.

Cost of delivering taxi services

For the 2013/14 financial year, the cost of the taxi infrastructure and operational systems at Melbourne Airport is expected to exceed \$4.6 million of which 39% is recovered by the current taxi access charge. Of this total cost, approximately \$4.5 million relates to direct and ongoing staff costs, maintenance and cleaning and other operating costs such as electricity. The remainder relates to capital charges on an

additional \$1 million of assets currently being delivered to upgrade existing facilities. In addition, as mentioned above, taxi operators enjoy access to the airport's road infrastructure at no cost.

Going forward, wages can generally be expected to grow at a little above CPI and as usage, and congestion grows with passenger volumes, the volume of labour employed can be expected to grow although not linearly. In sum, operating costs can be expected to grow at a rate in excess of inflation.

Proposed taxi charge increases

The current charge payable by taxi customers was implemented in September 2002 with a commitment to freeze that price for five years. In fact, the current \$2.00 fee collected from Melbourne Airport has remained frozen for over 11 years.

The \$2.00 fee comprises a driver handling fee of \$0.68 retained by the individual driver; a \$1.20 Melbourne Airport access charge; and a \$0.12 GST.

Since that time, Melbourne Airport has invested significantly in infrastructure and incurred additional operating expenses (\$4.5 million per annum) to support taxi services. Taxi operators have also benefited from significant improvements in ground infrastructure and increases in patronage that have been the result of Melbourne Airport's efforts to encourage greater aviation travel to Melbourne.

Given the costs and pricing history described above, Melbourne intends to increase its charge to taxi operators to \$2.45 plus GST. This would leave Melbourne Airport in the middle of the range of charges for taxi services at Australian Airports and support the accepted user pays model adopted by both public and private infrastructure assets in Australia.

Pass through to passengers

Consistent with the Australian Government airport pricing policies, the setting of charges payable by taxis seeking to operate their business at Melbourne Airport is a matter for the Airport. The amount recovered by taxi operators, and in particular the driver handling fee, is a matter for the ESC.

If the ESC is to retain and ultimately increase the driver handling fee, Melbourne Airport considers an accumulated CPI increase to around \$0.70 as appropriate, suggesting a total recovery from passengers of \$3.40 (including GST).

Given the precedent established by the current pass through of the Melbourne Airport access charge and road tolls (including CityLink, EastLink and PeninsulaLink), combined with the already narrow margins of taxi operations, Melbourne Airport supports the pass through of this increased charge to the passenger.

As passengers are the ultimate recipient of the benefits associated with investment in airport infrastructure and resources by way of minimal taxi waiting times, well organised ranks, good road network capacity and safe and efficient traffic management, it is appropriate that they would bear the costs associated with its provision.

If, as a result of the framework that regulates taxi fares in Victoria, taxi operators are unable to pass on costs associated with their airport operation they will be at a competitive disadvantage to other modes of transport. Such an outcome compromises their ability to establish and maintain high qualities of service. This will not only affect business outcomes for the taxi industry but will diminish the reputation of

Melbourne as a business and tourist destination and the travelling experiences of Victorian and many other Australians.

Short fares

Short fare refusal can have a significant and negative impact on customer experience. In the past, Melbourne Airport has experienced moderate levels of short fare refusal. In an attempt to improve customer experience and minimise the highly publicised poor behaviour of a small number of drivers, Melbourne Airport trialled various short fare systems.

Each trial enjoyed some arguable success for limited periods of time, at which point the systems would become vulnerable to abuse by a limited number of drivers and considered inequitable by the majority of drivers. Accommodating initiatives designed to combat short fare refusal frequently led to increased waiting times as well as significant complaints from both customers and drivers and, ultimately drove down efficiency of the broader taxi operation.

The susceptibility to abuse and correspondingly negative impact on the efficient flow of traffic in the inner lane of the terminal forecourt caused Melbourne Airport to discontinue short fare initiatives in May 2013.

Melbourne Airport acknowledges that short fare refusal is an issue which affects a number of mass gathering sites including the CBD and the Crown Entertainment complex and is not unique to Melbourne Airport.

Melbourne Airport supports a consistent approach to dealing with short fare refusal and considers that a price based mechanism which sees an increased flag fall and a lower subsequent per kilometre charge may be an appropriate solution. Melbourne Airport would be pleased to provide further data of short fare refusal over time if required to inform the analysis of the Commission.

Implementation and ongoing engagement

To minimise the potential for consumer confusion, Melbourne Airport proposes to implement its revised access charge concurrently with the new fare structure currently under determination by the ESC.

To promote consumer awareness, Melbourne Airport is committed to supporting taxi owners and drivers in communicating the changed access fee arrangements directly with customers. Previously this has included notifications displayed at the taxi ranks as well as the funding for and provision of in-vehicle stickers for all taxi's serving Melbourne Airport.

As part of the implementation of this revised charge, Melbourne Airport will undertake targeted communications to key audiences about the nature of the changes. This will include signage at the ranks advising of the charge; the preparation and funding of in-vehicle stickers communicating the charge and supporting web based materials detailing the charge and its rationale.

Melbourne Airport meets regularly with taxi driver representatives, the Victorian Taxi Association and the Taxi Services Commission and will continue to engage with these groups through implementation.