BOX 1 QUESTIONS FOR STAKEHOLDER COMMENT

The purpose of taxi fare regulation (section 3.1)

1. ***In what situations is regulation of taxi fares most important, and why?***

The whole purpose of fare regulation is to ensure customers get a fair price for point to point travel irrespective of the service provider to avoid instances of 'gouging' and that the driver/operator receives fair compensation to cover the cost and labour for providing the service with all the necessary regulatory customer safety requirements provided.

2. ***Are there situations where maximum taxi fare regulation should be made more flexible than it is currently?***

With the advent of illegal taxi services (Uber-X) and the government's failure to force the illegal service to comply within the existing regulatory framework, this necessitates the need for greater flexibility for the loosening of existing maximum taxi fare regulation so as to allow the taxi industry to compete with these illegal services on a somewhat level playing field. An example would be to deregulate all pre booked pricing to allow taxi services to also provide dynamic pricing in line with the prevailing supply/demand for taxi services. This could include charging customers prices based on demand and cancellation fees for a 'no-show' on a pre booked fare.

Assessing the overall fare level (section 3.3.1)

3. ***What are your thoughts on the current overall level of taxi fares? Are fares generally too low, too high or about right?***

The structure of fares has been set in light of the regulatory cost burden imposed on the taxi industry. With illegal taxis (Uber-X) bypassing this regulatory burden, the competitiveness of the taxi industry has been eroded due to the price advantage the illegal operators have by undercutting taxi fares by up to 30% - 40%.

Relative to the regulatory cost burden and the current historic low occupancy rate of taxi vehicles, the fare structure appears to be low, given the current 45/55 operator/driver split.

However, if the government were able to remove the current oversupply of taxis (which currently using industry figures appears to be 25% oversupplied as a direct result of the recent failed reforms) and the regulatory/compliance cost burden was reduced, occupancy rates would significantly increase without impacting the consumer. The existing fare structure on this basis would then appear to be about right.

4. ***What are the most relevant market outcomes to analyse in determining an efficient overall level of taxi fares (e.g. changes in taxi licence numbers, customer wait times)?***

It is true and a fact that now with taxi licences available as the market demands, economic profits are no longer sustainable. The oversupply of taxis and the introduction of the knowledge test that has seen a net removal of 2500 drivers from the industry (reference TSC), and the introduction of illegal taxis (Uber-X) that has seen the migration of existing taxi drivers and customers to the illegal platform, has resulted in the inability of operators to crew taxis with drivers. The higher cost structure and lower market share per taxi vehicle has resulted in downward pressure on assignment prices to perpetual licence holders and a virtual collapse in the secondary market for these perpetual licences.

With the expected hand back of government licences over the next eight to twelve months, market equilibrium would be expected to be reached between 12 to 24 months from now, on the premise the government actually makes a decision on the illegal Uber-X taxi service.

As the level of earnings per taxi have been falling (up to 30% loss of market share), economic profits per unit have been eroded, with an expectation that taxi numbers will fall to the level prior to the issue of the annual government licences. Profit per taxi will return to a normal level as the perpetual licence prices and associated assignment fees erode. Due to a loss of market share to the illegal Uber-X taxi service, indeed, the market, rather than the regulator does now determine the profitability of the taxi industry. At the current annual fee rate, it would be expected that all government licences will be handed back. This will pose a new problem for government with the loss of associated revenue from their ticket clipping, due to the unintended consequences of their failure to appropriately regulate the industry.

Reviewing fare structure changes made in 2014 (section 3.3.2)

5. ***What are your views on the fare structure adjustments made following our 2014 review? These were:***
i. a three tariff structure to better reflect demand across the week, with a 'day' tariff (9am – 5pm), an 'overnight' tariff (5pm – 9am) and a 'peak' tariff (Friday and Saturday nights 10pm – 4am)

The tariff structure appears to be fair and reasonable for rank and hail work, however pre booked fares require the removal of a cap to allow fair competition with other pre booked services and the illegal Uber-X taxi service.

The tariff 3 rate should also apply all day every Sunday and public holidays to better reflect community expectations for workers and provision of services during undesirable times.

However, with the advent of multiple tariff rates with new meters, users of bulk taxi services should be able to negotiate their own tariff rate structure with a taxi service provider to guarantee service and pricing if so desired at a higher/lower rate than the regulated rates.

ii. ***higher flagfalls to make short trip fares more attractive to service***

Short fare refusal is still an issue, despite higher flagfalls being used. This is especially the case due to low occupancy rates. Some short fares in the outer suburbs are just uneconomical to service. Not even the illegal taxis are prepared to service these areas, choosing to cherry pick the low hanging fruit in the inner suburbs. Removal of caps for pre booked fares will allow a customer to bid up the fare to entice a driver to cover the work to the point where the fare is economical to cover the driver's labour and costs for providing the service.

The setting of a minimum fare for rank work (as opposed to hail) would also be desirable to eliminate short fare refusal. This can be done in conjunction with a review of longer distance fares where equilibrium can be reached with two short fares in an hour equating one longer fare (taking into account time, distance and empty journey back to working area). A hail should be based on the regulated price as the driver has the option to stop and take the fare or ignore the fare and wait for a pre booking or sit at a rank. The customer can hail the next available taxi or go to a rank or pre book a taxi.

iii. ***a flat $14 surcharge for high occupancy fares (5+ passengers), replacing the previous 50 per cent surcharge on the distance and time rates.***

This appears to be a fair and reasonable surcharge.

Options and ideas for discussion (chapter 4)

The base case (section 4.1)

6. ***Is there a case for making changes to the current taxi fares? If so, what specific aspects of current taxi fares could be improved?***

Yes, to address the issue of short fare refusals, changes to the current taxi fare schedule is required to eliminate or reduce substantially the incidence of short fare refusal. Customers should not have to apologise to the driver that it is only a short fare. In times of high demand, short fares are desirable; however with a current oversupply of point to point transport options, short fares are just not attractive enough for some lazy drivers. Common responses from drivers are that “it is just not worth it”.

The incentive for a short fare needs to be increased whilst providing drivers a disincentive to travel to the airport empty for a lucrative airport fare. This can be done with lower fixed price fares from the airport to equate to two short fares in the CBD. An example could be to charge a fixed price airport fare of say $40 to the CBD (which along with wait time will result in a $40 return for 1½ hours) and to have a minimum fare of $20 which can include the first 5kms travelled. Such a tipping point could eliminate the instances of short fare refusal, where two short fares provide better value than a fare from the airport. This would provide greater efficiency by eliminating excessive dead kilometres, ensuring better allocation of reliable taxi services for consumers to cover all fares, short or long.

The issue of pre booked fares has been discussed with the necessary removal of caps so as to be price competitive with pre booked services and illegal Uber-X, whilst allowing the consumer to bid up a fare if a taxi has to travel longer distances to the customer (a bit like tow truck allocation work where charges apply from truck depot to accident location).

Fare components (section 4.2)

7. ***What types of fare components would best allow for fares to be simple and transparent, while being sufficiently flexible to balance supply and demand for different types of trips?***

The incentive for a short fare needs to be increased whilst providing drivers a disincentive to travel to the airport empty for a lucrative airport fare. As previously explained, this can be done with lower fixed price fares from the airport to equate to two short fares in the CBD. An example could be to charge a fixed price airport fare of say $40 to the CBD (which along with wait time will result in a $40 return for 1½ hours) and to have a minimum fare of $20 which can include the first 5kms travelled. Such a tipping point could eliminate the instances of short fare refusal. This would provide greater efficiency by eliminating excessive dead kilometres, ensuring better allocation of reliable taxi services for consumers to cover all fares, short or long.

A minimum fare structure has to create the right balance between consumer and driver that is fair to all parties. An initial minimum fixed price fare structure with included kms and time charges with the existing distance tariff rates would work better than the declining marginal distance rate, as more likely than not, a driver would be required to drive empty back into the working area after a journey to the outer suburbs where demand for taxi services is extremely low.

Drivers refuse to travel long distances to cover shorter pre booked fares where the economic cost outweighs any potential economic gain.

8. ***What potential impacts should be considered in investigating alternative fare components?***

You state that “If effective competition exists, a greater level of flexibility in taxi fares may better enable taxi providers to tailor their price and service quality offerings to the demands of consumers”. We are currently being forced to compete on an uneven playing field with the government’s failure to regulate point to point commercial passenger services with the introduction of illegal Uber-X on demand taxi services.

The issue of pre booked fares has been previously discussed. For effective competition to occur, the necessary removal of caps for pre booked work is required so as to be price competitive with pre booked services and illegal Uber-X taxi services, to allow the consumer to bid up a fare if a taxi has to travel longer distances to the customer based on consumer demands (a bit like tow truck allocation work where charges apply from truck depot to accident location).

To avoid the customer booking multiple services, cancellation fees to the minimum fare or agreed fare can be charged to the consumer who books but fails to use the service.

Fare flexibility (section 4.3)

9. ***Can taxi fares be made more flexible while preserving adequate consumer protection?***

They certainly can be made more flexible, empowering a consumer to bid up a pre booked fare if they so desire to meet the minimum price a driver would accept to provide the relevant service. One cannot expect a taxi to drive empty for 10 kms to a customer for a local fare charge with the risk of non payment. A guarantee of minimum payment could and should ensure a guarantee of service. A willingness to pay for a service can be easily matched with a willingness to sell that same service. The current fare structure does not provide this platform.

Currently the illegal Uber-X taxi services use dynamic pricing to increase charges by a multiplier (what we call fare gouging which is why regulations are in place), to discourage those who cannot afford the fare as they are priced out, leaving the more affluent to pay the premium to receive prompt service.

In the taxi industry we do not believe in gouging customers for excessive profit, however we need to recover our costs and provide a fair profit for the driver/operator to supply these services. If a customer could bid their intention of how much they were prepared to pay, it could incentivise a driver, whilst not in the immediate area, to travel the extra distance to provide the customer the desired service. This is what happens with a pre booked fare to the airport: if the fare is lucrative enough, the driver will respond. Of course if there is a driver in the immediate area, they will respond to the lowest minimum fare without the consumer bidding up the price to attract the pre booked taxi.

Any flexibility provided needs to take into account the greater incidence of fraudulent behaviour by drivers who continually fail to engage the meter and conduct off meter fare transactions with the passenger. Hopefully the greatly functionality of the newer meters when approved can assist in resolving these issues.

10. ***If taxi fares were made more flexible, how could different taxis effectively promote their price offerings?***

All consumers care about is getting the nearest taxi in the fastest time possible without being gouged. If the price offered is fair, the service will be used.

Regular users of the Uber-X service and taxis are aware of the price variation between taxis and Uber-X. When an Uber-X charges base rates, they use that service. When they surge past 1.4 times, the consumer will use a taxi. Taxi is a brand in itself. Consumers rarely differentiate a taxi on a street. The fact that Uber-X is illegal and they fail to provide any consumer protection does not bother the consumer (until of course something goes wrong).

Price and convenience are the two determinants of point to point travel that consumers care about.

11. ***What do you think of the following ideas as potential ways of introducing greater flexibility to regulated maximum taxi fares?***
A. Better service for higher maximum booking fees – see section 4.3.1
B. Optional fixed price fares – see section 4.3.2
C. Tariff sets from which taxi operators can choose – see section 4.3.3
D. Fare authorisation – see section 4.3.4
E. Very high maximum fares – see section 4.3.5.

All of the above sound reasonable, however there are a number of taxi drivers in the industry who do charge fixed price fares already but refuse to engage the meter, cheating out the taxi operator and providing confusion to the consumer that might not be a regular taxi user, thus defrauding both the vulnerable consumer and taxi operator, resulting in the consumer receiving poor service and being overcharged.

The impending introduction of new smart meters that will automatically engage the fare on the entrance of the passenger in the taxi hopefully will overcome these incidences of fraud.

12. ***Do you have other ideas for introducing greater flexibility to maximum taxi fares?***

It is all good and well to talk about innovative methods where consumers and drivers are able to negotiate and agree to certain price outcomes.

This would work well in conjunction with a review of the recent failed reforms whereby:

- the implied conditions imposed on taxi operators have removed any flexibility to negotiated outcomes with drivers, and
- the introduction of unregulated Uber-X taxi services has upended the regulated industry.

As the current supply of taxis available for bailment is greater than the number of drivers available to bail those same taxis, removal of the implied conditions to bailment agreements should be a priority, to allow the market to dictate agreements between the driver and the operator. The bargaining power is now firmly in the driver's favour with hundreds of idle taxis sitting in operator yards. This is most important due to the defection of drivers failing the knowledge test and existing taxi drivers working on the Uber-X platform, chasing the surge pricing on Friday and Saturday nights.

Further review of the knowledge test, which has become a barrier to entry, needs to be looked at to encourage drivers back to the taxi industry as a viable driving option.

Greater flexibility to maximum taxi fares can work well with greater flexibility for operator bailment agreements with drivers. Operators need to recover costs of operation plus profit margin to remain viable. If these costs are met, then a more flexible approach to pricing can work whereby drivers are incentivised, where they can negotiate better price outcomes with consumers direct so as to compete with the illegal taxis. Removal of caps on pre booked fares can provide the required flexibility.

Flexible bailment agreements can include set price agreements and cents/km agreements to cover operational costs. This is especially important with the greater incidence of fraudulent behaviour by drivers who continually fail to engage the meter and further make fraudulent fuel claims. These are the unintended consequences of the implementation of a failed reform regime that has drastically reduced driver/operator income by up to 30%.

Fares for Melbourne Airport taxi trips (section 4.4)

13. *Would a unique taxi fare structure for Melbourne Airport trips be beneficial? If so, what should it look like?*

This has been discussed above. An incentive for a short fare needs to be increased whilst providing drivers a disincentive to travel to the airport empty for a lucrative airport fare. A unique fare structure for Melbourne Airport trips outbound can be beneficial. An option is lower fixed price fares from the airport to equate to two short fares in the CBD. An example could be to charge a fixed price airport fare of say $40 to the CBD (or any 25km journey from the airport) and to have a minimum fare of $20 which can include the first 5kms travelled. Trips south or east of the CBD (or any other trips in excess of 25kms) can then be based on $40 plus the regulated distance charge for the applicable tariff rate at that time of day.

Such tipping points could eliminate the instances of short fare refusal, providing greater efficiency by eliminating empty runs to the airport, ensuring better allocation of reliable taxi services for consumers to cover all fares, short or long.

In bound airport fares should be subject to the regulated tariffs for rank and hail or for an agreed price on a pre booking if desired by the consumer and agreed to by the driver.

Fares in Geelong, Ballarat, and Bendigo (section 4.5)

14. *Should taxi fares in Geelong, Ballarat and/or Bendigo be significantly different to those of the metropolitan zone and other parts of the urban zone? If so, why and how?*

I am not familiar with urban zones, but it is fair to say costs plus applicable profit margin would be required to ensure viability of point to point services in any market.

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