REVIEW
of the future direction of the
ACT Taxi and Hire Car Industry

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SUBMISSION

by

The Canberra Taxi Proprietors Association
and
Canberra Cabs

in consultation
with

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Introduction

Following a taxi industry review Dempsey\(^1\) states

“The fundamental question is not whether taxis should be regulated, but how they might best be regulated. ..... In the final analysis, the suitability of taxi cab service and pricing is a peculiarly local issue, best tailored by local Governments based on their unique populations, special densities, road congestion, air pollution, and airport and hotel traffic. ......In this area, the state and local Government should be left alone to foster the unique local public and private transportation system that suits them best.”

It is with this background that the ACT taxi industry addresses the Issues Paper. The industry urges both the ICRC and the ACT Government to acknowledge the ACT’s uniqueness and to respond in a way that is appropriate for the ACT and not in a way that promotes a National Competition Council (NCC) national blueprint.

The Issues Paper starts with the Commission stating its objectives and the first of these is to promote effective competition in the interests of consumers. It stands out to the reader, if not the Commission, that the qualifier on competition is the word effective. Artificial, inefficient and ideological suitably describe the competition promoted by the previous ACT Government and supported by the Commission.

In meeting its second objective, the Commission is directed to facilitate an appropriate balance between efficiency and environmental and social considerations. The efficiency considerations of a locally based dispatch centre versus an interstate centre are in favour of the locally based centre for both the consumer and the taxi driver. A query (voice) channel for drivers to respond to client needs as they change, as is frequently the case, is not practical from a remote locality with no local knowledge. But this was promoted by the previous Government and supported by the ICRC.

Only a cursory reference to the social considerations would lead the Commission to see that the consumer and the taxi driver is better served by a local dispatch centre. The public is also better served by a local dispatch centre providing employment opportunities and generating economic activity approximating $5 million per annum in 2001 for the ACT. These are opportunities and expenditure that would be lost to an interstate provider.

The Commission is fully aware that additional taxi licences would create an over-supply resulting in many idle taxis at taxi ranks. This would produce a negative environmental outcome with air conditioners running in summer and heaters in winter and such an outcome should be avoided. In addition the release of more

licences will result in even more pressure on bailee drivers wages which were recognised (ICRC Prices Determination 2001) as being at a very low $11.43 per hour. It is notable that other regulated industries in the ACT are large government or statutory bodies such as gas, electricity and water to which the ICRC applies the competition policy blueprint. The taxi industry on the other hand is made up of 243 individual small businesses over which the ICRC lays the same competition policy blueprint. This is in spite of the fact that the application of competition policy in the small business arena has been brought into question. Ian McFarlane, as Minister for Small Business in a previous Federal Coalition Government, addressed the National Small Business Summit on 27 March 2001. In that address, when considering the impact of deregulation he stated

“..we are now at a point where we need to be careful that if we continue to pursue the last modicum of NCP that we don’t destroy a whole range of small businesses in the process of it. And I was referring specifically to taxis and pharmacies and other small businesses in that.”.

Ensuring non-discriminatory access to monopoly and near monopoly infrastructure is the third objective of the Commission. Canberra Cabs’ dispatch centre services Co-operative members and non-members alike with the same level of service. The Commissioner has no evidence in relation to Canberra Cabs of discriminatory denial of access.

The Issues Paper is framed in a way that emphasises the Commission’s ideological approach, its inability to apply theory to a real economic model, and its apparent determination to ignore information that may cause it to re-think its position. The Coalition Government’s pursuit of deregulation has been based on traditional economic theory, without regard to reality. (The review of Dempsey’s paper, cited earlier, refers to this as the ‘collision of economic theory and empirical reality’.)

This ignoring of information is clearly demonstrated as early as page 3 of the Issues Paper where the Commission, perhaps inadvertently, depicts an industry structure which omits vital information. The Commission sees fit to start by saying that “prior to 1956 the ACT had no taxi services.” It then conveniently jumps to the early 1970’s and speaks of the Canberra taxi fleet growing to 73 cars. The omission, “the 60’s”, provides the market forces story where three taxi networks existed. Effective competition, efficiency and social considerations and non-discriminatory access saw the market determine that one network best suited the needs of the ACT. The attempt to artificially develop ineffective competition under the banner of competition policy will only interrupt what market forces have determined. It is an unfortunate by-product of any such interruption that market players at the time, both supplier and consumer will suffer. The potential exists for many small businesses to exit the market and the extent of the damage will only be determined by the time it takes market forces to return the market to its previous equilibrium.
Legislation / Accreditation

In 1997 a Memorandum of Understanding (MOU) between Canberra Cabs and the ACT Government was signed. The MOU was the then Government’s response to an industry request for legislated accreditation. It was the industry that pushed legislated accreditation and sought to be a leader in benchmarking response times and service standards. The Commission does not appear to recognise or want to acknowledge the ACT taxi industry’s active role in the process which has led to the introduction of the legislated accreditation.

The new legislation is welcomed by the industry and is obviously now seen by the Department as sound policy. When presented by the industry in 1997 the initiative was reviewed with suspicion and a degree of “what’s in it for the industry?”. What was and what is in it for the industry is a level of service that can be quantified, referred to as a goal and enforced to ensure that the consumer receives a quality service. What’s in it for the industry is the promotion, development and growth of the industry through continually improving service. It is important to note that artificial competition will only interrupt the growth of the industry and in doing so will inhibit service level improvement.

Licensing of Taxis

The Commission states that

“consistent with the recommendations of the National Competition Policy Review of ACT taxis and hire car legislation, the existing provisions that limit the number of licenses that may be held by a particular person have not been included as part of the amendments”. (to the Road Transport (Public Passenger Services) Act 2001).

It is interesting that in its rush to recommend the removal of regulations Freehills included in its recommendation the removal of a single regulation that provided the basis for competition. The ability for any one individual to own every taxi licence in the ACT now provides that individual with the potential to obtain what might be viewed as monopolistic control. The previous situation which reflected individual or at most dual licence ownership, provided competition amongst licence holders.

In relation to wheelchair accessible taxi services the Commission points out that the new legislation provides the initiative of a provision for the securing of wheelchairs within WATs. The Commission highlights the fact that previously there was no remedy available to the RTA for failure to secure a wheelchair bound passenger. The Commission is aware that wheelchair accessible taxi services have been provided in the ACT since the 1980’s. The fact that there has been no remedy available for the failure to secure a wheelchair bound passenger is more a poor reflection on
Government and Department involvement throughout the last 20 years, than on industry performance over that period.

The Commission Invites Comments

The Commission invites comments on the effectiveness of the new regulatory regime and any changes that should be considered. The effectiveness of a regime can only be determined after the regime has been tested. It is important to remember that the major change with the regulatory regime from 1 March 2002 is that what was an MOU is now legislation. The legislation brings with it the power to enforce standards which were implemented previously by agreement. It is the policing and disciplinary powers that have changed more so than the accreditation requirements themselves. In its description of the legislation the Commission states “more stringent reporting requirements will be required under the Act.” The reporting requirements are no more stringent than they were under the MOU, they are simply more frequent. What was presented as a quarterly report will now be presented as a monthly report. In response to the Commission’s invitation to comment on the current definitions of the different public vehicles, it is the industry’s position that no change is necessary to existing definitions. To accommodate the vehicle which now no longer meets the definition of a bus, a Special Purpose Vehicle (SPV) licence may be an option. Such a licence could specify the purpose, method of operation, responsibilities etc that ensure the licence differentiates it from a bus, hire car or taxi.

State of Competition in the ACT Taxi and Hire Car Industry

The Commission prefaces its comments by stating that;

“in theory, a competitive environment will encourage interaction between service providers and consumers leading to efficient outcomes (eg fare levels, service quality).... the Government is seeking advice from the Commission on options for reforms that would assist in obtaining those beneficial outcomes.”

A truly objective approach would not start from the premise that there was a deficiency in service, it would first determine if there was a problem. Where has it been determined for example that beneficial outcomes have not already been obtained?

It is not correct to imply that there is no competition for Canberra Cabs. The businesses that compete with taxis are numerous and include limousines, hire cars, Queanbeyan Cabs, Com Cars, Action Buses (at a substantial subsidy from the ACT ratepayers) and Queanbeyan buses, tour buses, airport shuttle buses, Commonwealth department shuttle buses, club courtesy buses, shopping centre courtesy buses (and shopping delivery), Australia Post, commercial courier and pathology couriers. These
are not just niche markets. They are a significant element in the local transport industry of which moving people is just one part. Disregarding these forms of clear and genuine competition for Canberra Cabs demonstrates that the ICRC has an unbalanced understanding of the public transport industry in Canberra and the forces which are at work.

The Freehill report is used by the ICRC to add weight or perhaps credibility to a predetermined point of view. It is not difficult of course to find support for a deregulatory approach from a fellow deregulator, as is the case with the ICRC and the Freehills consultant involved.

The ICRC, in its Final Report on Taxi Fares for 1 July 2001 – 30 June 2003, which was handed down in May 2001, states (in Section 6.6, page 53):

‘The Commission considers there are strong arguments to support the removal of competitive restrictions in the taxi industry, namely licence quota restrictions.’

It would appear that the Commission, not only from the point of view of the Canberra Taxi Proprietors Association, but also any other reader of the 2001 report on taxi fares, would feel that by stating this opinion the Commission lacks independence with respect to the current review, particularly with respect to Terms of Reference 1 and 2 which relate to the state of competition.

What is also of concern is that the consultant hired by the ICRC (and who is a staff member of the NSW Independent Competition and Regulatory Commission (IPART)) for the 2001 taxi fare review is also a consultant to the ICRC for the current review. A statement from the Freehills report that claims “licence quota restrictions did not address legislative objectives and impose substantial costs on consumers and potentially on other industry participants such as drivers” is unsubstantiated. The statement is made in the face of evidence that shows that taxi licence values are not part of the taxi fare pricing model. The ICRC has determined this in its last two fare reviews and has regularly made reference to how it might include the licence value and a return on that investment. In its fare review findings for July 2001 – June 2003 the Commission stated

“...The Commission acknowledges that there are difficulties in incorporating plate values in the model for fare setting purposes .......As a result the Commission has decided to exclude plate values from the revised model.”.

To continue to repeat Freehills findings that were in error emphasises the Commission’s inability to objectively assess the local taxi industry. The Commission’s focus on deregulation is further illustrated when it confines itself by statements such as: “this review by the Commission will consider Freehills recommendation to remove licence quota restrictions.” The Freehills report is flawed in its push for deregulation and should not be the basis for future consideration. In its rush to deregulate, Freehills recommended the removal of a regulation which gave some longevity to the prospect of competition. By removing the limitation on the
number of taxi licences a person may own, in an attempt in its words to *free up entry*, Freehills has created a potential disaster. It is now possible for a single individual to own every taxi licence in the ACT and to exercise the monopolistic control Freehills and the ICRC seem to be against.

Overseas experiences with respect to deregulation of the taxi industry have met with extremely mixed success. Dempsey’s quote at the commencement of this submission best sums up reality. He also noted that prior to 1983, 21 cities in the United States deregulated taxicabs in whole or in part. An analysis of the long term outcomes of deregulation in these cities led him to state:

> “Given the failure of deregulation to produce consumer pricing and service benefits, coupled with its propensity to injure carrier productivity and profitability, most communities which have experimented with deregulation have rejected it, and re-regulated, in whole or part, their taxi industry.”

P Arminge\(^2\) writing in the Journal of Dial-A-Cab, London in 1998 considered the impact of deregulation in Sweden from the point of view of a taxi driver. He wrote

> ‘After more than seven years of deregulation, the situation for the honest and hardworking cab driver is still the same. Trying to survive on an income level lower than the minimum standards of the Swedish social welfare law. Many drivers have suffered badly from nervous breakdowns and heart attacks as well as personal bankruptcies and heart-rending divorces. ….. As a spokesman at the City Council, who perhaps understands the problems better than most, said: “I think that a re-regulation is the only way to solve this tragic mess that has been part of each taxi driver’s life for more than seven years”.’

One of the most detailed recent studies on taxi deregulation is that by Kang\(^3\) who undertook an international comparison of the impact of taxi deregulation. His study had two objectives, namely

- to examine the background and practical procedure of deregulation as well as regulation on the taxi industry in several countries where deregulation has occurred, and
- to verify various theories and arguments for and against taxi deregulation by comparing and analysing the results of case studies.

By doing this, his aim was to ‘find the most reasonable direction of regulation or deregulation measures in the industry’.

\(^2\) [http://www.realtaxis.com/sweden.html](http://www.realtaxis.com/sweden.html)

Kang’s case studies included a consideration of the taxi industry in the USA, United Kingdom, Sweden, New Zealand, Japan, South Korea, Australia (South Australia), Ireland and the Netherlands. His conclusions are summarised as follows:

‘The deregulatory measures adopted varied in each country based on the different inherent conditions. The results also appeared differently. As a whole, however, the effects of taxi deregulation were not so beneficial to consumers due to increased fares and deteriorated service quality. In addition, the returns to operator as well as drivers also decreased, and there was no significant evidence of innovation in the industry. On the other hand, the structure of the industry became more fragmentary with increased single operators and taxi leasing.

Therefore, this study concludes that market entry should be regulated somehow, and the level of fares also need to be controlled. In addition, more stringent regulations are necessary in order to ensure high quality and improved safety in taxi services. Nevertheless, it does not mean that every regulation is desirable in every condition, but some regulatory reform is needed based on the inherent conditions of the taxi industry in a city or a country.’

In support of entry regulation, Kang argues it is needed to keep balance between supply and demand. Without it the number of taxis may increase to lead to excessive competition in the industry, including demand for rank space which may result in traffic congestion and, as a result, economic inefficiency. This has certainly been experienced in countries like New Zealand and Sweden at airports and train stations where regulations have had to be introduced to control the services being offered by the taxi industry. In the case of Stockholm in Sweden for example, in October 1997 the City Council determined that only the three biggest taxi companies would be allowed to pick up at Stockholm Central train station. This situation led to rioting by the ‘independent’ taxi drivers. The station now employs inspectors to ensure that only the approved taxi companies pick up at the station.

At Chapter 3 of the Issues Paper, the ICRC "examines the findings of the Freehills review in March 2000 which provided options to encourage competition and improve services in the ACT taxi and hire car industry."

The Issues Paper then fails to examine key findings of the review, which were that:

- licence quota restrictions did not address legislative objectives and impose substantial costs on consumers and potentially on other industry participants such as drivers
- the provisions create a transfer of wealth from consumers to licence owners and lessees. The quota restrictions inflate the value of licences and raise fare levels, which reduces potential total hiring. The transfer of wealth from consumers to taxi licence owners is estimated at $5.6m per annum and $283,000 to hire car licence owners
regulations which directly address driver, operator and vehicle standards generally have significant benefits in the form of higher consumer, driver and public safety, and in improved quality of service."

Nonetheless, the Commission invites comments on the range of issues raised by the Freehills review.

The following comments are offered in response to that invitation.

Licence quota restrictions.

In deciding that licence quota restrictions did not address legislative objectives, the Freehills Report makes the salient point that "There are no explicit objectives set out in the current legislation in respect of the taxi and hire car provisions." (Page 16 of the Report). In the absence of these explicit objectives, the reviewers offer the view that: "…in respect of Government intervention in taxi industries, the rationale is generally one or more of the following:

- public safety - e.g. protection of passengers, drivers and other road users;
- ensuring a minimum quality of service is met - vehicle, dispatch, owner, operator and driver standards;
- consumer protection - e.g. maximum fares to limit monopoly rents;
- universal access; and/or
- public order.”

and that "…given the structure of the ACT regulation, we take the view that the regulation is aimed at addressing all of the above objectives”. The Report goes on to expand on the nature of those objectives.

In addition, at Chapter 4 of the Freehills Report, there is an examination of "…three objectives that are commonly asserted as the reason behind quota restrictions." These are:

- Viability of the industry
- Constraining fares
- Addressing safety and/or consumer protection.

Finally, within the context of "safety and/or consumer protection" the Report visits the proposition that "licence quota restrictions contribute to increasing returns to drivers."

In assessing the relevance of licence quota restrictions, the Freehills Report concludes that there is an adequate range of specific legislation to cover all the issues; and that licence quota restrictions are not necessary for that purpose. In addition, the Freehills Report rejects the proposition that the viability of the industry is compromised by the removal of limits on the number of taxis; venturing that "…a more prudent way of
ensuring that excess entry does not occur, is by encouraging price competition. This will allow fares to be set at an efficient level to ensure they do not attract excess entry.” (Page 31 of the Report).

In plain language, the Freehills Report recommends that the prudent way for the industry to deal with the prospect of excess entry brought about by the removal of the limits on taxi numbers is for the industry to set its prices so low that no-one would want to enter. This approach also pre-supposes that such a low fares level would, nonetheless, still permit individual taxi operators to comply with the existing range of specific legislation referred to above and maintain a viable business.

At first thought one might ask why any existing taxi operator would want to remain in an industry that nobody else wants to enter. But there is more to it than that. Having set the income levels so low that the industry will not attract new entrants, the exit opportunities for existing operators will also have disappeared; unless bankruptcy is considered a viable exit strategy.

In summary, while accepting that there are valid reasons for regulating the taxi industry across a range of social imperatives the Freehills review rejects the nexus between the costs of compliance with that legislation and the income-earning potential of individual taxi businesses. The alternative to prescriptively limiting taxi numbers, according to Freehills, is for the industry to downwardly price itself out of existence.

The impact of deregulation on taxi drivers in Sweden has been clearly described by Arninge and already referred to above. In a taxi industry where entry has been deregulated Arninge concludes:

‘Is there any salvation to the honest core of taxi drivers in Sweden? As it looks right now – not really. As the authorities will not admit they have made a terrible mistake when they chose to deregulate the industry…..there will only be survivors among those who cheat and overprice. The rest – the majority – are and will continue to be losers as long as nobody takes their part when discussing the problems with politicians.’

In the ACT where the taxi industry is regulated and bailee drivers work for $11.43 per hour (ICRC Prices Determination 2001), if entry were to be deregulated in an industry where demand is in decline the lot of the drivers would very quickly degenerate to that which now exists in Sweden.

While the possibility of pricing itself out of existence might appear to be an unlikely industry initiative, it already has the potential for this realisation - as detailed in the most recent CTPA submission relating to taxi fares; which is currently under consideration by the ICRC. What is clear from that submission is that fares are

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4 http://www.realtaxis.com/sweden.html
already set at a level which cannot sustain a viable taxi business. With the ICRC’s assistance, this situation will either be overcome, perpetuated or exacerbated.

This prospect has a direct relevance to the other issue mentioned by Freehills - the proposition that limiting the number of taxis contributes to increasing returns to drivers. The Freehills view is that:

"A greater determinant of driver earnings is the scarcity of drivers relative to licence numbers. On this basis, strict driver authorisation requirements will raise the barriers to entry into the driver services market, increasing the skill level of drivers, and thereby increasing the opportunity cost of driver services. This will put upward pressure on driver earnings and in the context of maximum fare regulation or fare approval regulation, should do so at the expense of returns to owners rather than at the expense of consumers."(Page 32). This view is similarly expressed on Page 43 as:

"From the perspective of drivers, an increase in the number of taxi licences issued will generally lead to an increase in earnings. The reason for this is because as the number of taxis increases, so too will the demand for drivers. This will tend to place upward pressure on drivers' payments. Put simply, competition for drivers will mean that any operator that wishes to employ a driver will need to offer a payment scheme that is attractive to drivers. Conditions for drivers will need to improve to attract more drivers to the industry."

This is certainly a simplistic approach. Apart from an overwhelming imperative to improve the conditions for taxi drivers, there is not much about this view that makes sense. On the one hand we have an ever-decreasing earnings capacity brought about either by an increasing number of taxis, or a sustained reduction in fare levels due to the industry exhibiting prudence. Balanced against this we have strict driver authorisation requirements raising the barriers to entry into the driver services market; thereby producing a scarcity of drivers relative to taxi numbers. And the combination of these is expected, by Freehills, to lead to taxi operators paying a premium, from an already demonstrably inadequate fare regime, for drivers.

Unfortunately, Freehills seems to have overlooked the other, more obvious, possibilities. Firstly, that operator/drivers will decide to reduce their reliance on drivers and elect to drive more hours themselves. Alternatively, and additionally, taxis will remain idle in operators' driveways because of the scarcity of drivers. The adverse consequences for all concerned are not difficult to imagine, but for the sake of avoiding another simple approach, need to be stated.

In an industrial environment which is increasingly questioning the Industry’s reliance on employees working long hours it is incongruous that pressure should be exerted, through financial imperatives, on an industry such as the taxi industry to increase the hours of work for no additional financial benefit. The direction chosen by the Freehills review sees the real prospect of operator/drivers working increasingly
longer hours, for increasingly lower returns, to overcome driver shortages generated
by reductions in drivers' earnings capacity.

An equally pernicious prospect sees non-operator/drivers, as well as operator/drivers,
leaving their taxis idle in driveways because of the non-availability of drivers; with
an attendant further reduction in the operator's ability to maintain a viable business
without prejudicing levels of service to and safety of customers.

In relation to improving conditions for drivers, the ICRC will be aware that this
theme is central to the most recent CTPA fares submission; as it was to the CTPA's
previous fares submission, which, regrettably, did not attract the ICRC's favour.

Finally, the view that licence quota restrictions "impose substantial costs on
consumers and potentially on other industry participants such as drivers" is not
supported in the Freehills analysis - other than through the concept of "a transfer of
wealth from consumers to licence holders."

Transfer of wealth

In determining that "...the provisions create a transfer of wealth from consumers to
licence owners and lessees" Freehills uses an economic theory designed to identify
"...the deadweight or welfare loss to society resulting from such a restriction." The
Report goes on to illustrate how this loss is calculated.

This analysis and hence its conclusions are seriously flawed. Economic theory is only
as good as the assumptions on which it is based; if the assumptions are wrong then the
analysis is inappropriate and the results of the analysis are flawed. This is the case
with the Freehills analysis. Annexure D to the Freehills Report states the assumptions
and shows how the incorrect figure of $5.6m, claimed to be the transfer of wealth
from taxi licence owners to consumers, was derived.

The first assumption is:

- "that there is a fixed relationship between taxi licences and the number of hirings
taken by taxis".

This assumption is not supported by any empirical evidence in the case of the ACT
taxi industry. In this context, the assumption itself is a hypothesis; a hypothesis which
Freehills has seen fit not to test before using as a major component of its analysis.

The assumption confirms Freehills' belief that the number of hirings taken by each
taxi is a constant, that is, that it does not vary over time; or else the existence of "a
fixed relationship" is disproved. In contrast to the Freehills belief, Table A in
Annexure C of the same Report, illustrates a reduction in hirings of "about 7.5% over
the last three years." These three years cover the period from 1996 to 1998 inclusive.
What is also relevant is that the number of taxis remained constant at 223 for this
entire period. What this means is that the number of hirings varied markedly over a
period in which the number of taxis didn't vary at all.
As further evidence that Freehills assumption is incorrect, 223 cabs undertook 2,777,242 hirings in 1999. In 2000, 233 cabs undertook 2,727,964 hirings. That is, while there was an increase of 4.5% in the number of cabs, the number of hirings declined by 1.8%.

Clearly, the first assumption employed by Freehills has no legitimacy.

The second assumption is:

- "the existing limit on the number of taxi licences restricts the total number of taxi hirings below the level which would prevail in the absence of regulation".

Again, this assumption is not supported by any empirical evidence and only has the status of an untested hypothesis.

The testing of this hypothesis in a regulated market like Canberra if it were deregulated is more difficult because it relies on a factual assessment of a situation that does not exist, that is, the number of hirings in the absence of regulation. However, a re-expression of the assumption may provide some assistance. For example, the assumption means the same as "The quota restrictions reduce potential total hirings"; and it can be clearly seen that this mirrors the second sentence of the second of Freehills key findings. For convenience, this is re-stated as "The quota restrictions inflate the value of licences and raise fare levels, which reduce potential total hirings." The words in italics, which reflect the outcome of the Freehills analysis, are the same as the assumption on which the analysis is predicated. It is clear that Freehills used a predetermined point of view as an assumption on which to base its analysis.

In any case, if this assumption were true, when the number of cabs is increased (rather than complete deregulation of entry) one would assume that under the Freehills assumption the number of hirings would rise. As the previous example illustrates, in the case of the ACT taxi industry, even though there was an increase of 4.5% in the number of taxis the number of hirings declined by 1.8%. Clearly, the second assumption employed by Freehills also has no legitimacy.

The third assumption is:

- "by restricting licence numbers below the competitive level, higher fares can be maintained and that the Government is influenced by this inflationary pressure to set fares above the competitive price to clear the market given the restricted number of fares".

As with the previous assumptions, no empirical evidence is provided. Again, the hypothesis needs testing.

As with the previous assumption, a re-expression along the following lines appears helpful. The first part - "by restricting licence numbers below the competitive level,
higher fares can be maintained" means the same as "The quota restrictions raise fare levels". This looks surprisingly like that part of the second sentence of Freehills second key finding "The quota restrictions inflate the value of licences and raise fare levels". Once again, Freehills establishes an outcome, without any evidential support, and uses that outcome as the fundamental tenet on which its analysis is based.

Freehills continues "that the Government is influenced by this inflationary pressure to set fares above the competitive price to clear the market given the restricted number of fares."

It is not immediately apparent exactly what this statement means. No assistance in understanding what it means is available due to the absence of any evidence or explanation of how this occurs.

However, an understanding of how fares are set and what factors are taken into account in the fares-setting process might have alleviated Freehills’ apparent concern about the ineptitude of Government in resisting alleged industry-induced inflationary pressures. There is no evidence that such an understanding was sought. Fortunately, the ICRC's insight into the fares-setting process will enable a fresh assessment.

For these reasons, Freehills third assumption also has no legitimacy.

The fourth assumption is:

- "there are no significant externalities".

This is a potentially difficult concept to address. Freehills have assisted this difficulty by neglecting to explain how this assumption is reached.

However, it appears that the concept of externalities relates to activities, events or circumstances that affect the environment within which the taxi industry operates but over which the taxi industry has no influence. As an example, Page 127 of the Report suggests that "Negative externalities in the taxi industry may include traffic congestion".

If this is the case, then obviously the radical re-structuring of the ACT economy that occurred between 1996 and 1999 was not viewed by Freehills as being a significant externality. The loss of thousands of public sector jobs and the domino effect of those losses on private sector jobs were not significant externalities. The curtailment of Federal Government programs and related business activity and attendant travel reductions were not significant externalities. Obviously, they all clearly were significant externalities. Externalities such as weather, special events, parliamentary sitting days, disasters such as the collapse of Ansett, if not significant externalities, are difficult to describe.

One further externality which Freehills failed to address was that of ACTION buses operating a ‘Nightrider’ service during December and January whereby the public can be picked up at bars and restaurants and driven as close as possible to their home
for $5. This service is in direct opposition to the taxi service and is heavily subsidised by the ACT taxpayers. (The direct subsidy to ACTION buses in the 2001/02 budget is $51.9m, or $422 per taxpayer).

Freehills fourth assumption has no legitimacy.

There is a fifth assumption:

- "the cost of waiting time is constant (and does not impact on the variation between the current market fare and the competitive market fare and can thus be ignored)."

What this means is not clear. It is possible that waiting time can be referred to as a labour cost, or an opportunity cost, or a combination of these and a fixed overhead cost. All of these costs have some response to inflationary processes and it is most unlikely that they will be constant.

The figures used by Freehills and the assumptions in the model are self serving and do nothing to reflect reality.

In the final analysis, Freehills did not produce one credible, verifiable assumption in support of its technical analysis of the proposition that limits on taxi numbers create a transfer of wealth from consumers to licence owners and lessees. The suggestion that any such transfer is worth $5.6million is flawed and should be given no weight.

Benefits of regulations

Freehills concludes that:

- "regulations which directly address driver, operator and vehicle standards generally have significant benefits in the form of higher consumer, driver and public safety, and in improved quality of service."

The CTPA endorses this conclusion without equivocation. After all, it was the taxi industry that lobbied the Government of the day to introduce the various faces of accreditation. The only impediment to the successful application of these regulations is the prospect of the removal of individual taxi operators' earning capacity that enables them to comply.

Compensation

Under the heading *Freehills Review* the Commission highlights the fact that Freehills concluded that for reasons of pragmatism and equity, compensation should be available where substantial losses occur due to policy changes. This statement was made in relation to the Freehills recommended removal of taxi and hire car quota restrictions as the preferred approach to licence quota reforms. A further reference to compensation is not found in the Issues Paper until *Attachment 2* headed *National Competition Council*. The very last paragraph on page 36 of the Issues Paper states
that the Commission notes that in responding to the Freehills report, the ACT Government states that it considers that there is no statutory or other legal entitlement for compensation. What this has to do with National Competition Council issues and why the statement is located in this section is not understood.

Under the subheading Licence Quota Restrictions the Issues Paper reports that Freehills stated the preference for removing taxi and hire car quota restrictions completely. While the Government preferred a transitional response to licensing, it proposed to review these arrangements, community needs and industry viability before June 2002.

The table below clearly indicates the spiralling downturn in hirings per taxi in the ACT and highlights the destructive nature of competition that would be a product of removing taxi licence quota restrictions. The Issues Paper points out that the Government did not see the need to release additional standard taxi licences but it omits to state in this section that the Government released an additional ten WAT licences. To present the full picture the Issues Paper should also acknowledge that ten additional WAT licences was the equivalent of nine standard taxi licences and that this contributed significantly to the downward trend in hirings per standard taxi. In addition the 16 Queanbeyan taxis now compete freely in the ACT.

Wheelchair Accessible Taxi Licences - Taxi

The Issues Paper refers to a Government announcement and the fourth dot point of that Government announcement was that options for providing direct or explicit subsidies for service will be examined as part of the further review to be completed by June 2002. The Issues Paper fails to address this matter further and avoids what it knows to be one of the key issues in relation to WAT service response times.
Reserve Price

The removal of a reserve price for taxi plates has done nothing to reduce competitive restrictions. The concept that the removal of a reserve price could result in a higher net benefit outcome to the community can only be based on the false premise that licences would sell for less than the previous Government reserve price. In addition, whatever the lower price might be that it would result in lower fares. The folly in this proposition lies in the fact that the price of taxi licences has never approached, at its lower end, the reserve and as previously stated there is no link between plate prices and taxi fares. The ICRC has purposely excluded licence values from its fare reviews. On having visited this issue the ICRC found it was not appropriate to include the value and this therefore clearly indicates that there is no way to incorporate such a value in previous fares.

Cross Border

Freehills recommended that the ACT Department of Urban Services and the NSW Department of Transport establish a single taxi market and regulatory regime for the region. The Departments have addressed the simpler of the two recommendations and have created a single taxi market. Queanbeyan taxis compete freely in the ACT and provide an alternate network and dispatch centre. The latter of the two recommendations, if discussed at all between Departments, has not manifested itself in monitoring, policing or enforcement action. Queanbeyan taxis operate in the ACT and in some cases ignore the ACT regulations. The need for a single regulatory regime is paramount.

Standing Committee on Planning and Urban Services

While the Standing Committee focused on hire cars there are some interesting findings. The Standing Committee found on 20 August 2001 there was a competitive market in existence within the ACT hire car industry. It is notable that, with the introduction of Queanbeyan taxis into the ACT market, a competitive market exists in the ACT taxi industry at network level. In addition to this competition there has always been a competitive market in the ACT taxi industry with 243 small businesses transparently competing with each other. The competition is only increased with the addition of Queanbeyan taxis. The Standing Committee recommended:

- Government give priority to providing a period of stability in which current licence holders have the opportunity to plan / consolidate their positions.
- Deregulation not take place and no new licences be issued.
If deregulation takes place, the Government should establish a fair / equitable transition process involving appropriate compensation to existing licence holders.

These recommendations apply equally to the ACT taxi industry.

Second Taxi Network

Where the primary objective of the previous Government and the ICRC was to introduce a second taxi network, a flawed starting point spawned flawed outcomes. If it was economically viable to present a better taxi service at a reduced price to the consumer than is presently being delivered, an entrepreneur would do so. The entrepreneur would quickly acquire industry support through lower charges and the competing overpriced network would close. The ICRC’s concept that both networks would remain in operation servicing an unexpanded market at a reduced cost is fanciful. The existence of multiple providers at a reduced cost is possible when the market is large enough to support the concept. Even the ICRC does not suggest that such a market would have an infinite number of providers. This is because at some point the market fails to support an additional provider. The same principle applies at the other end of the market scale where a market is not big enough to support more than the one provider. It is the ACT market in the 1960’s that established this position and it has not grown sufficiently to precipitate the second network. Any external assistance to the introduction of a second taxi network will only interrupt the market while it destroys the dis-equilibrium and finds its proper level again.

The Commission’s statement that ‘Canberra Cabs had threatened legal action” is incorrect. Canberra Cabs initiated action to prevent the previous Government from compulsorily requiring all WAT licensees to join a second network for a period of two years, this decision being based on the recommendation of the ICRC. This recommendation was in direct opposition to the intent of the National Competition Policy whereby WAT licensees should be able to choose which network to which they wished to belong Canberra Cabs found it unnecessary to proceed further with its action given that the incoming ACT Government supported Canberra Cabs’ view that WAT licensees should not be directed to operate with any single network.

While the Commission fails to report in its Issues Paper the full findings of its investigation into the competitive nature of the previous Government’s intended actions, it is perhaps worth noting the Commission’s full findings. While the Commission found that the previous Government’s objectives would be best achieved by artificially supporting a second network, it found that the action would be “a restriction on competition”, as has been discussed above.

The Commission makes much of the issue of critical mass. It seems that Freehills considered critical mass to be fifteen when Freehills thought that Queanbeyan taxis were fifteen strong. Queanbeyan taxis believe the critical mass is sixteen with which they presently service the ACT market. A major concern for the ACT is the fact that
Queanbeyan consumers may suffer from lack of service while Queanbeyan taxis are servicing the ACT. The issue of additional licences by NSW for Queanbeyan would see a form of back door deregulation in the ACT and the diminishing ability of operators to maintain service at the present levels. It would reduce the viability of an operator to provide a safe, reliable vehicle and to acquire and train experienced competent professional drivers. It would be difficult for the operator to maintain a strong business and ultimately 243 small businesses would be affected. It is therefore important that a single regulatory regime be adopted should Queanbeyan taxis continue to operate in the ACT.

As there is nothing preventing the establishment of a second taxi network in the ACT other than sound economic rational thought, the ICRC and Government should not interfere in the market.

The ICRC presents a number of options for the introduction of what it calls an alternative to a traditional network. The Commission suggests that mobile phone networks between drivers / operators is an option. The Commission uses this as a lead-in to the second and third options of consolidating taxi and hire car licence categories or consolidation of all public vehicle licences. It is a soft lead-in because the Commission is only too well aware that mobile phone networks have been in existence in the ACT since the late 1980’s. It was the Commission that sought statistics on mobile phone use from the industry during its previous review. Mobile phone networks come and go as do the individuals engaged in the process of promoting them. They are an accepted part of the taxi industry and the Commission is presenting mobile phone networks as an option simply to persuade the unsuspecting public that the proposal is not already in existence in the ACT.

The latter two proposals relating to taxi, hire car and public vehicle licence categories fail to take into account the need for product definition. The licence categories and the distinctions between the businesses allow the consumer to easily identify the type of service that the consumer wants. Equally it allows the service provider to operate in a market that best suits the service provider’s skill. The suggestion that all licences be consolidated is another example of the ICRC attempting to resolve a problem that does not exist.

Competition presently exists between taxi drivers / operators. Each business is individually owned and competes against the other 200 plus businesses in the market. Until the Commission understands this position it will continue to have a problem in distinguishing between the taxi and Canberra Cabs, the Co-operative. Canberra Cabs provides the dispatch facility and technology to the taxis, while the taxis compete against each other for the hirings. If what the Commission is promoting is another dispatch facility then it should argue that position. In doing so it would argue against the trend in all other jurisdictions where in Sydney for example, eight networks operate off the one dispatch centre. This is the case because of economies of scale, technology and the resulting provision of a better service to the public. The ICRC has failed to take due account of the service provided in the ACT and comparative costs to the ACT community of its taxi service. When it does it can only conclude
that for the same level of technology and a better service than in other capital cities, the ACT consumer receives a significantly cheaper service.

No amount of interference to establish an artificial market will provide more effective competition. It will cause a period of market disruption, the demise of small businesses, and an outcome that ultimately resembles the present market.

Service Quality

The Commission states that

“in regulating the taxi industry, a trade off must be made between price, quality and waiting times, all of which relate to the service received by the customer.”

This is an untested statement and is not relevant. It is not clear if the Commission is suggesting that “in deregulating the taxi industry no trade off would be made between price, quality and waiting times”?

Fines & Sanctions:

The Commission states that “the ACT Government may also suspend or withdraw any taxi network contract, operator accreditation or driver authorisation in the ACT. Such sanctions have not been applied to date.” Does this mean that there has not been a need to apply the sanction or that there has been a need but the Government has not or has not been able to apply a sanction? If there was a more negative way of putting the position the ICRC is yet to use it.

Under the heading Standard Taxis the Commission uses the words “Canberra Cabs has easily achieved the performance requirement.” Where the requirements are achieved elsewhere the achievement is referred to as “……barely achieved”. Rather than refer to the achievement overall as being above the level required, the ICRC chooses to use descriptive terms from which it then draws selective conclusions. The Commission concludes on the one hand that because a requirement is “easily achieved” that the “performance requirement could be tightened”. On the other hand however, the Commission is mute on the obvious conclusion that where a requirement is barely achieved that “the performance requirement could be eased”. The Commission states that “the key areas of poor performance have been poor waiting / response times for WATs services and during non peak periods for standard taxis”. An examination of quarterly audited reports reveals that non peak periods for standard taxis have not been poor but have exceeded the bench mark.

The Commission states that the performance statistics suggest a gradual convergence between peak and off peak performance requirements and the fact that the indicators do not properly reflect peak periods. The Commission goes on to say that the information presented suggests multiple peaks in the Canberra taxi market. The statistics presented do not suggest convergence of peak and off peak performance
requirements. If there are multiple peaks the Commission should identify these and conclude that it is these peaks that require benchmarking against the 18-30 minute response times.

**Wheelchair Accessible Taxis**

The Commission notes the September quarter improvement in performance. For some reason the Commission fails to use the December quarter figures which show a further improvement and therefore a trend. Instead the Commission relies on previous performance statistics which were argued by Canberra Cabs to be tainted by the issues which were then surrounding the promotion of Yellow Cabs. The Commission goes on to say that in relation to WATs, waiting time targets for WATs are generally not achieved, and on average, response times are significantly higher than is the case with standard taxis. The statement would be more accurately put if it finished with the words “except for the majority who are front loaded into the less than 5 minute category”. The Commission points out that the addition of ten WAT licences in 2001 did not have any noticeable impact on WAT performance. The Commission could extend this statement to a conclusion that it might reflect the manipulation of response times as referred to previously when there were issues surrounding the promotion of Yellow Cabs.

In its invitation for comments on measures that would help improve the quality of WAT services, the Commission fails to prompt the reader into a consideration of direct subsidies. In the 2002 fare submission the industry shows that there was a $25,000 shortfall in WAT operator income compared to a standard taxi operator. It might be that if this shortfall was addressed the WAT service could show even greater improvement.

In the CTPA submission to the WATs Review last year it was pointed out that a survey of the first 26 days of August 2001 showed that calls from the disabled for WATs averaged less than 2 per WAT per day. This was after a further 10 WAT licences had been issued. The analysis showed that it was not that there was a shortage of WATs, indeed it could be argued that there was an oversupply, but that there was not enough incentive for WAT drivers to give immediate priority to calls from the disabled. It was proposed that an incentive in the form of a lift fee be implemented but this was rejected by the Commission and the Government. As it was pointed out in the previous paragraph, further financial analysis undertaken for the 2002 fare submission indicates that there was a $25,000 revenue shortfall in WAT operator income compared to a standard taxi operator. Given that the associated analysis, in line with the ICRC fare determination in 2001, ignored accounting for a return on investment, this is a real shortfall.

**Alternative Providers**

The Commission also invites comments on the service quality performance of the hire car industry including it is assumed Ecotour, RHV and mobile phone networks. With the paucity of information available on the service levels of each of these segments of the industry it is not known how service quality performance could be assessed.
Comparison with other Jurisdictions

The terminology in the table which provides the NCC’s findings on taxis is generous at best. To suggest for example that the NCC is awaiting the Queensland Government’s response is indicative of the NCC’s inability to acknowledge the reality. The Australian Financial Review\(^5\) reports;

“In his 500-page report on the progress of the National Competition Policy NCC Chairman Mr Graeme Samuel was critical of some State governments for being too sensitive to short-term political considerations and not proceeding quickly enough with the policy’s implementation.

Mr Samuel singled out the failure of State governments to deregulate various industries such as taxi licensing and shop trading hours as examples of substantial failures of compliance with National Competition Policy.”

The Premier of Queensland has been direct and somewhat flowery in his reply to the NCC stating: “Mr Samuel had overstepped the mark in his pursuit of a radical deregulation agenda. This time the National Competition Council president has targeted the taxi industry for open competition, putting thousands of Queensland small businesses at risk. The Queensland Government has already reviewed the taxi industry, and rejected deregulation.” This has been reiterated by the representatives of the Queensland Department responsible for taxi regulations at each of the annual Australian Taxi Association conferences. It is difficult to understand why the ICRC has sought only the NCC’s findings in regard to the position of each state or territory. It is puzzling to know why the ICRC has not approached each of the states and territories to ask the Governments for their response.

It is notable that, with the exception of the Northern Territory, none of the other states are rushing in to deregulate the taxi industry. One of the reasons for this may be because the states have witnessed what has happened in many overseas countries and do not want to be involved with the deregulation and then the re-regulation of their taxi industries, a phenomenon which, as has been discussed earlier, has happened time and time again in overseas cities.

It is important to remember however that comparison between states and territories is irrelevant and that each jurisdiction is a separate study. As it was pointed out at the start of this submission, Dempsey’s conclusion has recognised this, namely

“the fundamental question is not whether taxis should be regulated, but how they might best be regulated. …. In the final analysis, the suitability of taxi cab service and pricing is a peculiarly local issue, best tailored by local Governments based on their unique populations, special densities, road

\(^5\)The Australian Financial Review: AFR (p7, 6-2-2001)Section: News
congestion, air pollution, and airport and hotel traffic. ……In this area, the state and local Government should be left alone to foster the unique local public and private transportation system that suits them best.”

**Number and Value of Licences**

The Commission states “Further, the value of taxi licences also appears to be higher in the ACT than other states in Australia. This would tend to indicate a lesser degree of competition within the ACT.” This statement is unsupported and shows the inability of the ICRC to consider local issues. Public service redundancies, the availability of large payouts, the need to purchase employment, and the peculiarities of the skills of a life-long public servant in a small market place needing to obtain employment, are all factors driving price. The Commissions’ statement is also incorrect as is evidenced by a comparison of ACT taxi licence values with licences on the Gold Coast, Coffs Harbour and Cairns for example.

The Commission states that there are “….twelve taxi networks in the Sydney metropolitan area although not all of these networks provide a radio booking service.” The fact of the matter is that only two of the networks provide a radio booking service. A third radio booking service for eight of the networks is provided by a company by the name of Combined Communications Network, and this company is not a taxi network. The Commission is in error in referring to CCN as a “network….Combined Cabs.”

Table 6.2 of the Issues paper quotes the value and number of licences in the states. Had the Commission taken the real cost of taxi licences in 1997 rather than 1998 the ACT ($243,597) would have been ranked 5th behind the NT ($248,672), Qld ($258,822), Vic ($263,897) and NSW ($284,197). These figures are now only of historical interest, the fact is that the value of licences in the ACT has declined in recent times as a result of the turmoil the industry has been put through, resulting in a significantly increased sovereign risk, as well as a continued declining demand for taxi services and an increase of 26 taxis operating in the ACT in the last 18 months. To use the number of taxis per 10,000 people as a comparative indicator is not appropriate. Use of this indicator falsely assumes that the demand per 10,000 people is going to be the same in each state and territory and that as the population increases the demand will increase. That this latter claim is not true is clearly demonstrated in the case of the ACT where, over a period of years, as the population has increased, the demand for taxis has declined. Response times is a more appropriate mechanism for assessing service delivery standards.

It is not clear why the ACT should be compared to the other states and territory. Indeed the reason the ACT situation should not be compared to other states and territory is well summarised in Dempsey’s statement:

‘…. In the final analysis, the suitability of taxi cab service and pricing is a peculiarly local issue, best tailored by local Governments based on their unique populations, special densities, road congestion, air pollution, and airport and hotel traffic.’
No other state or territory has the ‘unique populations, special densities, road congestion, air pollution and airport and hotel traffic’ similar to that in the ACT. It is wholly inappropriate and indeed misleading to make such comparisons.

Given the above, it is not clear why it is at all relevant to compare the ‘state of competition in the ACT taxi industry, and how this compares to other jurisdictions both within Australia and internationally (for example, New Zealand).’ What is appropriate is to compare how the ACT taxi industry performs against the ACT communities’ expectations, one measure of which may be the Government’s measures relating to waiting and response times.

**Level of Service**

The Commission suggests “that the level of service offered in jurisdictions throughout Australia may reflect the different operating environments. Nevertheless, licence conditions imposed on operators and the actual level of performance relative to those requirements, provide a useful basis to compare levels of services.” It is not understood how the Commission measures and compares the level of service in each of the different jurisdictions as there is no common base for accreditation in those jurisdictions.

The Commission points out that in NSW taxi operators and networks are required to meet various licence conditions regarding service quality. It is not understood why NSW is more important than any other state if comparisons are to be made. The Commission suggests that “another useful indicator of service level (and perhaps also competition) is the fares charged in different jurisdictions”. Fares reflect costs, not service or competition levels. If fares are too low this may precipitate poor driver presentation, education, and poor vehicle presentation, all of which may add to poor service.

The Commission also notes that a key feature of interstate fare structures is that a radio booking fee is not charged in South Australia or Western Australia. In both of those states a radio booking fee has been requested by the industry. The Commission, in its table of comparative costs, fails to list the NSW Country costs which, if comparisons were to be made, would be more appropriate when comparing the ACT and Queanbeyan. Indeed in the case of Queanbeyan the flagfall is $2.95, the distance rate $1.44/km (for trips over 12 km the rate is $2.03/km), the radio rate $0.65 and the waiting time $37.10 per hour.

The Commission also fails to state that the ACT flagfall of $3.20 is a flagfall above the level requested by the industry. The industry has consistently argued that the flag fall should not be so high as to be a point of contention between the passenger and the driver. It has the potential to dissuade passengers from using taxis and the potential to provide the catalyst for aggressive passengers to endanger the driver. It was the ICRC that insisted that the flagfall be raised to the level that it is against industry advice. The ICRC also fails to point out that in NSW the flagfall was $3.45 but that the NSW
Government reduced the flagfall by $1.00 for reasons apparently associated with accreditation.

Costs

It is surprising that the Commission invites comments on the level of ACT taxi costs as a measure of efficiency and how this compares to other jurisdictions. A cost comparison is irrelevant, as has been recognised by Dempsey’s conclusions from his research and analysis, as stated at the commencement of this submission. In making cost comparisons like must be compared with like. Given the uniqueness of the ACT with respect to all those factors which affect costs, a cost comparison with other cities/states is difficult, if not impossible.

Recent Changes in NSW and Implications for the ACT

The Commission seeks comment on the success of the cross border trial being conducted and likely long-term solutions that will resolve cross border issues. Freehill recommended that a single regulatory regime should accompany the introduction of a single taxi market. Until the regulatory regime dilemma is addressed there is no operating management system and the success or otherwise of the trial cannot be determined.

National Competition Council

In Attachment Two of the Issues Paper headed National Competition Council the ICRC concludes with the statement “the Commission notes that in responding to the Freehills report, the ACT Government states that it considers that there is no statutory or other legal entitlements for compensation.” This appears to be inappropriately located under the heading National Competition Council and is referred to earlier in this submission as being an issue that the ICRC has not addressed in the Issues Paper.

Notwithstanding that the ICRC notes that the previous ACT Government ‘considers that there is no statutory or other legal entitlement for compensation’ if entry into the taxi industry were to be deregulated, the Standing Committee on Planning and Urban Services, following its inquiry into hire cars, as one of its recommendations stated:

‘If deregulation takes place, the government should establish a fair/equitable transition process involving appropriate compensation to existing licence holders.’

If such a recommendation applies to the hire car service, it would naturally follow that the same would apply in the case of the taxi industry. The Freehills report supported
the payment of compensation in the event of the deregulation of entry into the ACT taxi industry.

The issue of compensation has received significant attention in Deighton-Smith. While the right to compensation from a legal viewpoint may be untested, this right has been considered from the point of view of equity. The deregulation of the Northern Territory industry has resulted in compensation being paid to plate owners. Reviews in Victoria and Western Australia also recommended a buy-back of existing licenses. Deighton-Smith argues that in determining whether or not compensation should be paid relates to whether or not the plate owners have paid the government for the asset. He points out that ‘where a Government sells a right, there would be an argument in favour of compensation where the value of the right is subsequently compromised.’ This would clearly be the case in the ACT where the Government has received significant premiums from the auctioning of licence plates.

The question also arises as to who should fund the buy back in the event that entry restrictions were to be removed. Should it be the ACT taxpayers or should it be the consumers of taxi services? In the case of the Northern Territory, where deregulation has taken place and compensation has been paid at the current market value of the plate prior to deregulation, initially the taxpayers have funded the compensation scheme which is then being re-imbursed from the industry through an annual licence fee on taxi plates. The annual licence fee has been set at around $16,000 or $300 per week with these costs being passed on to customers. In the case of the Western Australian review a licence fee of $300 per week was proposed to recoup lease buy-back costs.

For the Northern Territory it was projected that the licence fees would repay the cost of compensation payouts in 8 or 9 years but recent indications are that this timeline may be extended. Deighton-Smith considers a number of options and conducts a more detailed analysis in the case of a fully informed market and concludes that the full repayment of the compensation amount ‘would require at least 16 years.’

In the case of the ACT, if the 217 standard taxi plate owners were to be compensated at the current market value of, say, $250,000 the payout by the Government would be $54.25m. If this were then to be funded by a licence fee of, say $300 per week or $15,600 per year this fee would have to be passed on to the consumers of taxi services. This would result in an immediate significant increase in taxi fares.

While many different scenarios could be considered and analysed, what is quite obvious is that if deregulation of entry were to be introduced in the ACT, the Government would have a significant loss of revenue from the auctioning of standard taxi plates, a large compensation pay-out would be required; this pay-out would be initially funded by the Government, and recouped from taxi customers through the imposition of a licence fee of the order of $300 per week or approximately $1.47 per hiring. The introduction of a fee of this magnitude would impose a large cost on the

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taxi-using public, to effectively underwrite the current real value of taxi plates. The imposition of this cost, over a sustained period of at least 16 years, creates a stark contrast to the present situation; where licence holders have acquired their plates without imposing any related cost on taxi users. The irony of the situation, that deregulation will produce a higher level of fares than has existed throughout the history of a regulated ACT taxi industry, will not be lost on those who have to pay it or those who have to ask for it.