

P.O. BOX 29,
PANANIA. NSW 2213
7/11/2014.



Review of Sydney Taxi fares and licenses,
Independent Pricing and Regulatory Tribunal
P.O. BOX Q290
QVB Post Office NSW 1230.

Dear sir/madam,

Please consider this submission on Sydney taxi fares and licenses.
My name is Graham Hoskin, I am a member of the group Action for Public Transport,
and I am looking at the issue from the point of public transport users.

I have made previous submissions to IPART, and have also made 2 submissions to
the Industry Commission, one of which dealing with the problems of people without
cars in urban sprawl areas the Commission referred to, and published a substantial
extract from in their Final Report.

I also used to work for the Department of Motor Transport, which was responsible for
taxi regulation until 1988, when the responsibility was passed not to the RTA but the
Ministry of Transport. The impression was of a too hard-basket to change system.

I am particularly interested in the role of taxis in areas including most outer suburban
areas and urban sprawl areas where public transport is deficient, and most people
consider that the only realistic form of transport is the private car. For those without
cars, taxis are therefore quite an important but very expensive form of transport.

The IPART Issues Paper of October 2014 outlines the following four conditions under
Purpose of the review:

1. passengers can catch taxis when they want them, with waiting times that aren't too long.
2. fares are affordable for passengers.
3. drivers and operators can cover the efficient costs of providing taxi services, including their own labour,
4. prospective operators can enter the taxi industry without prohibitive set-up or operating costs.

It is quite clear to any objective observer that under the present system all these
objectives are failing dismally.

It is quite clear that entry to the taxi industry is prohibitive, with the cost of
purchasing the right to own plates being similar to buying a Sydney house. Most taxi
drivers work under the category of bailees, a medieval term which immediately puts
them in a class beneath that of employees.

Licenses are restricted in a manner which drives up their cost, and many of the owners have no interest in transport but purchase them purely as an investment.

I have attached a copy of an article by the Sydney Morning Herald's economics editor Ross Gittins who critically examines the present set-up and concludes as the highlighted passage states, "the industry is being regulated largely for the benefit of absentee landlords, so to speak." (*Next cab off the rank: an equitable taxi service*, from Sydney Morning Herald, 25/7/2012.)

These problems mentioned in point no.4 flow onto the other conditions. They drive up the costs and totally destroy condition no.2 by making fares unaffordable except for those such as private businessmen or government employees who are able to pass on the cost to their employers, and frequently the taxpayer.

They also make it hard for drivers to earn a reasonable living because as Gittins says

"Taxi drivers get a terrible deal. They generally get 50 percent of their take, but they're not employees and have to bear many costs themselves. They get no workers compensation cover, no holidays or superannuation and have to pay the GST." (See attached article)

They also impair the industry's ability to achieve condition no.1 to provide taxis for passengers when they want them. By making taxi licences extremely expensive and conditions for drivers barely economic they discourage the availability of taxi services. Most people including myself use taxis only when they either desperately need them, or else when they can pass the cost of fares on to employers.

Not only that but the industry has reached crisis point because of new innovations provided by mobile phones and Google, and I believe is no longer tenable.

First booking providers like Ingogo allow tech-savvy clients to bypass the Taxi Council, therefore undermining its monopoly.

Secondly, even more significantly, the new Uber booking system totally undermines the old regulated system, and allows clients to book taxi-type services outside the present system, at what is most certainly much cheaper prices. Uber gets rid of the costs inherent in the regulations and the absentee landlord system and allows the client and provider to bargain quite outside the regulators and the Government and Taxi council's control.

Programs like the ABC 7.00 pm News on 6/11/14 make this clear with a client proudly stating that he uses Uber if he needs a taxi. While the ABC points out this breaches the Government's regulations it is clear that the regulatory dam walls surrounding the present system are broken. They cannot be repaired and what is at present a trickle of tech-savvy clients to Uber promises to become a torrent.

This is abundantly clear because:

1. If the NSW Government had wanted to enforce the present regulations it should have attempted to nip the Uber innovations in the bud.
2. The implications of Uber are that tech-savvy clients will more and more be attracted to Uber, and the core clients of the present taxi system will be institutions, those who are not tech-savvy, those who do not possess smart phones and those who need taxis at irregular hours such as before dawn.
3. Those who advocate a Government crack-down on Uber users have almost certainly already lost the battle. If there is a crack-down informal networks and alliances have already certainly been established between Uber clients and providers, and these will more and more resemble the private arrangements for motorised trips which have always existed alongside the taxi system.
4. Talk of a crack-down is really a cop-out. Crack-downs demand policing and policing costs Government money. The Police Force is already overstretched with having to deal with everything from murders, assaults, fraudsters, pedophiles and all sorts of traffic offenders for a start. To envisage the Police and Justice system being used to crack-down on Uber users who are dispersed in the community is to expect far too much of the present system.
5. Even if there is a crack-down it would undoubtedly be counter-productive. All it would do would be to highlight to the whole population the availability of a type of booking system which is much less expensive than the current regulated system. It would highlight the fact that even for a medium distance trip from an inner suburb, that a passenger could get a ride for about \$10.00-\$20.00 instead of about \$50.00 under the present regulated system.
6. Any crack-down would therefore only underline the fact that the present highly regulated system is totally uncompetitive on any free market principles.

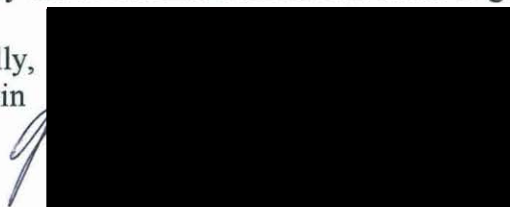
The present regulated system is just what Ross Gittins points out, totally unfair to everybody but the absentee landlords of the system. It is out-dated and rotten.

IPART should recommend that the Government bring in Alan Fels or somebody like him, and reorganize the whole system on free market principles.

Since any sudden change would disadvantage many people, such as taxi licence owners who have just purchased a taxi licence under inflated costs in the past year, I recommend the present system be phased out over a period of about 10 years.

Uber, Ingogo and the like have terminally undermined the present system. It is out-dated and was always an affront to free market principles as the Centre for Independent Studies pointed out in their 1979 report *On Buying a Job: the regulation of taxi-cabs*, by the economist Peter Swan. It has to go.

Yours faithfully,
Graham Hoskin



Next cab off the rank: an equitable taxi service

Does changing the government make much difference? Both sides of politics always assure us it will. But judging by the infrequency with which we do it, we seem doubtful.

At the state level the national swing from Labor to the Coalition is almost complete, providing a good opportunity to test the question. And a good test is the regulation of industry.

Despite both sides' protestations of undying concern for the welfare of ordinary voters, it gets harder to avoid the suspicion that governments regulate industries for the benefit of the businesses rather than their customers.

Take the case of taxis. We've been dissatisfied with the service provided by taxis for many a moon. They're expensive, but often don't offer good service: they're too hard to find at certain times, they don't turn up or take far too long to arrive; too many drivers don't know where to go, or are unfriendly.

But the outgoing Labor governments did far too little to improve the position. It got so bad in Victoria the Baillieu government promised action and appointed Allan Fels, the former chairman of the Australian Competition and Consumer Commission, to conduct an inquiry.

The taxi industry is highly regulated by state governments. What's the goal of this regulation? It's supposed to be to ensure we're provided with a safe and reliable taxi service at a reasonable price. In practice, the goal has evolved into the protection of a highly lucrative financial investment, the taxi licence plate.

Since about the time of the Depression, governments have sought to control the number of taxis by issuing a limited quantity of licence plates. Initially, and for many years, these licences were issued free to people wanting to drive taxis.

Because the supply of licences was

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Ross Gittins



limited relative to the demand for them, licence plates became valuable in their own right. They exist in perpetuity, and people who'd been given one by the government were able to sell it to someone else.

That someone may be a person who wants to drive a taxi, but doesn't have to be. And ownership of taxi plates doesn't imply ownership of the car to which those licence plates are screwed. You can "assign" (rent) the plates to a taxi operator for a fee, who buys the car and puts it on the road. Operators may drive the car themselves, or they may get others to do the driving.

Thus did the taxi licence plate transform into a valuable financial investment, with an active market in their purchase and sale. According to Professor Fels's interim report, the value of plates has been rising for years and Melbourne plates now change hands for up to \$490,000 a pop.

Licences are assigned to operators for a fee of about \$35,000 a year, thus yielding a direct return to their owners of about 7 per cent. Allow for capital gain and the overall return rises to about 16 per cent a year.

Not a bad investment. Now get this: according to the Fels report, in 1985 only about 4 per cent of Victorian taxi licences had been assigned to others. By 1998, about 45 per cent of metropolitan licences had been assigned. And by December last year it was up to about 70 per cent.

Because assignment fees are so high, not enough income is left for taxi operators and even less for drivers. Taxi fares are controlled by the government and the need to pay



drivers more — they get an average of about \$13 an hour, according to Fels — is often used to justify fare increases.

But every time fares increase so do the assignment fees charged by the licence owners, justifying a further rise in value of licences.

Fundamentally, however, what causes the rising value of licences is their growing scarcity relative to demand. Who is it that limits the number of licences on issue? The government. Who does this benefit? The owners of licence plates. The industry is being regulated largely for the benefit of absentee landlords, so to speak.

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their take, but they're not employees and have to bear many costs themselves. They get no workers compensation cover, no holidays or superannuation and have to pay the goods and services tax.

Is it any wonder the quality of drivers is often poor, turnover is high and it's hard to get recruits? And yet

most of our complaints about taxis relate to the performance of drivers.

Fels's key proposal in Victoria is for the government to issue new taxi licences to any qualified person for a fee of \$20,000 a year. New licences would not be transferable and issued only to owner-drivers.

This would make it easier for drivers to become owners. It would force the existing licence plate owners' assignment fee down to \$20,000 a year, still leaving them a reasonable return, but lowering the capital value of their plates to about \$250,000.

Taxi operators would benefit from the lower assignment fees and this would allow the drivers' share of their take to be raised to 60 per cent. This,

in turn, would justify making greater demands on drivers, including requiring them to pass a more stringent street and location knowledge test.

Now you see why licence-plate owners are opposing these reforms so vigorously. We'll see if Ted Baillieu stands up to them with any more fortitude than his Labor predecessors.

The specifics of taxi regulation in NSW differ somewhat from those in Victoria but the general principles are much the same — as are the complaints from taxi users. Will Barry O'Farrell try harder than Labor to fix things? So far he hasn't even called for a report.

Ross Gittins is the economics editor.