

TTF Australia is a national member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian transport, property, tourism & infrastructure sectors.

## TTF Australia (Tourism & Transport Forum)

### SUBMISSION TO IPART ON THE 2008 REVIEW OF TAXI FARES IN NSW

March 2008



#### Contact

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## Executive Summary

- ❑ Customer service weakness, a lack of driver knowledge, uncleanliness and poor availability and reliability continue to be major stumbling blocks for the taxi industry in Sydney, as well as other cities around the country.
- ❑ This poor service has a flow-on effect which negatively impacts the image and performance of other sectors, such as the tourism industry.
- ❑ TTF Australia (Tourism and Transport Forum) is concerned that the lack of competition in the taxi industry (including in fare payment systems) is over-inflating prices and acting as a barrier to entry for potential new operators.
- ❑ TTF Australia asserts that taxi fares should not be raised in 2008 due to the poor level of service delivered by the industry and the lack of competition in both electronic payment systems and the taxi industry in general.
- ❑ TTF Australia opposes the proposal to differentiate fares between so-called 'premium' taxi services and regular taxis. TTF argues that 'premium' services should be considered the base standard of service provided, not a superior level.

## Introduction

TTF Australia is a national, Member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian transport, property, tourism & infrastructure sectors. TTF Australia's membership includes the major operators and investors across tourism, transport and infrastructure.

TTF Australia is committed to improving the quality of passenger transport across the country. TTF's Members include public transport operators, investors, infrastructure developers, consultants and many others with an interest in improving accessibility in Australia. TTF Australia is working to give people genuine transport choices that meet their needs, by encouraging the integration of land use planning, infrastructure development and community and business requirements.

The taxi service provided in NSW, particularly in Sydney, is of a poor standard and must be improved. Businesses, tourists, the general public and Sydney's reputation as a Global City are frustrated by a poor quality taxi system. The root failings of this service stem from poor customer service, a lack of adequate training, high barriers to entry and the virtual monopolisation of the industry by a few key players.

TTF in this submission makes the case that taxi fares should not be increased in 2008 due to sub-par service standards and a lack of competition. TTF also asserts that 'premium' taxi services should not be charged at a higher rate as they effectively deliver the base level of acceptable service.

TTF Australia is conducting a survey of its CEO Members to obtain information on the perception of the taxi industry. Preliminary findings of this survey indicate that there is widespread dissatisfaction with most areas of the taxi industry. TTF Australia will present these findings to IPART when they are finalised before the next submission deadline to assist with its fare determinations.

## Rationale

This submission makes the argument that taxi fares should not be raised in 2008 on the grounds that customer satisfaction is extremely low, and to further raise prices would not be in the best interests of the customer or the industry at large.

TTF Australia notes that taxi fares were raised by an average of 6% at the previous fare determination, well above CPI, and that a further fare rise in 2008 would be unacceptable to taxi customers.

### Customer Service Weakness

Customer service weakness, a lack of driver knowledge, uncleanliness and poor availability and reliability continue to be major stumbling blocks for the taxi industry in Sydney, as well as other cities around the country. As well, taxis currently provide a poor ambassador service to tourists due to a lack of training and customer focus. Until these problems are rectified, or at least a concerted effort is undertaken to improve basic standards, there is little to support a rise in taxi fares.

TTF bases its recommendation noting the IPART rationale that

in practice, IPART's recommendations on fares are influenced by a number of additional things, such as the impact of changes in fares on taxi passengers and drivers.<sup>1</sup>

TTF asserts that the impact of yet another fare price rise for a service which is underperforming would be unacceptable to most users of the taxi service. A fare increase would effectively reward poor performance.

The poor service delivered by the taxi industry has a negative flow-on effect to other industries. For example, the experience of international visitors can be impacted by poor customer service or unclean and unsafe vehicles. As well, local businesses can be negatively impacted, often in a financial way, by the underperforming taxi industry.

While escalating fuel costs must certainly be taken into account in the taxi cost index, it would be unfair to pass these costs directly on to consumers when service standards continue to be of a very poor standard. Standards must be raised significantly before any fare rise is warranted.

### Lack of Competition

A lack of competition in the industry is also damaging to the performance of the taxi system as a whole. The agglomeration of many taxi companies into a virtual monopoly has caused service standards to deteriorate and is stifling competition. The former

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<sup>1</sup> IPART (2008) Issues Paper - 2008 Review of Taxi Fares in NSW - February 2008.

chairman of the ACCC, Alan Fels, recently stated that prices were about 30% higher than they would be if the market were truly competitive<sup>2</sup>.

Under Section 9(1)(b) of the Independent Pricing and Regulatory Tribunal Act 1992, the Terms of Reference note that IPART should “ensure the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service”. The anecdotal evidence provided by the former chairman of the ACCC warrants further investigation by IPART or another body. Given the responsibility of IPART to protect consumers from such unfair prices, it would seem prudent to hold off from any fare rises until such matters are thoroughly examined.

TTF Australia asserts that there is little compelling evidence to suggest that taxi fares should be raised in 2008 given the severe lack of competition in the industry.

### Taxi Fares for ‘Premium’ Services

The IPART discussion paper also makes reference to a proposed separation of pricing for so-called ‘premium’ taxi services. TTF Australia opposes this idea. The quality of taxi vehicles in Sydney is a major concern for TTF Members, and the vehicles are widely considered to be of a very poor standard. Clearly some taxis (these ‘premium’ services) provide a better quality vehicle than others; however this standard should be the norm rather than an exception to it.

While it could be argued that allowing ‘premium’ taxis to charge a higher fare may encourage more taxis to convert to a ‘premium’ service, the entire idea should be dispelled simply on the grounds that it implies that the current standard of regular taxis in NSW is acceptable. This is simply not the case.

There is also the issue that customers who do not want to pay extra for a ‘premium’ service may be virtually forced into doing so if these taxis are the only ones available during busy times. In effect, those who cannot afford ‘premium’ services or do not wish to pay extra would have a reduced taxi fleet available to them.

Charging more for ‘premium’ services can also be seen as another barrier to competition, as taxi firms which have a name for providing these ‘premium’ services are perhaps the only level of significant brand differentiation left in the Sydney taxi market.

‘Premium’ taxis are selected over regular taxis when making telephone bookings, at taxi ranks and on the street, based on the fact that they are more comfortable and cleaner than regular taxis. This greater utilisation (translating to more customers for owners and drivers of these vehicles) should remain the advantage for these operators, not higher fares.

There is also the concern that if ‘premium’ taxis were to be given higher fares, many non-premium taxis would probably seek to be considered part of this group without improving

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<sup>2</sup> Stateline (2008) Interview with Alan Fels, broadcast on Stateline NSW, 8<sup>th</sup> February 2008.

their service levels. The logistics for auditing this separation would be complicated and potentially costly, causing an unwarranted burden on taxpayers.

Instead of charging higher fares for 'premium' services, there could be a system of greater regulation on minimum taxi standards to bring services up to an appropriate level. While TTF Australia recognises this is not a role for IPART, this proposal could be discussed in fare determinations.

Although it is recognised that there are greater costs involved in setting up a 'premium' service, TTF Australia does not believe this warrants separation of such vehicles within the fare system. TTF Australia asserts that 'premium' taxis should continue to have the same fares as regular taxis.

### Recommendations

- TTF Australia asserts that taxi fares should not be raised in 2008 due to the poor level of service delivered by the industry, and the fact that a lack of competition acts as a barrier to entry into the market and thus inflates prices.
- TTF Australia opposes the proposal to differentiate fares of so-called 'premium' taxi services from regular taxis, arguing that standards of 'premium' vehicles should be a standard across the entire fleet.

## Conclusion

TTF Australia asserts that taxi fares should not be raised in 2008 for the following reasons:

- Service standards of the taxi industry are extremely poor and raising fares would be unfair on those who depend on taxis; and,
- A lack of competition in the taxi industry nationally has over-inflated the price of taxi fares.

TTF Australia also opposes the proposal to separate fares of 'premium' taxis from regular taxis, noting that the vehicles provided by 'premium' operators should be seen as a base standard for all taxis, not an exceptional service.

In short, TTF Australia is concerned with the lack of adequate customer service in the taxi industry and further inflating fares would be inappropriate given these poor standards.

TTF Australia would be pleased to make further comments at the next call for submissions, and to present the findings of its Member survey to IPART when this is available.





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