



*national roundtable for industry leaders*

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## **IPART DETERMINATION OF FARES FOR TAXIS, PRIVATE BUSES AND PRIVATE FERRIES**

### **Introduction**

In providing this submission the TTF notes that we have a broader range of concerns with services of taxis, private buses and private ferries than the determination of fares. Indeed, the terms of reference allow IPART opportunities to provide to the Minister for Transport a more useful input to the long term development of transport in NSW than the restricted view of appropriate one year fare increases.

The TTF is a private, national, lobby group representing Chief Executives of the 200 major corporations and institutions in Australia's tourism, transport and leisure industries.

As IPART appreciates, one of the core challenges in setting fares is balancing the interests of service producers and consumers. In the presence of regulated total maximum capacity for taxis, excess demand from the public is a clear signal of poor pricing, as is excess supply by producers. One key element of this submission is that IPART target fare increases for taxis to the periods least sensitive to the changing balance of supply and demand through the week and due to seasonal factors.

**The tourism industry has an interest in these IPART determinations given the growing role of tourists as customers of taxis, private buses and ferries in Sydney.** This is not to understate the differing challenges for the IPART process in regional NSW, but reflects the reality that tourist demand for these services is focused in Sydney.

As Sydney received 56% of all inbound tourists to Australia in 1999<sup>1</sup>, it is expected that with the publicity dividend from the Sydney Olympics and replacement of the Sydney Bed Tax with the GST that Sydney's share of visitation could increase to close to 60% in the next few years. In total, 2.5 million inbound tourists visited Sydney in 1999.

New forecasts released last week by the Federal Tourism Forecasting Council indicate that tourism to Australia is expected to more than double to 10.4 million by 2012. <sup>ii</sup>

***Visitation to Sydney is therefore expected to grow to 6.25 million by 2012. This will put significant pressure on, particularly, taxi services in coming years.***

The remainder of this submission is set out by sector, but in some cases recommendations made apply across all three sectors (eg. pricing system redesign to deal more fairly with the impact of oil price shifts).

Overall, this submission provides seven specific recommendations for IPART initiatives.

## **Taxis**

In an earlier Submission to IPART we called for the introduction of a supplementary up market taxi service aimed at business and leisure travelers with higher fares, using better vehicles and drivers. Our suggestion was that this premium service be open to qualified taxi operators and drivers as an option. Our hope was that by providing a fare premium, of perhaps 33%, as agreed by the customer when this service level is booked would act as an ongoing stimulus to lift overall taxi service standards.

We continue to believe that tourism in Sydney and taxi license owners should have the opportunity for taxi service enhancements aimed at the fast growing tourism market. For example, this should include a premium hourly guided tour service from Taxi Council accredited drivers.

We now understand that following the introduction of the “Silver Service” taxis, other taxi operators are providing this higher level of service with some up market taxis. Our concern is to encourage through availability of a higher fare premium the spread of this experiment. In particular, the availability of a higher fare when agreed by the customer at time of booking or hiring would encourage promotion of this trial.

### ***Recommendation 1***

***Trial a higher flag fall and per km rate for a limited number of “Silver Service” style taxis that meet accreditation standards from the Taxi Council. That this trial be evaluated by the Department of Transport after a year, before deciding on its greater availability.***

In the most comprehensive exercise ever undertaken in measuring tourist impacts on Australian industries, the Australian Bureau of Statistics found that tourism provided 38% of the taxi industry’s gross value added. <sup>iii</sup> As Sydney is more tourism dependent than the nation as a whole, it is expected that domestic and inbound tourists (including business travellers) provide nearly half of the taxi industry’s revenues.

We support the position of the NSW Taxi Council in their Submission calling for a sharper appreciation by IPART of the links between networks, operators and drivers. In particular, we note the far too indirect link between any fare increase and returns to operators as against drivers.

Indeed taxi operators face double jeopardy in regard to their core revenue source. This was exactly the result last year with the Industrial Relations Commission (IRC). The IRC has a far more direct role in determining returns to taxi operators than does IPART or the Director General of Transport NSW. Last year the IRC provided an increase of only 0.7% in the operator's bailment fee, as compared to the 4.1% fare increase announced by the State Government.

With fares and returns to taxi operators separately regulated by different authorities there is a likelihood that fare changes will have little impact on available taxi supply. In addition, we share the view of the Taxi Council that service problems in the taxi industry are commonly due to the failure of drivers rather than the network or operators. That returns to the operators, and hence networks, might be constrained by concerns over driver service is clearly an unfortunate outcome of the current regulatory mess.

The current system for remunerating taxi operators is a mess and requires reform. Two obvious paths to reform are available, the first is the more rational, while the second might be more readily implementable.

**Recommendation 2(a)**

***The Director General of Transport NSW should be given the power to set the operator's bailment fee as an aspect of the taxi fare determination; OR***

**Recommendation 2(b)**

***A key role of this IPART process should be to provide publicly extensive guidance to the IRC - following consultation and input from the Director General of Transport NSW - on the appropriate division of total fare revenue between drivers and operators, especially relating to any fare increase.***

In considering how to deliver fare increases aimed at lifting operator and driver returns a core concern should be the expected elasticity of demand. That a large fare increase would risk a loss of business and potentially lower total taxi fare revenue should be obvious to all industry participants. It is obvious that with highly elastic demand a fare increase risks reducing total fare revenue and leaving both discouraged customers and drivers worse off. Conversely, a highly inelastic demand, on for example a wet Friday night, allows a fare increase to feed through into returns to drivers. The importance of elasticity of demand has been consistently underemphasized in setting taxi fares.

Understanding the elasticity of demand for taxi services should be a core function of IPART. Efficient pricing (taxing) theory from economics suggests that fares should be set cognisant of the elasticities of demand and supply. To some extent, the higher night rate is designed to counter the reduced elasticity of supply by drivers during normal sleeping hours.

Our presumption is that the elasticity of demand tends to vary fairly regularly through the week. We consider that the best way to increase average taxi fares, so as to grow total fare revenue is to focus fare increases on the periods of greatest excess

demand for taxis. This would entail a higher rate for Friday and Saturday nights (from around 6pm) and for seasonal peaks such as Melbourne Cup Day, New Year's Eve and the Mardi Gras parade.

In this fashion, fare increases will have the least negative impact on customers and the most positive impact on total fare revenue for taxi drivers.

**Recommendation 3**

***Focus average taxi fare increases to do least harm to total fare takings by concentrating fare increases on a higher rate for Friday and Saturday nights and peak seasonal periods through the year (perhaps a one third premium).***

This approach to taxi fare increases has both economic and social advantages. By fashioning fare increases in this fashion, the level of excess demand and consequent disgruntlement among taxi customers during peak periods will be reduced. Even the NSW Police adopt a variant of this approach to encouraging safety with the double demerit points periods in school holidays and holiday weekends.

Similarly, the TTF supports the NSW Taxi Council's call for the night surcharge to be applied to the flag fall as well as the per kilometre rate. The TTF also supports the call for the introduction of a \$6 lift fee for wheelchair accessible taxis, funded from the State Government's Taxi Transport Subsidy Scheme.

Finally, following the deregulation of hire cars it would be interesting to know more from IPART about how this is affecting demand for taxi services.

## **Private Buses**

Private buses provide public transport at a low cost to Government.

The scale of the private bus fleets' contribution to Sydney's transport task is only set to grow as traffic congestion and road tolls make private vehicle operation both more time and cost expensive and as the State Government transfers more of the public transport task to more efficient bus operators.

**Recommendation 4**

***We support the call for the introduction of an updated cost index system after 5 years with the old system.***

Indeed, we note the strength of the BCA's criticism of the failure to implement a new cost index system within the Department of Transport in the last two years.

The new cost index would need to reflect changed operating environments including factors outside the current cost index system such as:

- increased travel times;
- increased toll costs;
- increases in other regulatory costs (eg. improved disabled access); and
- increased insurance costs.

In line with our earlier comments on increasing taxi fares, we encourage IPART to closely study the elasticity of demand for private bus users to focus the average fare increase on the periods of most inelastic demand. Our expectation is that peak commuter traffic periods would show the most inelastic demand. At the same time we recognise that compared to taxis, private buses have greater fare setting flexibility with only the maximum fare being regulated.

The relationship of private buses to public buses poses a range of challenging policy issues. Why do some of Sydney's wealthiest suburbs like Vaucluse benefit from far higher subsidies through the public bus network than residents of Western Sydney who are reliant on private buses?

As an example, consider the pensioner fare subsidies. A pensioner from Palm Beach can travel to and from the city on a Government bus for \$1.10. A similar, if normally less well off, pensioner from Rouse Hill is charged a return fare to the city of \$5.60 on a private bus, as there are no pensioner subsidies available on private buses. The allocation of greater subsidies to public buses provides a form of discrimination by postcode.

*Recommendation 5:*

*We call for a fairer system of allocating Government subsidies to public and private bus operators. Certainly, the current arrangement of having two different funding systems (one for STA government services and a far less generous one for private services) is not sustainable. Fare setting systems for public STA and private buses should be brought into line, including the availability of pensioner fare subsidies to private buses as are currently received for travel on STA buses and Cityrail services.*

Finally, given the rapid escalation in fuel costs over the last two months it would be appropriate that IPART use the most recently available fuel costs in calculating the cost index. *The Economist* (13 April 2002) notes that: "between December and early April the price of West Texas Intermediate crude rose from \$18 to almost \$28 a barrel, before slipping back somewhat" page 69.

*Recommendation 6:*

*The high variability of oil prices and the real risk with conflict in the Middle East of much greater increases suggests that IPART fare determinations should allow quarterly adjustments for fuel price shifts.*

Currently operators in each of taxis, private buses and private ferries face a high commercial risk due to the rigidity of price fixing in the face of rapid changes in unavoidable costs of fuel.

## **Private Ferries**

Private ferries have a potentially large role in the tourism industry. This is most obvious in the core harbour cruising business.

In 1999, Bureau of Tourism Research reported that 36% of visitors to Sydney undertook a Harbour Cruise (or around a million international visitors). While most of

private ferry regular passenger services provide an exciting tourist opportunity for tourists getting around Sydney.

This is most obvious in terms of tackling core transport challenges facing inbound tourists of finding their way between the two core tourist precincts in central Sydney – the Rocks and Darling Harbour. In addition, other services linking Cockle Bay and Circular Quay and Darling Harbour and Sydney Olympic Park are highly important tourism routes.

In terms of the regulatory regime facing private ferries the key concerns from the tourism industry are about access to routes and wharf access rather than pricing.

Our key issue with private ferries surround the unfairly favourable access rights provided to one private ferry operator for Wharf 6 at Circular Quay. This unwarranted restraint to competition is costing the tourism industry dearly. By the same token we recognise that privileged access to other Circular Quay wharves is provided to Sydney Ferries, even though they have utilisation levels that warrant a sharing of other wharves with private operators.

**Recommendation 7**

***The IPART report to the Minister for Transport should aggressively pursue these wharf access issues for private ferries, in terms of addressing the terms of reference calling for consideration of:***

- ***relativities with the Government owned ferry services;***
- ***protection of consumers from abuses of monopoly power; and***
- ***the need for greater efficiency in the supply of services;***

related to the need for eventual movement of all charter vessels (including Sydney Ferries' leisure services) to the Government developed King Street Wharf at Darling Harbour.

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If you have any questions with this Submission please ring me on 02 9368 1500. Given the breadth of issues canvassed in this submission, I have copied it to Minister Scully and Director General Deegan for their information.

Kind regards



**CHRISTOPHER BROWN**  
**Chief Executive**

<sup>i</sup> Bureau of Tourism Research (2000), International Visitors in Australia 1999, p19 and p36.

<sup>ii</sup> Tourism Forecasting Council, 2002, "Updated forecasts for inbound, domestic and outbound tourism to 2012", available at: [http://www.industry.gov.au/library/content\\_library/TFCForecastsApril2002Usethisone.pdf](http://www.industry.gov.au/library/content_library/TFCForecastsApril2002Usethisone.pdf).

<sup>iii</sup> Australian Bureau of Statistics, 2000, "Tourism Satellite Account 1997-98", Cat. No. 5249.0.

cc Minister Scully  
Director-General Deegan