



Submission to the  
Essential Services Commission  
Unbooked Taxi Fare Review 2020

Transport Alliance Australia

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## **Background**

Transport Alliance Australia (TAA), formerly the Commercial Passenger Vehicle Association of Australia (CPVAA), is the peak body for owners, drivers and stakeholders in the point to point passenger transport industry. This includes stakeholders from services provided by taxis, hire cars, rideshare, limousines and specialised vehicles.

TAA is a not for profit body established in 2014 with a membership base primarily within Victoria where the association originated as the Victorian Hire Car Association (VHCA). Since these humble beginnings, representation has now grown to include other Australian states and territories.

TAA welcomes the opportunity to contribute to the Essential Services Commission 2020 Unbooked Taxi Fare Review and submits this response to the Consultation Paper for due consideration.

## **Current Market Conditions**

The ESC no doubt appreciates the magnitude of the impact on the Commercial Passenger Vehicle (CPV) industry as a result of government restrictions imposed to contain COVID-19. The current business environment has devastated the industry with reportedly up to a 90 - 95 per cent reduction in trips and associated revenue across all areas, both in the booked and unbooked market.

Many Booking Service Providers (BSPs) are operating with skeleton staff in an effort to reduce costs and a good proportion of CPVs have been parked, some temporarily and others possibly permanently. This is a consequence not only of the current situation but also a long period of major upheaval and industry adjustment which has caused great frustration and a decline in financial return for drivers. As destructive as COVID-19 has been, for many participants this is merely the straw that has broken the camel's back. It is highly anticipated that many drivers will not return to the industry.

Composed of a number of important businesses that work together to provide point to point personalised passenger transport services 24 hours a day, 7 days a week, all year round, including public holidays, the CPV industry operates an essential service particularly for those vulnerable members of our communities - the elderly, sick, disabled and those living remotely. It is imperative that the industry is supported and remains viable to ensure continuity of service for those in need.

## **Consumer Price Indexation of Unbooked Taxi Fares**

With current market conditions in mind, TAA has considered the different approaches outlined by the ESC on how maximum fares could be assessed. During this challenging period of inordinate uncertainty, TAA advocates the use of a CPI-based approach in setting the maximum fare for unbooked services.

Further, TAA strongly recommends adjusting fares by CPI calculated for the period since the previous fare review through to December 2019, avoiding the highly anomalous first quarter of 2020. TAA supports the ESC's suggested implementation of the fare increase in the final quarter of 2020. We believe that this will help reduce the impact on the travelling public by avoiding the anticipated peak of the pandemic. Q4 2020 should coincide with a time when we might reasonably expect an uptick in business activity and commencement of economic recovery.

TAA provides the following explanations in support of a CPI based approach -

- It is less data intensive and therefore less burdensome and costly to determine the change in fares than all other mechanisms under consideration.
- Any resulting fare change is more easily justified and understood by the consumer and the industry alike and therefore would be more readily accepted overall.
- It would provide a timely and much needed adjustment given maximum fares have remained unchanged since 2014 and would duly recognise the contribution made by drivers.
- It may align with the CPI increase in fares for public transport services as set by The Department of Transport.
- It would roughly correspond with the taxi cost index for which many of the components are influenced by CPI.
- It will incentivise stakeholders to continue operating to provide essential transport services throughout this crisis and will assist in attracting new labour to the sector to ensure these vital services continue.
- It will serve to encourage a return of drivers who have departed the industry during the declared pandemic ensuring that capacity ramps up quickly as business activity returns.
- For reasons explained below, driver remuneration is at an all-time low. A CPI increase in the maximum fare would serve as a measured but positive step in rectifying the discrepancy between driver earnings and wage growth across the broader economy. It would also go a long way to bolster those participating in the industry.

## **Recent Developments in the CPV Industry**

### **Over-Supply and Driver Earnings**

The CPV industry has undergone major reforms in recent years culminating in 2017 with deregulation. Prior to this time, the number of CPVs was more tightly controlled as there existed a financial barrier to enter the industry by way of a licencing structure both for taxis and hire cars. Since the removal of the licencing system and the introduction of a low-cost annual permit, there has been an explosion of vehicles and drivers entering the market.

In just over two and half years, there are now in excess of 11,000 taxis, up from around 5,000 in the period prior to deregulation, as well as greater than 70,000 hire cars or rideshare vehicles, from roughly 2,800 in number pre-reforms. This represents a 10-fold increase in the overall number of registered CPVs, a figure which had been trending steadily upward until the sudden contraction of the industry due to the current pandemic.

The market is well over-supplied. While there has been a moderate increase in overall trip numbers across the industry there has been disproportionate growth in the number of CPVs. This has served only to dilute driver earnings. TAA members have reported a decrease from pre-reform revenue around 30 - 50 per cent across both taxis and traditional hire cars.

As a result, despite the negligible cost of licencing since the industry was deregulated, the proportion of operating expenses (many of them fixed) against driver earnings is now higher. This is of particular concern given over 90 per cent of vehicles are currently owner operated and for which the fare box split does not apply. That is, even though the owner operator retains the full fare box and some operator costs are lower, their take home earnings have declined considerably as a direct result of the oversupply of vehicles.

## **Consumer Protections vs. Industry Viability**

Competition is fierce among the BSPs who either collect monthly network fees per affiliated vehicle or a trip-based commission on dispatched work. Their businesses have thrived on the ability to grow based either on plain numbers of affiliated vehicles or total trip earnings for all drivers on their platform. Neither mechanism, however, links tightly to the fare box and the remuneration or benefits imparted to individual drivers.

Aside from the flexibility of working longer hours, drivers are for the most part powerless to directly improve or grow their business or negotiate fares, network fees or commissions which are set by the BSPs. It is true that this has never been the case, yet while supply of services was controlled, rewards existed for drivers to advance financially and for operators to expand their operations. Deregulation has not had an equally positive outcome for all stakeholders.

The objective of the ESC is to promote the interests of Victorian consumers while at the same time ensuring the financial viability of the industry and incentives for long term investment. This consideration should of course be steered toward financial viability for the driver more so than the taxi BSP as their earnings are not directly linked to the number or cost of fares.

As stated in the Unbooked Taxi Fare Review Consultation Paper, it may not be the responsibility of the ESC to consider driver earnings, yet it would be impossible to ignore entirely given the objectives of the ESC and the current heavily oversupplied market causing driver revenues to decline. Driver turnover is at a peak and increasing and this is directly attributable to their earnings and the viability of the industry as a whole.

In regulating maximum fares for the unbooked market serviced by taxis and by ignoring the booked fare sector, a two-tiered industry structure has been created. Competition in the booked space has generally drawn consumers away from the unbooked market resulting in a trending decline in rank and hail work. This is in part also driven by convenience, the rising use and advances in technology as well as the offer of below-cost booked trips as occasionally set by some BSPs.

In the spirit of meaningful competition, it is unrealistic to expect unbooked taxi services to compete with substitutable services which are not regulated. In many respects, we are yet to arrive at the level playing field loudly spruiked by government as justification for deregulation of some aspects of the industry. Instead, the taxi sector is hamstrung while driver exploitation remains the most significant consequence of deregulation of booked fares and the increasing number of CPVs in the market.

## **Regulated Pricing and the Rising Myth of Consumer Protection**

In this environment, it is arguable what place the ESC has in continuing to set maximum fares for taxis in the unbooked space. While there is an obvious requirement to protect vulnerable consumers, one need question whether this is actually being achieved and whether limiting consumer choice in this sector outweighs any proposed benefits.

In regard to protections for vulnerable users, consumers travelling in wheelchairs for example exclusively use booked taxi services which are not governed by the regulations imposed under this review. While this has generally not happened, and may never eventuate, under current legislation it is possible now for the industry to set booked taxi fares higher than the maximum regulated fare for unbooked work. So far, the potential for this has not been exploited in this way, instead price certainty has formed part of the taxi business model as opposed to dynamic pricing. However, it must be recognised that this may or may not continue.

Similarly, those consumers who might live in areas poorly serviced by public transport options rely on booked services for their transport needs at least in one trip direction. The rank and hail market in outer

suburban residential zones is unreliable and centres only around major shopping precincts. For the most part, rank and hail predominates in the CBD, inner city areas and at the airport.

We have been advised by the CPVV that almost no MPTP work is carried out in the unbooked taxi space. The regulator is also currently conducting trials to permit booked rideshare vehicles to carry MPTP passengers. Would such vulnerable passengers be protected from the price gouging algorithms that set exorbitant fares during periods of high demand?

Current restrictions are such that regardless of what the BSP charges its customer for a booked trip, the MPTP subsidy is only paid at 50 per cent (up to \$60) of the maximum fare for equivalent unbooked trips in the relevant zone. The consumer is responsible for the remainder of the fare even if this is more than 50 per cent of the maximum fare.

Concluding the above comments, there seems to be somewhat of a contradiction in place. That setting of a maximum regulated unbooked taxi fare in an increasingly smaller section of the market somehow protects vulnerable consumers who are in any case fully exposed to potential for price gouging in the booked trip market simply because rank and hail options do not always meet their needs. Wheelchair users are not protected in the booked space, and neither are MPTP users who either book their trips now or will do so once provided with a choice of rideshare or hire car providers.

If consumer interests are at the forefront of this review then we should no longer offer price protections in a diminishing portion of the market which is arguably contributing to further decline in that sector and which in turn reduces further the choice consumers can make and the service they are delivered.

*The current system of setting fares is broken and no longer fit for purpose.*

To be effective, consumer protections by way of fare regulation must either be applied across all competing services or not at all.

### **Questions for consideration -**

Is the setting of a maximum unbooked taxi fare a relic of the past? A new approach to the fare structure is perhaps needed to purposely fit the vastly different way that the industry now operates.

In reality, who and what proportion of the overall market does the regulated unbooked fare truly protect?

Does taxi fare regulation impede growth in that industry sector?

How does it make any sense to protect a small percentage of the marketplace, and thus give rise to a non-level playing field? This is exactly what the Government's regulatory changes were trying to move away from.

With a free pricing model applied to the booked sector of the market, which is the dominant means of engaging CPV services, does there remain a need to regulate fares at all or should the market be left to find its own price point?

### **Driver Exploitation is the New Focus**

Consumers have enjoyed the benefits of deregulation with more choice, arguably discount fare options and shorter wait times for services, all at the expense of drivers who have become the working poor and are being exploited.

In taxis where prices are set based on the regulated maximum fare, the driver's ability to earn has more to do with saturation of the market resulting in a decline in occupancy rates, rather than the cost of the fare. While in ride share, driver earnings are also a consequence of predatory pricing with fares being offered by BSPs below cost.

The entire cost associated with the transportation of passengers is borne by the driver and it is well-known that they earn significantly below the minimum hourly wage.

Who then should be concerned for the drivers and whose role is it to protect them from exploitation?

The most recent statistics reported by the regulator count 110,000 CPV drivers in Victoria. Each one is entitled to earn at least the minimum hourly wage whether they work 6 hours per week or 60 hours per week.

This is entirely possible by each of two mechanisms. The first would be to impose restrictions (whether direct or indirect) on the numbers of CPVs operating in the industry. This would serve to inflate occupancy rates, increase operating efficiencies by reducing the proportion of costs against driver income and effectively raising driver remuneration. It is understood, however, that this may not be the role of the ESC.

In the context of possible future amendments to legislation and regulation, there is potential for the ESC to instead regulate for a minimum fare rate rather than a maximum fare rate for both booked and unbooked trips across the entire industry. In the current market, what is needed is a floor not necessarily a ceiling although this could also be prescribed.

Consumer price sensitivities and thresholds in an openly competitive market may apply natural boundaries on the upper limit although it is possible to regulate both a minimum and a maximum fare as a multiple this. This would ensure that both driver and consumer are protected from extreme price deviations from what is both fair and reasonable for all parties without limiting consumer choice. It is possible to address the interests of the consumer and the financial viability of the industry simultaneously.

### **Time and Distance Tariffs**

TAA supports the removal of the tariff option for calculating fares by the 'time OR distance' model in favour of mandating the 'time AND distance' tariff. Only a very small percentage of older meters are still in use that are unable to be programmed for time and distance and these are being phased out after 1<sup>st</sup> May as part of a requirement that meters should now be able to automatically compute toll charges and include them within the fare. This will provide greater predictability for fares and facilitate comparisons between service offerings thereby giving passengers greater transparency when choosing a service provider.

### **Recommendations**

TAA recommends -

- A CPI increase in the maximum unbooked taxi fare.
- Fare adjustment reflect average CPI from the period of the last fare review through to December 2019.
- Implementation of any change in fare rates to occur in the final quarter of 2020.
- Radical changes to the approach for regulating fares by imposing a minimum regulated fare across all industry sectors.
- Removal of the option for metered time or distance tariffs and mandating time and distance tariffs.

TAA is committed to assisting the ESC with its work on this fare review and welcomes further opportunities for discussion of the issues raised and solutions proposed as part of this submission.