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Taxi Fare Review
Essential Services Commission
Level 2/35 Spring Street
MELBOURNE VIC 3000

25 January 2008

Dear ESC Reviewer,

ISSUES PAPER – TAXI FARE REVIEW 2007-08

Further to my letter of 2 January 2008, please find enclosed the submission of the Victorian Taxi Association (VTA) in response to the ESC Issues Paper.

This VTA submission has been has been prepared for the VTA by Professor Harry Clarke* and Dr John Shannon* in consultation with VTA members and associated taxi operators.

Should you or the Commission wish to discuss the matters raised in the submission, please contact me to arrange such.

Yours faithfully

NEIL SACH
Chief Executive Officer

*Professor of Economics and Senior Lecturer in Economics respectively, Department of Economics and Finance, School of Business, Faculty of Law and Management, La Trobe University

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SUBMISSION TO THE

VICTORIAN ESSENTIAL SERVICES COMMISSION

TAXI FARE REVIEW 2007 - 2008

by

PROFESSOR HARRY CLARKE

and

DR. JOHN SHANNON

INTRODUCTION

The Victorian Taxi Association (VTA) in response to a request from the Victorian Essential Services (ESC) for comments on "Taxi Fare Review 2007-08: Issues Paper" makes the following submission. As explained in his letter of January 2, the Chief Executive of the VTA, Neil Sach, provided a detailed list of factual errors in the ESC Issues Paper. This letter is included as Appendix A in this submission.

The VTA wishes to note that the amount of time which the ESC has made available for comments on the "Issues Paper" is brief particularly when it is noted that much of this period was the Christmas, New Year Holiday period. This made it difficult to gather data or to research and develop appropriate pricing models. The VTA wishes to request that in future a longer period, at a more appropriate time of the year, is provided for interested parties to make their submissions.

The VTA wishes to address the key questions which are set out on pages 72 and 73 of the "Issues Paper". The comments on these questions are considered in the context of the appropriate chapters of the "Issues Paper" they are associated with. We will examine:

The Terms of Reference (Appendix A)

The Approaches to Setting Price Paths (Chapter 4)

Fare Structure Issues (Chapter 5)

Premium Service Surcharge (Chapter 6)

Income Distribution Issues (Chapter 7)

Information Gathering and Performance Measurement (Chapter 8)

1. THE TERMS OF REFERENCE (Appendix A)

The terms of reference set out in Appendix A of the Issues Paper are consistent with the traditional approach to determining appropriate price levels in regulated industries. The pricing rules that this type of approach produces are designed to maximize the sum of the net returns to consumers and producers which result from the operation of this market. While the basic model looks at the operation of a market in a single period this approach has been extended to cover multiple periods. The basic rule associated with this approach is the CPI - X pricing path rule.

Such an approach is based on a series of assumptions that imply that the underlying conditions in a market are relatively stable. Furthermore such regulations are usually associated with situations where there is a natural monopoly. The large firms that these regulations apply to are quite capable of dealing with the relatively small changes which occur in their input and output markets over the period of the price regulations. This approach fails to recognize important economic, political and financial realities that the taxi operators and the people of Victoria now live with.

The key new political reality which needs to be taken into consideration when developing pricing regulations for the taxi industry is the issue of carbon emissions. Both state and federal governments are in the process of developing policies which will lead to significant reductions in carbon emissions over the coming decades. While taxi travel is responsible for only a small percentage of the carbon emissions from all automobiles it is still important that any pricing regulations should be consistent with both state and federal emission carbon reduction policies. Obviously it will take time to incorporate these considerations into an appropriate pricing model. At this point however it is important that this issue be recognized as an important one which needs to be taken into consideration when setting prices.

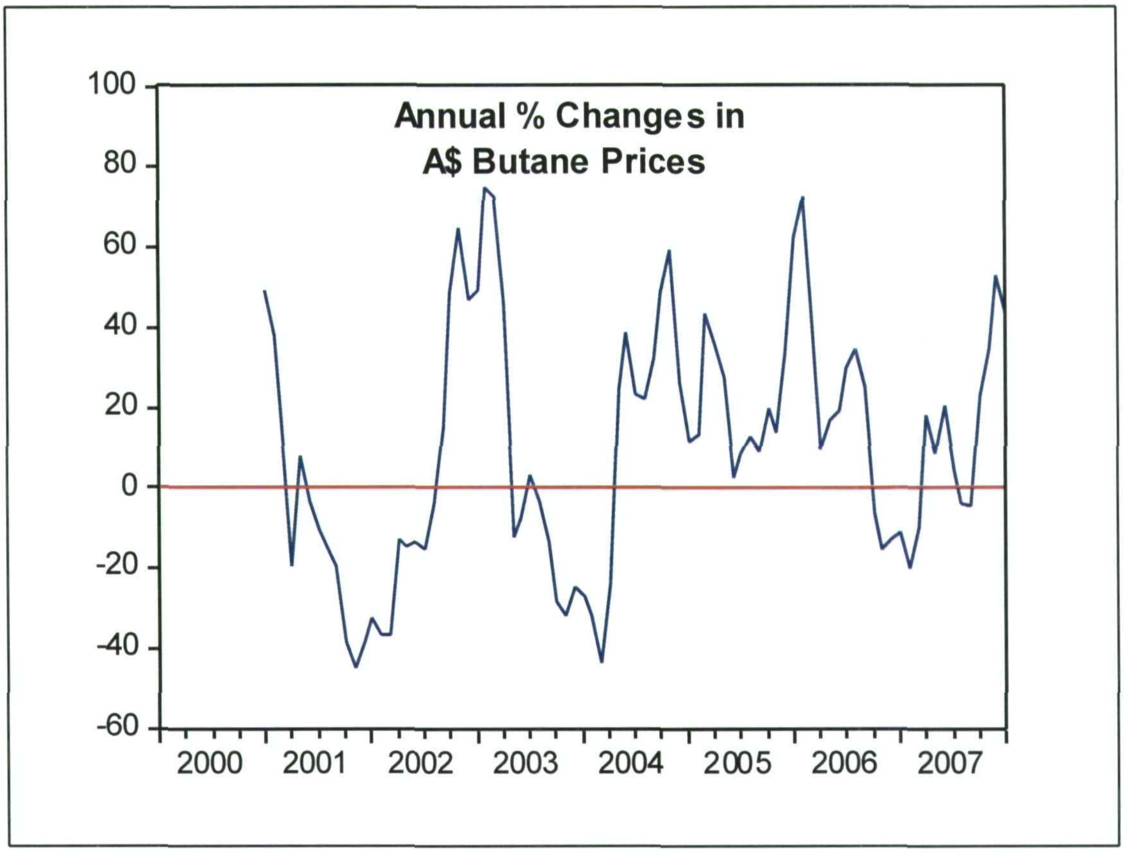
The economic realities which are not recognized in the traditional approach to pricing regulations largely stem from the ongoing process of globalization and the commitment of both state and federal governments to increasing the competitiveness of the Australian economy. The net result of these changes is that the taxi industry which was once seen as belonging in the nontraded goods sector- so almost all of its costs were only affected by local conditions - can no longer be seen in this way. There are several reasons why this is now the case.

a. The price of one of its key inputs, natural gas is determined on world markets.
b. Leasing costs are affected by the cost of capital which is now more strongly affected by changes in world capital markets.
c. Car prices are also affected by changes in the business strategies of multinational car makers.

In Australia both major political parties have adopted the policy of letting LPG prices be determined in world markets. Since LPG is basically a 50:50 mixture of Butane and Propane gases and as the prices of these gases are highly correlated, to understand the behaviour of LPG prices it is useful to look at either the Saudi Aramco Contract Price for Butane or the Saudi Aramco Contract Price for Propane (Saudi CP). The Saudi prices are accepted as 'representative' prices because Saudi Arabia is the major supplier of LPG to contract buyers in Asia. The price to Australian consumers will also be affected by the exchange rate for the Australian dollar. In the following figures the Australian dollar prices of the Saudi Aramco Contract Price for Butane are used. These values were obtained from the LPG Australia website.

Unfortunately the time made available to comment on the "Issues Paper" made it impossible to develop appropriate econometric models of the volatility of these prices. We can however gain an intuitive understanding of the amount of variation in LPG prices by looking at **Figure 1**. This graph shows the percentage difference between the price of butane in any month and the price for that month in the previous year e.g. the value of 53% in December 2007 indicates that the price in December 2007 was 53% higher than the value in December 2006.

Figure 1: The Annual Percentage Changes in the A$ Price of Butane

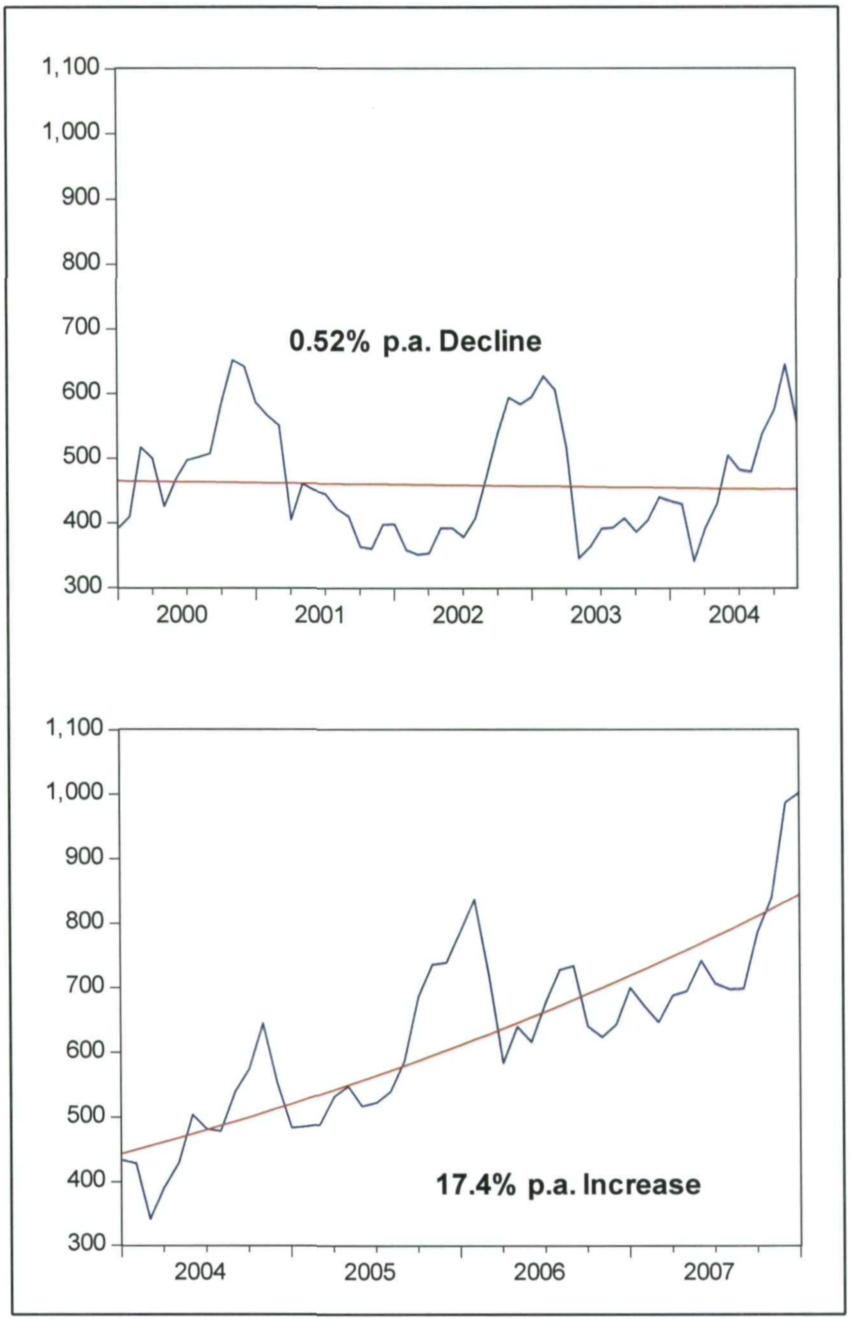


From **Figure 1** we see that there are both positive and negative price changes of very different sizes. In addition to this extreme volatility another pattern can be observed. In the period from Jan 2001 to Dec 2004 some 27 of the 48 changes were negative. When however we examine the period from Jan 2004 to Jan 2008 we find that only 6 of the 49 changes were negative i.e in recent years it is the positive changes which occur most frequently with 43 out of 49 or 88% of the changes being positive.

This pattern of significant increases in the price in recent years implies a significant upward trend in these prices. The linegraphs for these prices for the two different periods from Jan 2001 to Dec 2004 and from Jan 2004 to Jan 2008 are shown in **Figure 2**. In addition to the linegraphs these graphs also show the forecasts obtained with a semilog model. The average rates of change in the two periods obtained from semilog models of the prices in the two periods are also shown. From **Figure 2** we see that:

a. In the period from Jan 2001 to Dec 2004 the price was effectively unchanged with a decline of 0.51% p.a. in this period.
b. From Jan 2004 to Jan 2008 however prices increased by 17.4% p.a.

Figure 2 : Saudi Butane Prices ($A) in 2000 to 2004 and 2004 to 2008
(Data provided on the LPG Australia website)



These recent price changes have significant implications for the profitability of the taxi business and these must be recognized when developing appropriate pricing regulations for the taxi industry. To understand the extent to which the increases in LPG prices have affected the cost structure in the taxi industry consider Table 3 on page 15 of the Price Waterhouse Coopers " Report to the ESC on changes in costs of operating taxis in Victoria: 2000 to 2004". Here we see that the percentage of taxi operating costs associated with LPG inputs declined from 9.20% in 2000 to 8.25% in 2004. The most recent reports from taxi operators indicate that LPG's share of operating costs is now approaching 20% or over double its earlier share.

While it can be claimed that taxi operators have some form of very limited local monopoly power it is not possible to argue that they have similar resources to the typical operators of natural monopolies such as the energy companies. It is quite unreasonable to expect them to adapt to such rapid changes in their cost structures when their prices are set by legislation.

In the past, oil and natural gas prices have gone up and down. There have been extended periods during which these prices have not changed at all. There are however very good reasons why the future behaviour of LPG prices will resemble that displayed in the more recent period rather than the behaviour between 2000 and 2004.

a. First, prices will continue to increase and also to remain highly volatile as economic growth in developing countries such as China and India has effectively eliminated any excess supply in world markets. The Saudi Arabian government is no longer able to control either the level of LPG prices or the volatility of these prices.

b. Second, prices are likely to increase at even higher rates because of the increasing concerns (even in the US and China) with global warming and high levels of pollution. The following table which is adapted from information in the Bureau of Transportation and Communication Economics publication *Alternative Fuels in Australian Transport*, Information Paper 39, (1994) shows why LPG is increasingly being seen as a superior product to petrol.

Emission	Reduction Amount
SMOG	30 - 40% reduction in tailpipe emissions CO
CO (carbon monoxide)	50 - 60% reduction in tailpipe emissions
Air Toxics (benzene)	Potentially zero emissions
SO2 (sulphur oxides)	Potentially zero emissions
CO2 (carbon dioxide)	15 - 20% reduction in tailpipe emissions

SMOG (volatile organic compounds and oxides of nitrogen)
- Increases the incidence of respiratory and cardiovascular disease.
- Negative impact on the ecosystem and visual implications.

CO (Carbon Monoxide)
- Increases the incidence of cardiovascular disease.

Air Toxics (benzene, aromatics)
- Have carcinogenic (cancer causing) properties.

SO2 (Sulphur Oxides)
- Increases the incidence of respiratory disease.
- Negative impact on the ecosystem and has visual implications.

CO2 (Carbon Dioxide)
- Impacts on global warming (climate change).

c. These advantages are so significant that scenario planners at Royal Dutch/Shell believe that, in the next 20 years, gas may become even more important than oil as a source of energy. The increasing popularity of LPG however will lead governments not only to impose excise duties but to increase the levels of these excise duties. The Australian government has served notice that it will do this in 2012.

   While it has stated that initially the excise duty on LPG will be 50% of what it is on petrol, it is quite possible that as LPG becomes more popular the excise duties will increase above this level.

d. China has already shown that it is becoming very concerned with 'clean' energy issues. The government has recently introduced a range of new policies designed to ensure that, by 2010, over 10% of Chinese energy will come from environmentally friendly sources. While China is increasing its windpower capacity by 39% each year, the quickest way to reduce pollution levels is to use natural gas rather than coal for generating electricity. If the US and other major users of coal such as India were to also become seriously concerned about global warming or pollution levels then we can expect that they, like China, will encourage car owners and electric power generators to switch to LPG and natural gas. In this situation we could expect they there will be even greater increases in the demand for natural gas.

e. These factors could lead to very large price increases in the medium term because while supplies of natural gas are plentiful, it is very expensive and requires long time periods to build the infrastructure needed to supply much higher levels of LPG. For example, each ship required to transport natural gas costs $5 billion (US). While these very high rates of increase in the price of LPG may not continue indefinitely, it is very likely that they will be an issue for the next 10 years.

Any pricing regulations for the taxi industry must recognize that taxi operators must be allowed to adjust their prices when there are major movements in the price of LPG. The terms of reference for this inquiry should be altered to include the consideration of the use of a FUEL PRICE LEVY that works in the same way that a levy works in the airline industry. In addition to the yearly changes in prices every 3 months, the government and the taxi industry would announce what the LPG price levy for taxi fares would be. If at any time in the future the price of LPG was to fall the levy would be removed.

THE TERMS OF REFERENCE SHOULD BE ALTERED SO THAT CONSIDERATION IS GIVEN TO DEVELOPING PRICING REGULATIONS WHICH ARE CONSISTENT WITH THE DRAMATIC CHANGES IN OPERATING COSTS THE TAXI INDUSTRY MUST DEAL WITH.

We now turn to respond to the specific questions posed in the "Issues Paper".

Question 1

There are three further general issues which need to be considered before we look at the different approaches to setting prices.

1. For most taxi licence holders the assignment fees or cash flows from their license(s) are much more important than the capital gains obtained from increases in the price of taxi licences. From Figure 3.8 on page 32 of the Issues Paper we see that there has been a strong upward trend in these licence prices. As noted on page 31 there was an annual rate of increase of 7.4% p.a. in these prices over the period from 1989 to 2007. While licence values have increased in recent years, the values of other asset classes such as houses and equities have also increased. For example the yearly rate of increase in the ASX/S&P 300 Accumulation index in the last 5 years was 21%. The return on taxi licences as measured by the ratio of Assignment fees to licence values in the 5 years since 2002 has fallen.

   We find that the comparison of trends in taxi licence values with the CPI as set out on page 31 is particularly misleading because licence values are an asset price while the CPI reflects the prices of goods and services in the economy.

2. A large percentage of the increases in asset prices is due to the significant falls in interest costs, and consequent increases in price-earnings ratios, in recent years which occurred because of the low levels of inflation and large government budget surpluses. If interest rates were to rise from these historically low levels (which are occurring at this time) it is quite possible that the values of taxi licences would stabilize or fall.

3. The VTA strongly supports the commitment of the ESC to improve the quality of relevant data for the taxi industry. One area in which there is a crucial gap is the information on the distribution of fares by trip length. Taxi fares include a fixed flag fall component and variable components based on time and distance travelled. Sometimes claims are made, for example, that there are insufficient taxis for short journeys suggesting a revision in the split between fixed and variable components of fare structure. Good data would be useful in analysing the supply and demand implications of such a revision.

2. THE APPROACHES TO SETTING PRICE PATHS (Chapter 4)

Question 2:

The CPI - X approach is not a satisfactory approach for setting prices in the taxi industry. The reasons why this is so can be found in **Appendix B** of the "Issues Paper". The taxi industry is not representative of most other industries in the economy so a CPI - X rule must be adjusted by 2 factors namely

- $(\Delta W - \Delta W_E)$ (reflecting the extra cost changes experienced by the industry such as fuel and congestion costs)

and by

- $(\Delta TFP - \Delta TFP_E)$ (reflecting the reduced opportunities for technological progress and productivity gains in a service industry).

At present data is not available which make it possible to obtain useful estimates of either of these values. If this type of adjustment is not made then innovative technology choices in the industry will be distorted by the failure to account for their productivity impacts on cost.

Question 3:

As noted in our response to Question 2 certain adjustments to the CPI - X value are required if we are to obtain a value which will achieve the desired outcomes. Furthermore the PwC productivity growth estimates should be rejected for the reasons suggested on page 34 of the "Issues Paper". The PriceWaterHouseCoopers (PwC) estimate of 2.5 - 3% was based on a limited survey' and was 'potentially subject to a 'significant degree of measurement error'. It is also possible that there is a typing error on page 34. An 11.58% increase in the CPI over a 4 year period implies an effective rate of increase each year of 2.78%. An increase of 5.3% in taxi costs over this same period implies an effective rate of increase each year of 1.47%. The difference between these yearly rates of increase is about 1.3% (slightly more than half the suggested lower limit of this difference of 2.5%). Most of this difference is due to the artificially lower LPG prices in this period. Hence the conservative approach to estimating X should not be changed. Given these arguments and the arguments in question 2 the estimate of X = 1% is almost certainly too high.

A further point that needs to be made is that increased levels of traffic congestion can undermine the productivity gains associated with technological improvements. It is not unreasonable to argue that with increased traffic congestion the X for Melbourne taxis may have either a zero or small negative value because, with growing Metropolitan congestion, extra costs are imposed on taxi services. These require adjustments of the type outlined in our response to Question 2.

Question 4

The VTA agrees with the arguments in Appendix B of the "Issues Paper". Regular estimates of taxi specific costs and productivity trends in the taxi industry based on large random samples are needed if the CPI - X approach is to be adjusted and used effectively.

Question 5

Before the CPI - X method can be used we need to make the adjustment which is set out in Appendix B of the "Issues Paper". The composite index based on the Transportation sub-indices of the CPI are a better approach and the use of an industry specific composite wage-price index is better still from the viewpoint of comprehensively accounting for distinctive cost impacts. However if the ESC targets driver earnings then fare increases would follow successful achievement of this objective. Emphasis should therefore be placed on non-earnings costs.

Question 6

For the reasons mentioned the CPI - X approach appears to be the least satisfactory of the three possible approaches.

Question 7

While both the composite and industry specific indices could be used, at this point in time the most appropriate procedure for setting prices is to use an industry-based cost index. While the complexity of using an industry-based cost index is mentioned in the "Issues Paper", the key relevant costs in the taxi industry - fuel and car purchase and servicing costs - should not be prohibitively difficult to estimate - this is already done in NSW and Queensland.

As noted in the discussion of the Terms of Reference the most pressing pricing issue for the taxi industry is the ability to respond to major changes in the costs of key inputs. Regardless of which of the 3 measures is used, short term price adjustments that reflect major changes in costs will still need to be made.

Question 8

Productivity gains in a complex service industry such as the taxi industry are likely to be low and difficult to identify and estimate. As noted in the "Issues Paper" cost reductions can be achieved by using procedures that will increase servicing times which in turn will have a negative impact on demand. Before we can obtain useful values for the level of productivity gains detailed micro-econometric studies are required as well as a qualitative analysis of the various service aspects of the industry.

3. FARE STRUCTURE ISSUES (Chapter 5)

Question 9

The various components of taxi fares (fixed or flagfall values, variable time based values and variable distance based values) should be evaluated in terms of the way these components contribute to both the quality of service and service delivery costs. Any changes in the relative weightings should be guided by information obtained concerning customers perceptions about the supply of different services. For example if customers find there is a lack of taxis available for shorter trips, it may be necessary to increase the flagfall to increase the supply of taxis for this type of trips.

It is useful to monitor fare structures and make comparisons across comparable eastern states. It is also important to monitor the average fares for a given distance as in Table 5.3 of the "Issues Paper". This table shows that Victorian costs are significantly lower than other eastern-Australian states and this is largely due to distinctively lower (approximately 22%) distance-related variable costs in both Metropolitan and Country areas (Table 5.1).

The work done by Booz Allen Hamilton for IPART in 2003 could be updated to give better insights into how fare structures affect the welfare of Victorian consumers. This however would require the ESC, with the cooperation of the VTD, to devote significant resources to data gathering and econometric modelling if a suitable model is to be developed.

Question 12

The methodology that is appropriate involves deriving an optimal two-part tariff that reflects the various costs involved in taxi operation. The current structure which weights fixed costs and two components of variable costs (time, distance) is broadly appropriate since it does reflect the costs taxi operations incur.

When taxi drivers have options to refuse certain fares the structure of charges will also reflect their incentives to accept or reject certain fares. For example short distance fares might be rejected if the fixed component of a fare is seen as too low. This does not however reflect issues of demand management but of costs. As noted in the question 9 response if the fixed component is sufficiently large to compensate drivers for taking short journeys then they will service them.

Larger fixed components may reduce demands for short trips but the important issue is to capture extra costs incurred.

Question 13

Fares should vary in accord with differences in costs particularly wage costs in comparable industries. They also need to reflect security and other costs. On nights of the week (Friday, Saturday) where drivers and other taxi personnel face high opportunity costs of being separated from valued private activities, taxi fares should be higher.

Question 14
If demands are lower and journeys longer then costs will be higher indicating again a case for surcharges based on cost. The fixed component of fares (currently identical between Victorian Metropolitan and Country areas) should be distinctly higher in country areas reflecting the higher fixed costs.

Question 15
The issue is not to force the taxi industry to provide a special deal for country people based on special needs. Welfare-related issues are best addressed by State Government policy. The primary issue is to make fare relativities reflect cost relativities in the different locations.

Questions 16
The impact of fare changes on taxi demands and revenues depends on the *price elasticity of demand* for taxi services. Elasticities for customers using *CabCharge* or company charge cards will be close to zero - demands will be very inelastic. Elasticities for customers not on-charging fares will be much more elastic.

The elasticity estimates reported in the Booz Allen Hamilton IPART report range from -0.3 to -1.4 with a preferred estimate in the range -0.3 to -0.8. This range is so large that it is almost useless for forecasting the impact of fare changes on revenues. Certainly demand will fall with price increases and revenues will increase (if demands are inelastic) but measuring the extent of these changes is difficult. Business firms generally do not price sales given "a priori" estimates of elasticity. Normally prices are varied and effects on revenues directly observed. Then price changes are revised to account for revenue effects.

If we were to try to adopt some form of Ramsay pricing as discussed in Booz Allen Hamilton where the objective is to obtain some form of constrained optimum of social welfare we would need more accurate estimates of elasticities. This could not be done without significant further research. In the medium term we can treat pricing issues in the taxi industry as largely independent of elasticity issues if the regulatory effort is to mimic a competitive industry. The main issue is to ensure that the industry operates efficiently and that prices reflect all relevant costs.

Question 17
As mentioned in the response to Question 12, certain driver incentives for accepting short journeys are influenced by the scale of fixed versus variable fare components. The regulatory intention should not be to favour particular types of journeys but to ensure that fares appropriately reflect underlying costs. Then drivers will supply the socially desired distribution of journeys as they seek to optimise their returns.

To better assess these costs the ESC needs to obtain accurate information on the distribution of journeys by trip length and the various fixed costs faced by the industry.

4. PREMIUM SERVICE SURCHARGE (Chapter 6)

Question 10

The principle that should guide the setting of surcharge levels is that these surcharges should reflect the higher costs individuals experience in working at these times. Working late night and New Year's Eve times creates huge private costs for individuals and it is if and only if these extra costs are met that taxi operations will be augmented.

A 20% surcharge is unlikely to sufficiently reflect extra costs.

In addition the taxi industry has to operate with excess capacity during off-peak periods in order to provide a reasonable standard of service to customers during peak periods. To the extent that higher peak period prices induce customers to make their journeys during off peal periods the industry can cut its costs. Encouraging a shift away from demand for travel during peak periods can also reduce congestion and other social costs.

Note that unlike some other states there is no Surcharge in Metropolitan Victoria for work on New Year's Eve.

Question 11

Economic theory suggests that if the regulated taxi industry intends to mimic a competitive market that the fares it charges should reflect marginal costs.

Surcharges that reflect costs should therefore be a permanent feature of the Victorian taxi fare structure.

Question 18

Premium services offered by taxis compete with pre-booked hire car services. As the ESC notes there may not be a 'level playing field' between these different industry segments. The proposed surcharge for premium services should allow taxis to compete effectively with hire cars in this segment of the market.

If an upper bound to this fee is established by effective competition with hire cars it is difficult to see a case for regulations to establish it. The fee can be largely market-determined given that there is effective and sufficient competition.

Question 19

The extent of competition provided by the pre-booked hire car service industry. If this is low then the surcharge should reflect additional costs in providing this service. If competition is high the surcharge can be loosely regulated or left to the market.

5. INCOME DISTRIBUTION ISSUES (Chapter 7)

Question 20

The issue of mandated bailment agreements is linked by the ESC to that of securing favourable salary outcomes for taxi drivers (page 56). This is an unusual position taken by a regulatory body since in other parts of the economy salary levels are left to markets with supplementation of salaries regarded as low by community standards being achieved not on an industry basis but via the government tax-and-transfer mechanism.

The ESC argument is that the taxi industry is a regulated monopoly with monopsonistic (here wage-setting) power in labour markets. In short, the view taken is that the industry can restrict the demand for drivers thereby cutting their wages below what they would be under competitive conditions.

This seems a totally unrealistic viewpoint. Monopsony power in labour markets can only be exercised if workers have no alternative job opportunities. But this is clearly not the case in driver labour markets since there is competition between operators and with non-taxi firms such as public transport for drivers. Indeed the argument that there is competition in such markets lies at the core of earlier ESC claims that driver salaries are pegged by competitive markets and will not be improved with fare increases. The taxi industry is not a cartel – there is, to the contrary, strong intra-industry competition.

Moreover, contrary to the notion that driver salaries are pegged by a cohesive employer there *is* widespread use of fixed bailment agreements. This reflects the existence of competition - if workers earn unsatisfactory returns they will exit the industry and work elsewhere.

Most current bailment agreements reflect 50% of revenue, a form of Option 1. However mandating this is an inappropriate policy since it fails to account for differences in driver productivity. While the VTA supports a common core bailment agreement the precise terms of this agreement should reflect commercial realities and driver productivities.

Moreover, bailment agreements should be flexible and might even in some cases reflect a degree of cost sharing with drivers with respect to operational costs. For example, an 'Option 5' might be proposed where more than 50% of revenues accrue to drivers but where a share of operational costs accrues to drivers. This potentially makes all industry segments better-off by reducing excess cruising. Drivers may be sales maximisers who prefer lower fares than operators because they do not bear all costs. The need for flexibility with respect to contract design suggests a strong case for not introducing mandated agreements.

Question 21

There are substantial similarities though NSW involves regulated bailment agreements. Victoria can gain information about such agreements should it choose.

Question 22
This does not seem a pressing issue.

Question 23
Ignoring additional administrative costs and service costs *CabCharge* will increase bailment revenue and driver income (assuming an Option 1 type bailment agreement) since taxi demands using *CabCharge* will be extremely inelastic. They will not be responsive to price increases since riders on-charge the cost of a taxi ride.

Question 24
Assignment fees are part of the cost incurred in operating a taxi. The best model is to treat the taxi as a firm bailing vehicles to drivers and other inputs and generating a surplus to the asset owner. With this view assignment fees should be included when calculating operating costs.

Question 25
The circularity between fare increases and assignment fees can be broken by excluding assignment fees as a cost but they are a market-determined cost of operating a taxi.

Question 26
The bases on which the ESC sees itself as needing to assess the adequacy of returns to drivers and operators are difficult to discern. The ESC is a regulatory institution which seeks to regulate certain industries so that they perform like competitive, efficient industries. Australia is not a planned economy which sets wages by government fiat. Wages are largely determined in markets and market solutions which involve low wage outcomes are addressed by altering tax payments and by supplementing incomes by transfer payments.

The ESC's microeconomic role as a regulator which should ensure pricing efficiencies based on cost is fairly separate from a role in seeking distributive justice. See also the comments in question 20.

Question 27
The main issues are whether markets establish these returns or not and whether it is the ESC's task, or the task of general government policy, to regulate such returns.

6. INFORMATION GATHERING AND PERFORMANCE MEASUREMENT (Chapter 8)

Question 28

The reduction in customer satisfaction from 2005/06 to 2006/07 was minor (from 64.5% to 62%) but needs to be monitored. It is difficult to understand how the claim of statistically significant reduction can be justified.

Response times at different times need to be monitored as do complaints about 'no shows'. All sections of the industry benefit from high quality service standards and from limiting the potential for selfish individual opportunism.

APPENDIX A

Taxi Fare Review
Essential Services Commission
Level 2 / 35 Spring Street
MELBOURNE VIC 3000

2 January 2008

Dear ESC Reviewer,

ISSUES PAPER – TAXI FARE REVIEW 2007-08

I refer to this Issues Paper released December 2007. The Victorian Taxi Association (VTA) will be making a submission in regard to the matters raised in the Paper, but in the meantime the VTA points out a number of inaccuracies of fact contained in the Paper.

1. Page 7, first Dot point
   The country review referred to undertaken by DOI was not a fare review.

2. Page 9, 2.1, First Paragraph
   The statement "each taxi cab operator to hold a licence" is incorrect. "Holding" a licence now has the previous meaning of "owning" a licence (Refer to taxi industry accreditation legislation and Standards). As pointed out in the Paper, many taxi licences are assigned to a taxi operator, and in such cases the taxi operator does not hold the licence.

3. Page 9, 2.1, 4th paragraph
   The word "licensing" should be "certification".

4. Page 9, 2.1, 5th paragraph, 2nd Dot point
   The use of an independent taxi market does not apply to all licences – it only applies in respect to Metropolitan Taxi Zone licences.

5. Page 10, 1st Dot point
   The words "Driver's Certificate holders applying for renewal" are incorrect. At the time driver accreditation was introduced, existing drivers were deemed to be accredited.

6. Page 10, 2nd Dot point
   The word "certified" in the second line should read "accredited".

7. Page 10, 1st main paragraph
   The Northern Territory has effectively re-regulated because "open entry" failed.

8. Page 10, 2.2, 4th paragraph
   The Regulations do not require the "licence holder" to maintain the range of data listed. This is the requirement imposed upon taxi operators.

9. Page 12, Review of MPTP
   The examination of the MPTP as part of the country taxi review was very cursory and did not look at any policies or fundamentals.

10. Page 15, 2.3.5
    The driver safety strategy was released on 14 August 2007.

11. Page 17, 3.1
    There is now no such thing as a "licence owner". Licences are held by a person who can either operate a taxi on the licence or can assign the right to operate a taxi on the licence to another person – this person being an "operator".

    In the third line the words "in turn hire a driver" are incorrect. A driver is not "hired" rather an operator might "bail" a licensed taxi to a driver.

    Second paragraph, third word should read "operate", not "hold". Also in this paragraph, drivers are not sub-contractors – they are bailee drivers. Also in this paragraph, it is unclear as to what the words " fleet management" mean – because depots do not own or operate taxis.

    The third paragraph is wrong. The VTA specifically represents the interests of taxi depots, taxi operators and taxi drivers. The VTA also has an objective to unite all industry stakeholders, including licence holders. (See VTA website.) Note also the subsequent error in Figure 3.1 on page 18.

12. Page 18, Figure 3.1, Approved depots/networks
    There are three networks in the Metropolitan Taxi Zone.

13. Page 19, last paragraph
    500 peak service licences have been issued, not 400.

14. Page 20, 3.1.2, paragraphs 1 and 2
    The words "own" and "owner" in regard to licences should read "hold" and "holder".

15. Page 21, 3.1.3
    First paragraph 2nd line, operators do not "engage" drivers – they bail taxis to drivers.

    Second paragraph, the word "certification" where twice appearing should read "accredited". Also in this paragraph, the 90 hour training course only applies to driver wishing to be accredited to drive Metropolitan Taxi Zone licensed taxis. (Note that the 90 hours is about to become 115 hours.)

16. Page 21, 3.1.4, 1st paragraph
    Depots do not need to be and are not in all cases "privately owned and operated".

17. Page 23, 3.2, 1st paragraph
    A major competitor of the taxi industry not listed is government and organizational funded Community Transport. This type of transport competes on an uneven playing field with taxis because they are funded from the government purse and do not need to be financially viable.

18. Page 30, 3.4
    Again, government funded Community Transport must be included as a major competitor of the taxi industry.

19. Page 44, Table 5.1
    The information for South Australia is incorrect – there are higher tariff rate at night, weekends and public holidays.

20. Page 47, 5.1.4, 1st paragraph
    The 20 percent surcharge does not apply to the overall fare – it only applies to the time and distance elements.

21. Page 57, 7.2.1
    First paragraph, operators do not hire drivers – they bail the taxi to an accredited driver.

    Third paragraph, the operator does not keep the remaining 50% - the driver keeps all the revenue and pays the operator rent for the use of the bailed taxi.

22. Page 80, 7.4
    All taxis in Victoria accept Cabcharge. Also, there is one network in Geelong, not two.

23. Page 61, 2nd paragraph
    Cabcharge is not an owner of taxis through its ownership Black Cabs, etc. Also in this paragraph there seems to be a misunderstanding of how the Cabcharge system operates – it is suggested that this be reviewed.

24. Page 62, 7.5, 1st paragraph
    The word "owner" in respect to a licence should read "holder".

    The words "operate the taxi" should read "operate a taxi on the licence".

25. Page 62, 7.5, 3rd paragraph, 2nd Dot point
    This doesn't make sense. If fare revenue is increased by X%, then all segments of the disbursement of the generated revenue are increased by X%, included the return to the driver, the operator and possible licence holders. The segments of the pie remain the same except the pie gets bigger so each of the segments gets bigger.

26. Page 62, 7.6, 1st paragraph, 1st sentence
    This statement is incorrect.

27. Page 62, 7.6, 2nd paragraph
    This statement is incorrect.

28. Page 63, last paragraph
    There are three networks in the Metropolitan Taxi Zone.

The VTA trusts that these comments will be helpful to the Commission. Also, the VTA will be happy to discuss any of these issues with the reviewer.

Yours sincerely

NEIL SACH
Chief Executive Officer