Eliminating restrictions on taxi licences will dramatically reduce the cost of owning a taxi. This will allow more opportunity for drivers to own taxis and be self-employed

The Costs of Reform

The question of whether, and how much compensation, is paid is another key element of the transition to an open and competitive industry. Buying licences back at full market prices means there is less industry opposition to reform, as the licence holder bears none of the costs of change. Instead, these costs are transferred to taxpayers and/or consumers, depending on how governments finance such 'buy backs'. Full compensation does not take into account the increased profits and capital gains made by licence holders due to past restrictions on competition. In addition a significant amount of such compensation would be transferred overseas, due to the foreign ownership of large numbers of licences.

The massive size of compensation costs – about $1.3 billion in the case of the Sydney market – means that such an option is unlikely to be adopted as a feasible reform path.

In virtually all Australian capital cities taxi licences cost between $250,000 to $300,000. This adds around one third to an average taxi fare.

Who Pays?

If payment of compensation to licence holders is necessary to secure reform, a method that brings immediate benefits to customers while sharing the reform costs between licence holders, taxpayers and customers should be considered. In addition, governments should attempt to distinguish between different groups of licence holders in order to target compensation to those who endure the greatest hardship.

Alternatively, a staged reform of the taxi industry could be achieved by issuing a predetermined number of new licences annually over a number of years. New licences should be sold publicly via auction or tender to ensure they are not the source of windfall profits. One option is to use the proceeds from such sales to establish a limited compensation fund that could address hardship cases of existing licence holders on an individual basis. It would also be possible to restrict the sale of new licences to existing taxi drivers. This would reduce the likely prices paid but would provide benefit for a group that has suffered low wages and restricted job opportunities as a result of the restrictions on the total number of taxis. Given past experiences with staged reform, governments should consider legislating to 'lock in' each step of the reform process.

Ultimately, governments may take the view that taxpayers would prefer immediate reform, even if the direct cost to them is greater. Funding reform through general revenue provides governments with a strong incentive to carefully manage the level of compensation paid.

The costs of the existing restrictions to Sydney customers alone, have been estimated at $75 million per annum.

CONCLUSION

In 1995 all Australian governments agreed to work together in a co-ordinated manner towards introducing greater competition into our economy when it benefited the overall community. Specifically, the governments agreed to focus on reviewing laws and regulations to make sure they don't unduly restrict markets.

The taxi industry is virtually alone among consumer service industries in having laws that restrict the actual number of taxis providing services. No compelling argument can be made to justify these restrictions. The need for comprehensive taxi reform is urgent.

Laws that regulate taxi quality are vital to ensure public confidence. However, the costs of restrictions on the number of taxis are massive and make no real contribution to taxi quality, safety or reliability. Staging or delaying reform also delays the consumer benefits it would bring including: increased taxi availability, lower fares and improved services. In addition, any staged approach has to ensure that reform outcomes are 'locked in' and cannot be altered at a later time.

The cost of reform to licence holders is potentially significant. Nevertheless, governments need to consider that licence holders have, to varying degrees, gained substantial financial benefits as a result of licence restrictions over many years. Realistically addressing taxi reform requires recognition that all groups - licence holders, customers and taxpayers may need to bear some part of the reform cost to ensure the that overall the community benefits.

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Andrew De La Rue / Courtesy The Age

IMPROVING OUR TAXIS

National Competition Council

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SETTING THE SCENE

Each of Australia's States and Territories has a range of laws that regulate taxis. Firstly, there are laws that regulate taxi quality, such as the age of vehicles, roadworthiness, driver presentation and knowledge, as well as access to radio dispatch facilities. These laws are very important as they provide public confidence that our taxis are safe and ensure a minimum standard of service. They impose little cost on the taxi industry and their customers, because they do not significantly restrict competition between taxi services.

However, most States and Territories also restrict the total number of taxis by requiring each taxi to have a licence and limiting the number of licences issued. New licences are issued on an infrequent and ad hoc basis with different sale methods resulting in large variations in sale price. Most people wishing to obtain a taxi licence must purchase it from an existing licence holder.

While laws that regulate safety and minimum service levels are commonplace, the taxi industry is virtually unique among customer service industries in having absolute limits on the quantity of services available. In contrast to the laws that regulate minimum safety and quality levels, restrictions on the number of licences, and therefore the number of taxis, have no benefit for the community. In fact, the restriction on taxis is resulting in a steady decline in the number of taxis per head of population and is reducing the overall level of taxi availability within the community.

Many taxi licence holders argue that restricting the number of licences has a positive impact on taxi quality and reliability, particularly by ensuring adequate profits for licence holders. However, there is little pressure for higher profits to be devoted to improving service quality or reliability while competition is stifled. In reality, the licence restrictions represent an unreasonable restraint on trade that deliver windfall gains to a small group of investors and owner-drivers. These gains come at a high cost to passengers and employee taxi drivers as, licence restrictions reduce taxi availability for customers, inhibit service innovation, and limit employment opportunities and incomes of drivers.

TAXI REFORM IN NEW ZEALAND

Since New Zealand deregulated its taxi market in 1989, the number of taxis per head of population has increased substantially and is now more than double that of many Australian cities.

For example, in Wellington there are approximately 24 taxis for every 10 000 people while in Sydney there are only 11, and in Melbourne there are only 10.

By 1994 the number of taxi companies in metropolitan NZ had tripled while by 1995 fares charged by most companies fell as much as 10%.

IMPROVING TAXI AVAILABILITY

Removing licence restrictions would significantly increase the supply of taxis to the community. For example, in 1999 the Northern Territory removed most licence restrictions. Since then the number of taxis has almost doubled. Eliminating restrictions on taxi licences would make the operation of part-time taxis commercially viable. Part time taxis allow major peaks (such as Friday and Saturday evenings, airport peaks and shift change-over times) to be better serviced.

A BETTER DEAL FOR DRIVERS

The current cost of taxi licences prohibits many drivers from owning their own taxis. Eliminating restrictions on taxi licences will dramatically reduce the cost of owning a taxi. This will allow more opportunity for drivers to own taxis and be self-employed, rather than working as employees or leasing licences from licence owners. In addition, the overall cost of providing taxi services would reduce significantly resulting in lower fares and increased customer demand. These two factors, lower taxi costs and higher customer demand, would provide considerable opportunity for taxi drivers to increase their incomes.

Michael Rayner / Courtesy The Age

REDUCING TAXI FARES

Increasing the number of taxi licences would also provide potential for fare reductions. Recent estimates suggest that the cost of a taxi licence adds around one third to an average taxi fare. Removing the licence cost would substantially diminish the total cost of providing a taxi service and could lead to substantial decreases in fares.

Alternatively, customers might demand higher quality rather than lower cost services. For example, customers may prefer new or improved vehicles and greater customer service. In this case, the size of fare reductions might be smaller, but the benefits to customers in terms of better service quality would still be substantial.

In fact, it is likely that both outcomes would be realised with a range of price and quality combinations competing in the marketplace. A key benefit of taxi reform is that it would drive innovations of this kind, as competing taxi operators strive to meet customer needs and preferences.

CHALLENGES TO TAXI REFORM

Ideally, laws should ensure that our taxis are safe and provide a minimum service level while allowing free competition and service innovation. The main challenge in reforming taxi licence regulation arises from the large capital value of each taxi licence which has resulted from the restrictions on the number of licences over many years. In virtually all Australian capital cities taxi licences cost between $250,000 to $300,000. Licence costs have risen steadily over many years, as governments have not issued sufficient new licences to service increasing customer demand. As a result, taxi licences have become valuable assets.

However, if new licences were issued existing licence holders would experience significant financial loss. Thus, any strategy to reform the existing licence arrangements must take account the various implications of these losses for the different groups of licence holders.

Laws that regulate taxi quality are vital to ensure public confidence. However, the costs of restrictions on the number of taxis are massive and make no real contribution to taxi quality, safety or reliability.

The large capital value of each taxi licence has resulted from the restrictions on the number of licences over many years.

WHO HOLDS TAXI LICENCES?

For licence holders who bought licences many years ago, their current values represent massive capital gains. For example, a Victorian licence purchased in 1993 has more than doubled in value in real terms. A South Australian licence purchased 20 years ago has seen its real value increase sixfold. For this group, increasing the number of licences would result in the loss of a paper gain which has arisen as a "windfall". That is, the licence value has risen solely due to past government regulatory restrictions. Moreover, past restrictions on the actual number of taxis have resulted in substantially greater profits to investors than would otherwise have been the case.

Approximately half of all taxi licences are held by investors. Many investors are long-term licence holders who lease the licences to taxi companies or directly to drivers. For investors who are not directly involved in the provision of taxi services, buying taxi licences represents an investment choice among a range of financial options. As the licence is an intangible asset, dependent for its value solely upon restrictive licensing arrangements, such investors have clearly opted for a high risk/high return investment choice which is dependant upon government policy. If taxi licences were reformed, the losses accrued by such investors should be balanced against the risk in the investment choice freely made and the substantial returns already received.

However for some licence owners, a taxi licence represents their major investment. This group includes individuals who have used retrenchment or superannuation packages to purchase licences as an investment and or a source of employment. For this group and, in particular, for the recent purchasers who have not enjoyed massive capital gains or substantial profits over a longer period of time, the consequences of reform could be considerable hardship.

ISSUES WHEN CONSIDERING TAXI REFORM

The Pace of Reform

Before embarking on reform governments must decide whether the removal of licence restrictions can, or should, be achieved immediately, or whether a staged reform process is required. Immediate reform would deliver the customer price and service benefits as quickly as possible. This is a key consideration when the costs of the existing restrictions to Sydney customers alone have been estimated at $75 million per annum.

Immediate reform also has the benefit of "locking in" reform outcomes. This is also a crucial consideration, given the failed history of several reform initiatives. For example, a Victorian Government review in 1986 recommended a significant, but staged, increase in licence numbers, yet no substantial reform was undertaken and licence values in fact doubled over the ensuing four years. More recently, a 1998 proposal by the Victorian Government to issue as few as 100 new licences was abandoned following strong industry opposition.

By contrast, reforms in New Zealand and in the Northern Territory were given immediate effect. In New Zealand, no compensation was paid to existing licence holders, while in the Northern Territory, all licences were "bought back" by the Government at the current market price.

THE BRISBANE EXPERIENCE

Between 1960 and 1990 while the population of Brisbane almost doubled the number of taxis only increased by 22%. As a result a taxi licence purchased in 1960 for $34 593 was worth $145 390 by 1990*. By 1998 the average price of taxi licences in Brisbane was $278 000.

* Prices in 1993 ($)