

**National Competition Policy Review of the  
Transport Operations (Passenger Transport) Act 1994**

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## Terms of Reference

1. The Review will examine the extent to which the *Transport Operations (Passenger Transport) Act 1994* and associated subordinate legislation restricts competition. Without limiting the terms of reference, and as set out in subclause 5(9) of the Competition Principles Agreement, the Review will also:
  - (a) clarify the objectives of the legislation;
  - (b) identify the nature of the restriction on competition;
  - (c) analyse the likely effect of the restriction on competition and on the economy generally;
  - (d) assess and balance the costs and benefits of the restriction;
  - (e) consider alternative means for achieving the same result including non-legislative approaches; and
  - (f) consult with and call for submissions from interested stakeholders.
2. In conducting the Review, due consideration will be given to relevant issues listed in subclause 1(3) of the Competition Principles Agreement; and
3. Where relevant, consideration will be given to recent substantive studies regarding the impact of regulation on public transport issues.

## Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ARC	Auckland Regional Council
BCC	Brisbane City Council
BT	Brisbane Transport
CIE	Centre for International Economics
CIT	Chartered Institute of Transport
CPA	Competition Principles Agreement
CPI	Consumer Price Index
CPT	Confederation of Public Transport
DEA	Data Envelopment Analysis
DETR	Department of Environment, Transport and the Regions, UK
DOT	Department of Transport
ETRAC	Environment, Transport and Regional Affairs Committee of the UK House of Commons
GTE	Government Trading Enterprises
IC	Industry Commission
IRTP	Integrated Regional Transport Plan
ITLA	International Taxicab and Livery Association
MES	Minimum Efficient Scale
NBC	National Bus Company
NCC	National Competition Council
NCP	National Competition Policy
NZ	New Zealand
OFT	Office of Fair Trading
ORC	Otago Regional Council
PTC	Public Transport Corporation
QBIC	Queensland Bus Industry Council
QP	Quality Partnerships
SCNPMGTE	Steering Committee for National Performance Monitoring of Government Trading Enterprises
STA	State Transit Authority
TLA	Transport Licensing Authority
TFP	Total Factor Productivity
UK	United Kingdom
US	United States

## Executive summary

### 1 The Review

#### Overview

In 1995, Queensland entered into the Competition Principles Agreement (CPA) with all other States and Territories and with the Commonwealth. The CPA is one of three agreements making up the National Competition Policy (NCP). The Agreement sets out some of the things that Queensland must do in order to comply with its obligations under the NCP.

Clause 5 of the CPA provides for the systematic review and, where appropriate, reform of all legislation that restricts competition by the end of the year 2000. The *Transport Operations (Passenger Transport) Act 1994* (the Act) and its associated subordinate legislation was identified as legislation that restricts competition and was scheduled to be reviewed by the Queensland Government in accordance with its obligations under Clause 5 of the CPA.

Reviews of legislation are required to determine if the restrictions in the legislation are consistent with the principle set out in Clause 5(1) of the CPA. This clause states that:

The guiding principle is that legislation (including Acts, enactments, Ordinances or regulations) should not restrict competition unless it can be demonstrated that:

- (a) the benefits of the restriction to the community as a whole outweigh the costs; and
- (b) the objectives of the legislation can only be achieved by restricting competition.

#### **The Review of the Transport Operations (Passenger Transport) legislation**

The Review of the Transport Operations (Passenger Transport) legislation commenced in December 1998 and was undertaken by a review committee comprising officers from Queensland Transport, Queensland Treasury and the Department of the Premier and Cabinet. The Review examined restrictions on competition in the urban scheduled passenger services, taxi, limousine and air services industries.

The terms of reference for the Review (see Box 1) required that the review committee consult with and call for submissions from interested stakeholders. The review committee invited written submissions from interested stakeholders and the public. Some 720 people or organisations were provided with copies of the issues paper to assist them in making submissions to the Review. In addition, the review committee held public and confidential hearings and visited public transport operators.

To supplement the information obtained from consultation that was undertaken, the Review examined the outcomes of different regulatory regimes overseas and reviewed the theoretical literature on different modes of public passenger transport.

The review committee was hampered, however, by the lack of information on the operation and performance of public passenger operators in Queensland. While some aspects of

performance are routinely collected, detailed information on the size of the public transport industry and their contribution to the communities they operate in is not readily accessible.

*Recommendation 1*

The review committee recommends that Queensland Transport reviews its information needs and requires operators who receive government funding or some other benefit from government to provide identified information that is relevant to the operation, regulation or promotion of public passenger transport.

**Box 1: Terms of Reference**

1. The Review will examine the extent to which the *Transport Operations (Passenger Transport) Act 1994* and associated subordinate legislation restricts competition. Without limiting the terms of reference, and as set out in clause 5(9) of the Competition Principles Agreement, the review will also:
  - (a) clarify the objectives of the legislation;
  - (b) identify the nature of the restriction on competition;
  - (c) analyse the likely effect of the restriction on competition and on the economy generally;
  - (d) assess and balance the costs and benefits of the restriction;
  - (e) consider alternative means for achieving the same result including non-legislative approaches; and
  - (f) consult with and call for submissions from interested stakeholders;
2. In conducting the Review, due consideration will be given to relevant issues listed in clause 1(3) of the Competition Principles Agreement; and
3. Where relevant, consideration will be given to recent substantive studies pertinent to this Review.

## **2 Objectives of the legislation**

The terms of reference required that the Review clarify the objectives of the legislation. The Transport Operations (Passenger Transport) Act outlines the specific objectives of the legislation. These objectives are outlined in Box 2.

**Box 2: Section 2, Transport Operations (Passenger Transport) Act**

- 2.(1)** This Act is intended to achieve the provision of the best possible public passenger transport at a reasonable cost to the community and the government, keeping government regulation to a minimum.
- (2)** However, this Act recognises that market entry restrictions may be needed in the public interest.
- (3)** The overall objectives of this Act are, consistent with the objectives of the Transport Planning and Coordination Act 1994, to -
- (a) enable the effective planning and efficient management of public passenger transport in the State.
  - (b) provide a system of public passenger transport in the State that -
    - (i) is responsive to community needs; and
    - (ii) offers an attractive alternative to private transport in a way that reduces the overall environmental, economic and social costs of passenger transport; and
    - (iii) addresses the challenges of future growth; and
    - (iv) provides a high level of accountability; and
    - (v) provides public passenger services at a reasonable cost to the community and the government; and
  - (c) provide a reasonable level of community access and mobility in support of the government's social justice objectives; and
  - (d) provide an adequate framework for coordinating the different forms of public passenger transport to form a comprehensive, integrated and efficient system.

The review committee considered the objectives in the Act in the context of the objectives and goals of the Integrated Regional Transport Plan (IRTP) and the Queensland Government's seven priorities of:

- More jobs for Queenslanders
- Building Queensland's regions
- Skilling Queensland - the Smart State
- Safer and more supportive communities
- Better quality of life
- Valuing the environment
- Strong Government leadership.

In considering these matters, the review committee concluded that the Act had two core objectives:

- The provision of the best possible public passenger transport at reasonable cost to the community and Government, keeping regulation to a minimum to improve public passenger patronage in order to reduce pressures associated with increasing population and inappropriate land use; and
- the provision of a reasonable level of community access and mobility in support of the Government's social justice objectives where they focus on enabling individuals, families and communities to access community facilities and services irrespective of location or distance.

The Act also has other objectives which can be seen as considerations to be taken into account in the design of the regulatory framework. They include that the system of public transport regulation should:

- enable the effective planning and efficient management of the public passenger transport in the State;
- ensure that the public passenger transport system is responsive to community needs and addresses the challenge of future growth;
- ensure that the regulation of the public passenger transport system provides for a high level of accountability;
- ensure that public passenger transport is run as a commercial business with the aim of pursuing and maximising patronage;
- ensure that market entry restrictions should be imposed only when doing so will result in a better level of service;
- ensure that Government financial assistance should be provided only in those circumstances where the levels of service or infrastructure cannot be provided in the private market but where the Government has determined a need on social, economic or social justice grounds.

### **3 Road-based urban scheduled services**

The urban scheduled bus industry in Queensland plays a vital role in passenger transport across the State. More than 60 million people travel by urban scheduled bus every year allowing access to employment, education, shopping and medical services as well as allowing people to participate more fully in the life of their community. Urban scheduled passenger services also play an important part in policies to reduce congestion and pollution in Southeast Queensland and other areas of the State. The IRTP, for example, notes that "improving public transport to provide a realistic alternative to car travel is the single most important transport issue facing the (Southeast Queensland) region".

#### **Restrictions on competition**

Entry into and minimum operating conditions within the urban scheduled passenger service industry in Queensland are primarily regulated through a performance-based licensing regime. Under the regime, operators of scheduled passenger services in certain declared areas are

required to operate under a 'service contract' which specifies minimum scheduling and route design requirements based on the population of the declared area. Service contracts also specify performance outcomes for frequency, regularity, punctuality, accessibility, customer information and service, fare setting, vehicle quality as well as setting out the criteria and level of government funding.

While service contracts can be non-exclusive, most provide operators with exclusive access to carry passengers on regular scheduled passenger services within the boundaries of the declared area. The Act specifies the criteria for determining if exclusive arrangements should apply. These criteria are that:

- the level of services would be greater than the level that would otherwise be provided;
- access to public passenger transport would be greater than would otherwise be achieved;
- service innovation would be greater than would otherwise be achieved; and
- the particular public passenger services would better meet the Government's social justice objectives at a lower cost to the Government than would otherwise be achieved.

Using these criteria, regulations providing for market entry restrictions for urban scheduled passenger services have been made for the following areas:

- Cities and towns having a population of more than 7,500.
- Routes for distances not more than 40 km between cities and towns each having a population of more than 7,500.
- Routes for distances not more than 40 km between a village or town if the village has a population of more than 500 and the city or town has a population of more than 7,500.
- Services within Airlie Beach, Proserpine, Shute Haven and Cannonvale and routes between those towns and routes between Proserpine and Proserpine Airport.

The Act sets out processes for the entering into, amendment of and renewal of service contracts which give existing operators or contractors the right to make the first offer for a contract, subject to the offeror having operated services to a satisfactory level.

### *Performance under the service contract regime*

The service contract regime was introduced in late 1994 with the first service contracts being entered into in 1995. Since that time, the service contract system has led to an increase in the number and geographical coverage of scheduled passenger services, both throughout Queensland and in the southeast corner of the State. The expansion of services led to some significant increases in ridership with some areas experiencing annual increases of more than 100 per cent early in the contracting process. These increases are now slowing with a statewide annual increase of 2.6 per cent in the 1998–99 financial year. This increase is significant given the long-term trend of patronage declines, not only in Queensland but in the rest of Australia and overseas.

The impact of the service contract regime can also be seen in the capping of the cost of urban bus services to government at pre-November 1994 levels, adjusted for population growth and CPI movements. Cost recovery levels of Queensland operators are also amongst the highest in Australia and compare favourably with overseas operators.

Productivity of urban bus operators also compares favourably with other areas of Australia and overseas. In particular, an analysis undertaken by the review committee indicated that the average technical or productive efficiency of Queensland private bus operators was at the same level as operators in New Zealand where entry into the urban scheduled bus services market is deregulated.

Consumer satisfaction with urban scheduled bus services is also high. Surveys conducted on behalf of Queensland Transport indicated that services are highly rated by consumers with an overall rating of 3.89 out of 5. In this regard, scores close to 4 are considered high scores that would be difficult to improve upon.

### **The experience of deregulation overseas**

The United Kingdom and New Zealand have deregulated entry into their urban scheduled bus markets. The review committee examined the experience of these countries in combination with the theoretical literature available on the economic and social impacts of urban scheduled bus services to determine the likely impact of removing entry restrictions in Queensland.

Both the United Kingdom and New Zealand urban bus industries were, to a significant proportion, publicly owned. Both countries privatised their urban bus industries and obtained significant savings in subsidies as a result of the improvements in the level of technical or productive efficiency of operators and as a result of better incentive structures. This reduction in costs came, however, at the expense of service quality. In New Zealand, competition for routes which were tendered by the government led to poorer quality vehicles being used than was previously the case. In the United Kingdom, while the number of vehicle kilometres rose, frequent service and fare changes, coupled with practices such as headrunning, in which buses were scheduled close together, diminished the potential benefits of removing entry restrictions.

Competition also seemed to have little downward impact on fare levels. In the United Kingdom, real fares increased by 23 per cent between 1985–86 and 1995–96 with real fares in metropolitan areas outside of London increasing by 53 per cent. On the other hand, fares in New Zealand have changed little since deregulation as fares continue to be largely controlled by regional councils. New Zealand, however, has a significantly lower proportion of bus services provided commercially than is the case in the United Kingdom – between 20 and 30 per cent of services in New Zealand compared to approximately 85 per cent in the UK.

Importantly, in both the United Kingdom and New Zealand, the change from the previous regulatory structure to one characterised by deregulated entry did not stem the decline in patronage. In New Zealand, patronage between 1987 and 1992 declined by 10 to 15 per cent a year and the Auckland Regional Council reported that, in 1996–97, there were an estimated 38 million public transport trips undertaken, down from a peak of 62 million public transport trips in 1984. In the UK, between 1985–86 and 1991, patronage declined by 9.3 per cent outside of London with the decline greatest in the non-London metropolitan areas (16.2 per cent). The review committee noted that the UK government is now moving to a more interventionist role in the UK bus market with the introduction of Quality Partnerships (QP) and Quality

Contracts, the latter of which is similar to the service contract regime that currently exists in Queensland.

Another important outcome of deregulation in the UK is the behaviour of bus companies in the post-deregulation environment and its impact on market structure. Since the privatisation of the National Bus Company into 72 separate entities in 1985, there has been a consolidation of bus companies leading to a concentrated industry with three private groups controlling over half of the bus market by turnover. These groups, however, rarely compete against each other because of the regional nature of the market in the UK.

One conclusion to be drawn from the consolidation of the bus market in the UK is that there are significant economies of scale present in the provision of bus services. Certainly bus operators themselves think that this is the case. Economies of scale reduce the long-run average cost of running bus services but they also present a barrier to entry to new entrants because of the higher cost of capital and the higher cost of purchasing and operating buses. This suggests that the bus industry is not as contestable as first assumed by the architects of the UK bus deregulation.

### **The likely impacts in Queensland**

Given the experience in the UK and New Zealand, the review committee was unconvinced that there would be significant gains from moving to a regulatory system characterised by open entry with tendering for non-profitable routes. Importantly, the committee was of the view that any move to a system of deregulated entry would lead to significant declines in patronage that would place additional burdens on Queensland's roads and ecosystems and lead to an increase in road accidents. If patronage fell in Queensland at the same rate as it fell in New Zealand after deregulation of entry, there would be between 2.8 and 8.6 million fewer people catching buses in the first year of deregulation. If each of these trips were made by car, there would be between 1.7 and 6.6 million additional car trips made in the first year after deregulation.

Apart from the potential for patronage declines, the review committee was of the opinion that:

- 'on the road' competition would be limited;
- competition for the road would be more common with the proportion of tendered services being closer to New Zealand levels than to the levels prevailing in the United Kingdom;
- The government funding requirement would not fall significantly and might even rise because of the reduced ability of operators to cross-subsidise non-commercial services with the profits from commercially viable services;
- industry structure would become increasingly concentrated;
- vehicle quality would probably fall and investment in vehicles deferred;
- timetable and fare changes would occur more often than is currently the case.

Taking these factors into account, the review committee is of the opinion that the costs of the current regulatory regime are outweighed by its benefits to the community as a whole.

### *The competitive tendering alternative*

Clause 5 requires that legislation that restricts competition not only has a positive benefit/cost ratio for the community as a whole but that there are no other means of achieving the objectives of the legislation other than through restricting competition. In this regard, the review committee considered removing the entitlement for existing contract holders to make the first offer for a new contract at the end of each contract period. This is a limited entitlement in that the contractor's performance during the previous contract must have been satisfactory. Removing the entitlement to first offer would lead to a competitive tendering regime in which competition for the market would occur on a more regular basis than under the current regulatory system.

Competitive tendering is widely promoted as a means of reducing costs and improving operating efficiencies and certainly cost reductions have occurred in London, where bus services are competitively tendered instead of publicly provided. Cost savings are not inevitable, however, and most of the savings associated with competitive tendering occur when private companies are allowed to tender for work that was previously undertaken by publicly owned entities.

This is not the situation that exists in Queensland where (with the exception of Brisbane Transport) scheduled passenger bus services are operated by private concerns whose productivity is comparable to privately owned bus companies that do operate in a competitive tendering environment. With the possible exception of Brisbane Transport, therefore, it is unlikely that there would be significant savings resulting from the introduction of competitive tendering in Queensland.

Where cost savings do occur, they typically come from changes to wages and benefit rates, improved labour productivity and streamlined management resulting from competitive pressures. These pressures have their own costs, including increased stress and other health impacts on bus drivers – a group who are already a high risk group with respect to health and wellbeing. Competitive tendering is also not without direct costs. Extra administrative and monitoring costs have been estimated to be between 3 and 10 per cent with most systems not exceeding 5–6 per cent.

There are also significant transitional costs associated with competitive tendering. Issues such as optimal contract size and duration will need to be addressed if contracts are to be contestable. Asset ownership can also affect the contestability of some services if one operator owns depots and other infrastructure in prime positions or with grandfathered environmental or land use planning entitlements not able to be enjoyed by potential entrants. Addressing the asset issue alone could raise the transitional costs of moving to an effective competitive tendering regime beyond any benefits that might accrue as a result of the limited productivity improvements in Brisbane Transport.

One final aspect of competitive tendering concerned the committee. If an effective competitive tendering regime were to be put in place, it is likely to require smaller and possibly shorter contracts than under the current regulatory scheme. This would increase the difficulty and administrative burden facing the government of planning and efficiently managing the integration and coordination of services that is required if an integrated, coordinated and high quality public transport system is to be pursued.

### *Recommendation 2*

It is recommended that the existing regulatory scheme be retained and the competitive tendering for service contracts continues to occur when operator performance has been unsatisfactory or service contract areas are significantly amended.

## **Other matters**

While competitive tendering seems to have significant transitional costs with little apparent benefit in terms of reducing the cost of providing road-based urban scheduled passenger transport, there are a number of changes to the existing regime that are likely to contribute to better outcomes for the community.

### *Improved flexibility*

One of these is to enhance the level of flexibility within the Act to allow for better tailoring of bus and other public passenger services to the needs of the community. Recent changes to the legislation governing school transport services provide an example of how such flexibility may be enhanced. Under the Act, many school transport services operated under exclusive 5-year service contracts and were completely funded by the government. Rules about the entering into and transferring service contracts were reviewed and the Act amended to allow easier transferring of rights and liabilities under service contracts, new rules about who was eligible to offer for new service contracts, shorter times for amending and entering into service contracts and the removal of the exclusive operating rights where they existed.

While it may not be necessary or prudent to go this far, there may be elements of the existing legislation that could be improved by enhancing the government's flexibility to deal with different circumstances. One such area is the length of service contracts. Currently the term of service contracts is a mandatory 5 years. Several operators and the Queensland Bus Industry Council (QBIC) suggested that 5-year contracts raise costs, particularly in relation to financing vehicles and other infrastructure. QBIC supported a 10-year term to enable finance to be obtained more easily. With appropriate review and penalty provisions, longer term contracts would not entrench bad or unsatisfactory operators. Terms need not be mandatory either. New Zealand, for example, has a maximum term of 7 years for their contracts.

### *Recommendation 3*

It is recommended that the Government considers amending *the Transport Operations (Passenger Transport) Act* to remove the current *mandatory* 5-year term for service contracts and provide for a *maximum* 7-year contract term. In addition, other changes to the service contract regime that may add to the ability of Queensland Transport to flexibly administer public passenger transport services to meet the needs of communities could be considered.

Provisions of the legislation relating to services that are eligible for regulatory oversight also restrict the ability of the government to ensure appropriate services are delivered. Currently there is a 40km limit on services that can be the subject of market entry restrictions. Some intercity services in Queensland, however, provide important links between cities and towns that are further than 40km from each other. Notable examples are services between Brisbane

and the Sunshine and Gold Coasts and between Herberton, Ravenshoe and Cairns. The latter service provides a good example of when market entry restrictions may benefit small communities. The operator of this service provides scheduled bus services beyond the profitable Cairns–Atherton sector to the smaller towns of Herberton, Ravenshoe and a number of other Atherton Tableland towns. Protection for this operator would ensure the profits from the Cairns–Atherton sector could continue to be used to cross-subsidise the less profitable sectors beyond Atherton.

*Recommendation 4*

It is recommended that the Government consider whether there are intercity services that would benefit from the imposition of market entry restrictions under a performance-based service contract regime.

*Better enforcement*

The effective use of the service contract regime depends on effective enforcement. Currently, service contracts are reviewed at halfway through and at the end of each contract. Evidence collected by other reviews undertaken by Queensland Transport indicates a need for additional reviews to be undertaken during the term of a service contract. These reviews would ensure that customer service is provided at an appropriate level by the operator throughout the term of the contract and ensure the on-time running and reliability of services.

The contract review also raised the need for the contract regime to have a better system of penalties and incentives to encourage appropriate operator behaviour. Currently, short of cancelling a service contract, there are limited opportunities to penalise non-performance and to reward exceptional performance under a service contract. This is particularly the case where the non-performance is a relatively minor instance which would not justify cancellation or suspension of the service contract itself. Examples of minor non-performance issues might include late running, inadequate customer complaints mechanisms or poor customer service. The review committee noted that both South Australia and Western Australia impose penalties of \$400 and \$300 respectively for each instance of an operator not meeting published schedules. Similar schemes could be implemented in Queensland.

*Recommendation 5*

It is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act to provide for a system of penalties and incentives for performance under service contracts for road-based urban scheduled passenger services similar to that which exists in Western Australia and South Australia.

## **4 Taxis**

Taxis are estimated to provide around 60 million person trips every year. Some 104 towns are serviced by one or more of the 3,062 taxis licensed to provide services in Queensland. The sheer number of trips provided by taxis indicate that the industry plays a vital role in the transport system in Queensland. Taxis are a particularly important mode of transport for

people on low incomes, people with disabilities, older people and young people, all of whom use taxis in disproportion to their numbers in the community.

It is clear that, like the urban scheduled bus service, the taxi system provides people with an important link with their communities. Unlike the urban scheduled bus industry, however, the taxi industry has a number of layers, each notionally independent of each other. Taxi booking companies take bookings for taxis and pass them onto taxi operators and drivers. Operators of taxis own or lease taxi service licences and provide the vehicles and other equipment. Drivers utilise vehicles and taxi service licences on a short-term basis, usually in exchange for a percentage of their farebox or for set up-front amounts of money.

## **Restrictions on competition**

Taxis have been regulated in Queensland since as early as 1905. Since that time, taxi operators and drivers have been regulated by a number of Acts of Parliament – the latest being the Transport Operations (Passenger Transport) Act.

The primary restrictions under the Act are the limitation on the numbers of taxi vehicles and the fixing of a maximum fare. In practice, neither restriction is absolute. The number of taxi service licences is required under the Act to be fixed by the chief executive but he also has an obligation to ensure that there are sufficient taxis in an area to meet demand. The number of taxi service licences is regularly reviewed and new taxi service licences are periodically issued. One hundred and thirty licences have been issued since the Act was introduced in November 1994 – an average of just under 30 licences per year across the State.

Similarly, while the Act controls prices, it sets only a maximum fare for a standard taxi. Requests for luxury taxis or high occupancy taxis (but not wheelchair-accessible taxis) can attract a higher fare that is negotiated between the hirer and the taxi booking company on behalf of the driver and operator of the taxi vehicle. This rewards innovation and high levels of service delivery, without detracting from the objective of the maximum fare, to ensure that the universal service provision obligations required of taxis are not diminished by the differential charging of services.

The universal service provision obligations also underpin the limitations on taxi numbers. Some taxi trips are unprofitable but taxi operators are required to provide these services to ensure that everyone has access to the transport system. Several participants in the review raised the universal service provision obligations as the primary reason for regulating the taxi industry.

### *Booking companies*

The Act also regulates taxi booking companies through requirements that booking companies in areas with more than 10,000 people hold a service contract. Service contracts for taxi booking companies are non-exclusive but, like service contracts for scheduled passenger services, they specify minimum service levels to be met by the contract holders.

Minimum service levels are specified as maximum waiting time requirements for phone-booked work. In general, 85 per cent of calls must be met within 10 minutes of the booking being made and 95 per cent of calls must be met within 20 minutes of the booking being made. Allowances are made for regular peak periods – Friday nights, for example – but not for irregular peaks in demand.

Booking companies are required to provide data on their performance in meeting these minimum service levels on a quarterly basis. Reporting is required for the entire taxi fleet as well as for the wheelchair-accessible taxi fleet. A failure to meet the minimum service levels is an indication to the regulators of the industry that there are insufficient taxis within the relevant taxi service area and may lead to the issuing of additional taxi service licences. Separate reporting for wheelchair-accessible taxis allows decisions to be made as to whether additional taxi licences should require wheelchair-accessible or conventional taxi vehicles.

### **Other contract conditions**

The service contract also specifies other conditions that must be met by the holder of the contract. Some of these conditions are outlined below.

- The contractor is not permitted to require the purchase of a share or of some other security as a condition of a licensee receiving booking services from the company. This addresses a long-standing practice of some booking companies to require that new licensees buy a share in the company before being allowed to receive bookings. This practice effectively restricted the movement of licensees between companies. In this respect, then, the contract condition is considered pro-competitive rather than anti-competitive.
- Contractors have to hold quality assurance at specified levels.
- Contractors have to provide convenient access to the public to make inquiries and complaints and they have to maintain a register of complaints detailing any action taken in response to each complaint.
- Contractors are required to participate in the government funded Taxi Subsidy Scheme, which provides half-price travel for people with certain disabilities.
- Contractors are required to maintain and provide certain information specified in the contract.
- Contractors have to use their best endeavours to ensure that taxi vehicles of licensees affiliated with the contractor are maintained in a safe condition.
- Contractors have to maintain certain insurances specified in the contract.

While service contract holders have obligations under their contracts, contractors are permitted to make reasonable requests of their affiliated licensees in order to meet the minimum service levels and other conditions specified in the service contract. This ability to make reasonable requests is a significant strengthening of the position of booking companies in relation to taxi operators. Once service contracts are implemented booking companies can give operators and drivers a direction about where and when to provide a service and to do other things if the direction is reasonable and is made to ensure that the conditions of the contract were met.

### **Performance of the taxi industry under the existing legislation**

The performance of the taxi industry can be measured in a variety of ways. Queensland Transport undertakes two different surveys of users and the community generally to determine performance measures for the taxi industry. In addition, taxi companies are required to provide information on their own performance in meeting the minimum service levels specified in the contract.

### *Waiting time performance*

The taxi industry's waiting time performance is good and actual waiting times are generally within the times determined as reasonable waiting times by users of taxi services. Nevertheless, waiting time performance has declined between 1994 and 1998 but only slightly so (10.5 minutes in 1994 compared with 10.9 minutes in 1998).

Waiting times can vary considerably between taxi service areas. The worst areas in 1996 had an average waiting time of 14 minutes or more while the best had an average of less than 6.5 minutes.

Performance data from taxi companies also indicate that most companies meet their waiting time minimum service levels, particularly in areas outside of Southeast Queensland. In this regard, an average of 91.4 per cent of people requesting a taxi in areas outside of Southeast Queensland received a taxi within 10 minutes while just 69.1 per cent of people in Southeast Queensland received a similar standard. At the 20-minute performance standard, almost all taxi companies exceeded or were close to exceeding the specified minimum service level.

The review committee noted that while the performance of the taxi industry in relation to conventional taxis was generally good, the same could not be said for the performance of the industry in relation to wheelchair-accessible taxi services. In the July–September quarter of 1999, the 10-minute minimum service level was being met by just three out of the 19 taxi booking companies providing data.

### *Customer satisfaction*

Surveys of taxi users undertaken on behalf of Queensland Transport asked users to rate aspects of the taxi service from being very poor to quite good. Seven service aspects were rated on a five point scale with five being very good and 1 being very poor. The table below outlines results over the three surveys undertaken since 1994.

#### **Ratings on service aspects (mean scores)**

<i>Service aspect</i>	<i>1994</i>	<i>1996</i>	<i>1998</i>
Availability in your area	3.9	3.9	3.9
Waiting time after telephone hire	3.7	3.8	3.8
Comfort of the taxi	4.1	4.1	4.1
Driving safety	3.8	3.8	3.8
Personal security	4.1	4.2	4.2
Courtesy of drivers	3.9	4.0	4.0
Knowledge of drivers	3.9	3.9	3.9

The ratings on service aspects indicate that users believe that taxi services are performing well with all mean scores aligning closely to a rating of 'quite good/mostly good' (4). Similar scores have been achieved for infrequent or lapsed users of taxi services who rated the overall performance of taxi services 3.39 (on a 5-point scale) indicating that overall taxi

services are perceived to be slightly above the average level of performance expected by those that use taxis infrequently or not at all. Users rated taxi services on the same scale at 3.72.

Overall, taxis are providing services at levels that satisfy the community in general and users in particular. While waiting time performance could be improved in some areas, average waiting times are within 'reasonable' levels specified by consumers and other service aspects of the taxi industry as a whole are rated at the 'quite good' level.

### **Deregulation - the theoretical debate**

There is significant debate, amongst transport economists at least, about whether the taxi industry needs to be regulated and how that regulation should be effected. One side of this debate suggests that licensing and price controls lead to a homogeneous taxi service which is inflexible and lacks innovation. Fares are higher than would be the case if the market operated freely because of the restriction on the number of licences. There would be greater price competition, market segmentation, innovation and more choice.

On the other side of the debate, some commentators point out the specialised relationship between supply and demand in the taxi industry. Firstly, demand for taxis is not only a function of price but also varies with the level of service, principally the time spent waiting for the taxi. Secondly, not all the costs associated with providing a taxi service are incurred during the actual carriage of passengers. Those who are less likely to argue for deregulation point out that there is no clear-cut optimal regulatory strategy that will always be economically optimal but a variety of strategies, each with certain advantages and disadvantages.

Other commentators point to the absence of a competitive market for taxi services. Because of the spatial nature of taxis and the fact that demand is a function of waiting time as much as it is of price, some argue that taxi drivers can often exert some degree of market power over consumers. This, however, seems to be more of a problem in the cruising and rank markets than in the phone-booked market. Still others raise objections related to imperfect information, the absence of sound economic conditions and potential external effects such as increased congestion and pollution.

There are also non-economic arguments against deregulation of the taxi industry. If prices set by the market, some trips will be very expensive while others may decrease in price. The cost of providing the taxi service will no longer be averaged out over space and/or over the day and people with a low ability to pay but a high need for transportation may be excluded from being able to use a taxi service. This point is at the heart of the universal service provision obligations imposed on the taxi industry by the government and was raised by a number of participants in the review.

### **The experience overseas**

A number of jurisdictions have deregulated their taxi industries to some degree. Some have removed entry barriers entirely and have deregulated fares as well. Others have imposed some barriers to entry while others have retained control over fares.

#### *New Zealand*

New Zealand deregulated its taxi industry in 1989 allowing open entry subject to meeting some minimum quality requirements and criminal history checks and allowing booking companies to set fares. Operators were required to be affiliated with a booking company and fares had to be displayed on the inside and outside of each taxi.

Deregulation of entry led to a considerable increase in the number of taxis operating in New Zealand. One estimate suggests that the number of taxis increased from 2,762 in 1989 to 4,079 in 1994. Increases in taxi numbers have not been evenly distributed across the country. The larger cities have seen significant increases in taxi numbers. In smaller towns - those with a population under 20,000 – the number of taxi booking companies fell, with some towns losing a taxi service altogether. The effect of deregulation on the overall number of taxis was also mixed with some towns experiencing reductions in numbers while others had significant increases.

Where the numbers of taxis did increase, it did not improve waiting times across the board. While significant numbers of taxis entered the rank and hail market, booking companies continued to have difficulties meeting demand at some times. The Auckland Cooperative, with 700 taxis, for example, told the review committee that they had difficulty meeting demand at some times of the day and that waits of over 20 minutes were not uncommon in the Greater Auckland area (in contrast, 98 per cent of requests for taxis were met in under 20 minutes in Queensland across the State). Most taxis were single-shifted and taxi companies reportedly had problems obtaining drivers for night shifts. One company with 71 cars reported that only five of these vehicles were prepared to work after midnight on weeknights and that each of these was subsidised by the company to do so.

An important consideration is the impact of deregulation, wheelchair-accessible taxis. The review committee's investigations in New Zealand indicated that, despite grants being provided by the government to operators choosing to provide only wheelchair-accessible vehicles, only five such vehicles were provided in an area that supported more than 2,000 conventional taxis. When asked about the availability of wheelchair-accessible taxis, taxi companies advised that customers book at least a week ahead of their scheduled trip time. In contrast, in Queensland, 130 wheelchair-accessible taxis operate in Brisbane alone and around half of all requests for wheelchair-accessible taxi services are met within 10 minutes across the State and 88 per cent within 20 minutes.

The story with fares is also mixed. Cheaper fares was one of the primary selling points of a deregulated industry in New Zealand. While fares are still more expensive than in Queensland, they are reportedly cheaper now in real terms than prior to deregulation and fares can now be readily negotiated and companies provide discount fares for regular customers. However, not all fares are cheaper. Different companies charge different rates and while the cheapest fares have fallen, some fares, particularly those to and from airports, have increased.

Another important point about fares is that fare reductions seem isolated to the largest cities. One commentator reported that there were significant reductions in the maximum fares in the largest four cities in New Zealand, only modest falls in medium-sized cities and modest increases in fares in the smallest towns.

The review committee's investigation in New Zealand also raised problems with enforcement. While there are requirements about joining a booking company, there were numerous reports of groups of five or six independent operators submitting an application for approval to operate as a booking company and using one of the members' home phone numbers as the booking

company phone number. Following approval, the members would separate and ply for hire separately. The phone number would never be advertised and none of the taxis would take bookings.

### *United States*

A number of US cities deregulated their taxi industry between the 1960s and 1980s. Reviews of the outcomes of deregulation in the US indicate that deregulated taxi markets had few benefits and many costs when compared to regulated markets. Entry did not typically lead to improved service levels, with many cities experiencing increased waiting times, particularly in the phone-booked market. Similarly, fares generally rose after deregulation and price competition proved to be the exception rather than the rule. Many of the cities that deregulated their taxi services have since re-regulated to varying degrees.

### *United Kingdom*

In contrast to the experience of the United States, which has been generally negative, the experience in the United Kingdom has generally been seen as positive. Regulation of taxis in the United Kingdom is the responsibility of local councils. All councils license taxis but just under half (46 per cent) had entry restrictions in 1991. In contrast, over 93 per cent of councils regulated fares. Where entry was not restricted, fares tended to be higher and vehicle standards tended to be lower. Vehicle standards and other quality aspects of the taxi service tended to be less well enforced in areas where open entry was in place.

### *Sweden*

The Swedish taxi industry was deregulated in 1991 in a five-step process. First, licensing barriers to entry were removed, but increased controls on who could become a taxi driver and the qualifications required were put in place. Second, fare controls were removed. Third, the requirement for all taxis to belong to a centralised phone booking company was removed. Fourth, geographically restricted operating areas were eliminated and, fifth, regulated operating hours were removed.

The outcome of the Swedish deregulation included an expansion in the number of taxis and an increase in the real fare. No increase in the demand for taxis was found and there were no new types of services emerging after deregulation. Vehicle utilisation and driver income both declined.

## **Costs and benefits of existing restrictions in Queensland**

Based on the theoretical considerations and the experience overseas, the review committee considered the likely costs and benefits of the existing restrictions. Two main costs and benefits were estimated: first, the impact of licensing on the cost of operating a taxi and the subsequent impact of increased costs on taxi fares; second, the cost associated with increased users waiting longer times than would be the case under open entry.

### *Price-raising impacts*

Estimates were made for the amount of money transferred between consumers of taxis and the taxi industry as a result of the higher fares and for the cost associated with those trips not made because of the higher fare. This latter cost is referred to as the deadweight loss or social

cost of taxi regulation. Several estimates of the price-raising impact of licensing were made by the review committee. The net present value of the social cost or deadweight loss arising from the price impacts of taxi regulation was estimated at between \$5.8 million and \$44.4 million, depending on how fares acted after deregulation, the potential for booking companies to charge fees for affiliation and the sensitivity of demand to changes in fares. The net present value of the payments transferred between users and the industry ranges from a low of \$178 million to a high of \$362 million, again depending on how fares fell after deregulation and the potential for companies to charge fees for affiliation. Based on the changes in fares overseas, the review committee believes that the probable costs are towards the lower rather than the higher end of the estimates.

While these costs are significant, they have to be evaluated against the benefits that accrue from the current regulatory system. In relation to fares, the current system does restrict the ability of taxi drivers and operators to charge higher fares for work that is either price-insensitive (for example, trips to airports) or unprofitable under the current fare levels.

While it is not possible to estimate the number of trips that are likely to experience an increase in price, the review committee has estimated the proportion of trips that would have to increase in price and the percentage they would have to increase by after deregulation for the higher prices to just equal the price-raising effects of licensing. Based on this analysis, it is clear that only a very small number of trips (less than 10 per cent) would have to experience a relatively small increase in the fare after deregulation in order for the costs of regulation to be outweighed by the benefits for the community as a whole.

The review committee is of the opinion that such rises are not only possible but probable. The experience of New Zealand in this regard should be noted. In New Zealand, taxis in small towns (that is, those with a population of less than 20,000) experienced modest fare rises. If a 5 per cent increase in fares for taxis in towns of less than 20,000 people in Queensland occurred, there would be a reduction in the social welfare of around \$5.6 million and a transfer from consumers to the taxi industry of approximately \$108 million. If real fares declined over time, as they did in New Zealand, then it can be expected that most of the gains from lower taxi fares in Queensland would be lost simply through fare increases in rural and regional areas of the State.

### *Waiting time impacts*

The other major cost impact for consumers is the increased waiting time cost arising from the smaller number of taxis than would otherwise occur if entry into the taxi industry were deregulated. An analysis of potential reductions in waiting time and estimates of the average value of waiting time was undertaken by the review committee. This analysis estimated that the maximum net present value of payments from consumers to the taxi industry was in the order of \$468 million. The cost to the community of trips not taken, however, was significantly lower at just over \$21 million. It should be noted that these are maximum costs and are likely to be significantly smaller given the experience overseas that the waiting times in the phone-booked market did not fall significantly. Indeed, in New Zealand, waiting time performance continues to be less than that experienced in many Queensland taxi service areas.

As is the case with fares, it is possible that some trips could experience longer waiting times than under the current regulatory structure. The review committee noted that some booking companies roster taxis to particular areas or have 'area car' systems in which taxi operators

volunteer to service particular areas to ensure minimum service levels are achieved. It is unlikely that such systems would survive deregulation of entry and fares and operating in these areas are likely to be less lucrative than operating in areas where there is a greater density of trip making.

The review committee undertook a similar analysis for waiting times as for fares. An estimate was made of the proportion of the total number of trips for which waiting times would increase under deregulation and the extent of that increase to just equal the estimated cost of the additional waiting time brought about by licensing. This analysis indicated that a relatively significant proportion of the total trips would have to have increased waiting times in order for the waiting time costs of the existing regulated system to be outweighed by the waiting time benefits of the existing system. The review committee is not convinced that a significant proportion of trips would experience such an increase.

### *Other costs and benefits*

Driver income was raised by several participants in the review. The review committee is not in a position to determine whether deregulated scheme would result in higher incomes than the existing regulatory one. On the one hand, licensing imposes additional costs on the operation of a taxi that have to be recouped. This leads directly to drivers paying a percentage of their farebox to a licence owner or operator in exchange for the temporary use of the licence. This necessarily reduces driver income. On the other hand, driver incomes almost universally fall after deregulation as more people enter the industry diluting the average revenue per driver.

In either case, evidence from the United States suggest, that low driver income affects the quality of driving. This impacts on both occupational health and safety through increased road crash rates (experienced taxi drivers have fewer crashes than inexperienced taxi drivers) and on the level of customer service aspects provided by taxi drivers.

Another important benefit of the existing regulatory system in comparison to deregulated systems is the high level of wheelchair-accessible taxi provision. In New Zealand, just five wheelchair-accessible taxis are provided in a taxi area with more than 2,000 conventional taxis. Darwin, where entry is also deregulated, also has a very small proportion of taxis capable of carrying people who use wheelchairs. By contrast, in Queensland, there are 246 wheelchair-accessible taxis with 135 in Brisbane alone. Current departmental policy is that at least 10 per cent of the taxi fleet in each taxi service area to be wheelchair-accessible plus any additional wheelchair-accessible taxis required to meet the minimum service levels in the service contracts. This is a significant benefit of the regulated system over the deregulated systems in New Zealand and Darwin.

### *Compensation*

The issue of compensation was considered by the review committee. The review committee understands that there is no legal entitlement to compensation that would arise from the deregulation of entry into the taxi industry. However, there are ethical and practical considerations that the Government may wish to consider in determining whether compensation or some form of adjustment assistance should be paid to licensees in the event of deregulation. This is a decision for the Government of the day to make. It is noted, however, that full compensation of all licence holders for the full cost of their licence would cost in the order of \$750 million.

### *Summary of costs and benefits*

Overall, the review committee is of the opinion that the licensing system for taxis does impose significant costs on the community but that there are also significant benefits. These accrue primarily because of the universal service provision requirements which would be difficult, if not impossible, to maintain under a regulatory system characterised by open entry and no control over fares. Based on the evidence from overseas and the committee's review of the theoretical literature about taxi regulation, the review panel is unconvinced that the deregulation of entry and fares would have any significant impact on innovation or on waiting times in the phone-booked market. It is also unconvinced that, apart from fare reductions resulting from reductions in taxi operating costs that would flow from the removal of the need to service the capital cost of the licence, there would be reductions in the fare from greater competition. The impact of deregulation on the provision of wheelchair-accessible vehicles is also noted.

Finally, the review committee was not able to determine *a priori* whether driver incomes would increase or decrease under a deregulated system. Certainly, licensing is likely to reduce driver income because of the need to service the cost of the licence. However, the review committee noted that in almost all jurisdictions where deregulation of entry occurred, driver income has been reported to fall as additional taxi drivers entered the market.

Taking these factors into account, the review committee is of the opinion that the benefits of the current regulatory scheme outweigh the costs to the community as a whole.

### **Alternatives to the current scheme**

Clause 5(1)(b) of the CPA requires that in addition to the costs of any restriction on competition outweighing the benefits to the community as a whole, the objectives of the legislation must only be achieved by restricting competition. This requires consideration of alternative regulatory schemes.

Several alternatives were considered by the review. These included the deregulation of price and entry, the deregulation of entry but not price and the continued regulation of price and the introduction of non-transferable licences. In each case, these options were considered to be unlikely to meet the government's objectives, particular the universal service provision objectives. Direct government funding of the universal service provision objectives was also considered impractical under the current budget constraints facing the State. Similar conclusions were drawn in relation to the possibility of directly funding consumers to allow them to pay the higher prices for taxi services.

This is not to say that there is no area for continued reform of the taxi industry. This is particularly so given the rapid changes in technology that are occurring in the industry. Computerised booking systems and global positioning system dispatch, in particular, have led to booking companies having greater control over where and how individual taxis work.

While the regulatory reforms in Queensland that commenced in 1994 have retained licensing, they have also allowed booking companies to take better advantage of these advances in technology. Taxi companies now have more control over affiliated taxi operators and drivers through the service contract system and their statutory power to make reasonable requests of operators and drivers. They also have greater control over fare setting for and the introduction of innovative taxi products such as high occupancy and luxury taxis.

The review committee is of the opinion that there can be significant benefits for both the industry and the community generally from continuing and expanding the reform process that started in 1994. Under this proposal, companies would, over time, be given more control over the resources used to provide taxi services to the community while at the same time being required to take more responsibility for the provision of those services. Companies may, for example, be given more flexibility to expand taxi fleets in order to meet increases in demand either on a long-term or short-term basis. At the same time, penalties for failing to meet minimum service levels in contracts could be implemented.

*Recommendation 6*

It is recommended that the Government continues to issue taxi service licences and to set at least the minimum number of licences in a taxi service area by reference to taxi booking companies' performance in meeting the waiting time criteria specified in service contracts. These criteria should also be reviewed before the end of the term of the existing service contracts to ensure they remain relevant to the needs of the community.

*Recommendation 7*

It is recommended that the Government continues with the general direction of the reform agenda first introduced in 1994 by progressively allowing companies greater control over the resources needed to provide taxi services to the community while at the same time requiring them to take more responsibility for those services.

*Recommendation 8*

It is recommended that the Government amends the Transport Operations (Passenger Transport) Act to introduce a system of penalties for companies that fail to meet the terms and conditions of their service contracts (including minimum service levels).

Adopting these recommendations will mean licences will continue to have some value and that fares will, to some extent, be inflated because of the need to service the cost of the licence. However, as waiting times are the main element of the performance standard under contracts and are used to determine when and how many licences should be issued in an area, the waiting time costs associated with licensing will diminish over time as additional licences are progressively introduced. Linking licence numbers to performance allows the government to optimise licence numbers rather than rely on pre-agreed increases in the number of licences. This latter approach can underestimate as well as overestimate the number of licences needed to meet the transport needs of the community.

The success of this approach depends on the ability of the companies to have the incentive and the ability to improve taxi services to the communities they service. As noted previously, companies could be given opportunities to expand fleets to allow them to better meet the demand for taxis. They could be given more control over fares under certain conditions. For

these things to occur, however, there is a need for additional flexibility in the Act. The Act requires, for example, that licences are issued by public tender. While this is likely to ensure that the maximum value for the licence is obtained by the Government, it restricts the ability of companies to design and expand innovative services as well as increasing costs. A more flexible approach to licence issue needs to be considered. One potential means of freeing up restrictions on the issuing of licences is to allow licences to be leased to operators by the government. Leasing of licences would allow the government greater control over licence use, reduce the cost of licences to the industry and allow a faster expansion (and contraction) of licence numbers when needed.

The direct leasing of licences can also address issues raised by the taxi industry itself. One of these is the concern that, in small areas at least, individual taxi operators may build up a taxi business to the extent that an additional licence is required. Under the current statute, a new licence would be issued by public tender and someone other than the existing taxi operator may obtain the licence. This is widely seen in the industry as benefiting the government (which receives payment for the licence) and penalising the incumbent (who wanted a licence but did not receive one). Direct leasing of licences may also provide a means of providing career paths to long-term drivers in the industry. The development of career paths for drivers has been raised with the Department of Transport by the taxi industry in recent times.

#### *Recommendation 9*

It is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act to allow for alternative means of issuing licences (either in addition to or in replacement of the existing means of selling new licences by public tender). In particular, consideration should be given to the government having the ability to lease licences directly to companies or to others under certain conditions.

Another aspect of taxi regulation where companies could be given more responsibility in conjunction with more control over their resources is in relation to taxi service areas. Currently taxi service area boundaries are set by the government and taxis are licensed for specific areas. A taxi licensed for one specific area is generally not permitted to provide taxi services in another taxi service area. There would seem to be little reason not to relax these provisions so long as companies operating under a service contract were able to exercise sufficient control over their affiliated operators and drivers to ensure that the minimum service levels specified in their service contracts within the area specified in the service contracts could be met.

#### *Recommendation 10*

It is recommended that the Government consider, at least on a trial basis, allowing a more flexible approach to the operation of taxi service areas by removing restrictions on taxis providing services in areas for which they are not licensed but retaining and strengthening the ability of a booking company to direct affiliated operators and drivers to provide services within the area specified in the booking company's service contract.

Careful evolution of the regulatory structure is required. 'Big bang' reform of taxi industries overseas has often led to a re-regulation in subsequent years. The United States experience

illustrates the dangers most clearly, but New Zealand has also implemented some re-regulation of its taxi industry and the number of local councils in the United Kingdom that are regulating fares and quality after initially letting the market decide is increasing over time. An evolutionary approach to evaluating reform allows for policies to be evaluated and assessed before reforms are introduced throughout the State and will ensure that the costs of any individual aspects of the reform agenda are outweighed by the benefits to the community as a whole.

#### *Recommendation 11*

It is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act to allow for the establishment of trial areas to allow proposed reforms to be properly evaluated and assessed prior to their adoption on a statewide basis.

### **Driver remuneration**

As noted earlier, the low level of taxi driver remuneration was raised by several participants in the review. Driver remuneration practices are not controlled directly or indirectly by the *Transport Operations (Passenger Transport) Act 1994* and so were not within the terms of reference for the review. It is clear, nevertheless, that regulatory structures can impact on driver income levels. It may be the case that moving toward a changed relationship between drivers, operators and booking companies could have positive impacts on driver income and, as a result, driver quality. It is unlikely that any such change will occur in the short term and an appropriate interim measure might be for the government to review the issue of driver remuneration separately from the NCP review process.

## **4 Limousines**

There are slightly more than 450 licensed limousines operating in Queensland. These services are provided in luxury or high quality vehicles and vehicles more than 40 years of age. They provide cars for weddings and funerals as well as providing personalised transport services for customers ranging from business people to banks and airlines transporting employees to the Department of Veterans Affairs for the transport of veterans to hospitals.

### **Restrictions on competition**

Limousines are regulated through licensing. The number of licences is not restricted and they can be bought from private sellers or from the Department of Transport. Limousines are not permitted to ply for hire<sup>1</sup> or to be hailed on a street. They must be pre-booked. They are also required to be provided in a minimum standard of vehicle – currently vehicles of the standard of the Fairlane or Statesman.

### **Are the restrictions justified?**

These restrictions are designed to ensure that the protection from competition afforded to the taxi industry is maintained. If restrictions to the taxi industry are justified, then so too are restrictions on entry into the limousine industry to the extent that limousines compete with

<sup>1</sup> With the exception of the rank at the Brisbane International Airport.

taxis. Open entry for limousines can have the same result as open entry for taxis. As noted above, this can jeopardise the universal service provision obligations imposed on taxis which are necessary to achieve the government's social justice objectives in the transport arena. At the same time, too many barriers to entry can provide too much protection – for both the limousine and the taxi industries – to the detriment of the travelling public.

## Alternatives

Several alternatives exist. One is to deregulate entry into the industry but to require operators to charge a minimum fare. This occurs in South Australia where between 70 and 200 hire cars (the South Australian equivalent of limousines) compete with taxis and account for between 5 and 13 per cent of the estimated total combined taxi and limousine bookings. Hire car vehicles must be of a similar standard to limousine vehicles in Queensland and there is an annual \$1,000 fee. The main difference between the Queensland and the South Australian models appears to be that Queensland restricts entry (but not absolutely so) while South Australia restricts pricing (but again, not absolutely). The review committee could not say whether or not the other restrictions better meet the requirements of Clause 5 of the CPA. In the absence of any further information on the impacts of the two regulatory regimes, the review committee supports the retention of the existing regulatory structure in Queensland in relation to limousines that compete or are likely to compete with taxi operators in the pre-booked passenger car market.

### *Recommendation 12*

It is recommended that the Government retains limousine licensing for those sectors of the limousine industry that compete with taxis but that licences be made available from Queensland Transport for either a once off or annual fee that reflects the value of licences.

Not all existing limousine services compete with taxis. Operators of stretch and other high luxury vehicles, classic and veteran vehicles and specialty and custom-made vehicles are unlikely to have the desire or the ability to compete directly with the taxi industry. There seems to be little justification for continuing to require these vehicles to be licensed.

### *Recommendation 13*

It is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act to allow for the operation of stretch, high luxury, specialty, veteran and classic vehicles to operate without a requirement to hold a limousine service licence. Operators of these vehicles would be free to operate in much the same way as operators of tourist or charter services who are not required to be licensed but are required to hold operator accreditation and to submit their vehicles to 6- monthly safety checks.

## *Tourist services*

Another area where limousines do not directly compete with taxis but do compete with other unlicensed operators is in the tourist sector. Operators of tours in passenger cars must obtain a

limousine or taxi licence in order to lawfully provide the service. There seems to be little justification to continue this restriction on competition which does not contribute to the objectives of the taxi-related restrictions and increases the cost of providing tours in passenger cars.

*Recommendation 14*

It is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act and Regulation to remove the requirement for tours provided in passenger cars to be provided under a taxi service licence or limousine service licence.

*Limousine service areas*

Limousines are currently restricted to where they can provide services. Like taxis, limousines are licensed to provide services within specified geographic areas called limousine service areas. Since 1994, these areas have been progressively amalgamated under a policy of the Department of Transport. The review suggests that, given the other recommended changes to the limousine industry, the remaining limousine service areas should be amalgamated as soon as possible.

*Recommendation 15*

It is recommended that Queensland Transport amalgamates the existing limousine service areas and allows limousine operators to provide services anywhere in the State.

## Implementation

Removing the requirement for licences for specialty, stretch and other vehicles and removing the requirement for tourist operators to have a limousine licence may have a negative impact on the value of licences held by operators. As a result, some consideration must be given to implementation of any changes that are adopted. Several options exist for moving from the existing regulatory structure to the recommended structure.

One option is to buy back all limousine service licences and then resell or to lease new licences to those operators that wish to operate services in competition with the taxi industry. The buy-back would cost around \$21 million and could be funded by the sale of taxi service licences in areas where there is an identified shortfall in licence numbers. Another option is to buy back only those licences that are no longer needed. Buy-backs might be effected at one time or over time as funds became available. Yet another option might be to convert limousine licences that were no longer required to taxi service licences that are required upon payment of the difference in value between the two licences. The payment of an amount less than the total difference might provide an inducement to convert licences.

If licences are bought back, new licences could be leased rather than sold, allowing more flexibility to deal with changing technology and changing regulatory structures in the future. Having the ability to lease licences would also allow the government to effect greater control over the conduct of the industry and potentially reduce compliance and enforcement costs.

*Recommendation 16*

It is recommended that the Government consults with the limousine industry and other stakeholders such as the taxi industry about appropriate transitional strategies and pathways to reach the desired regulatory outcomes.

*Recommendation 17*

Irrespective of the implementation path chosen, it is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act to allow for the leasing of limousine service licences.

## **5 Air services**

Air services in Queensland are largely deregulated. However, competition on some air services to remote and regional areas is restricted to ensure services are provided to those areas at the lowest possible cost to government. Regulated but unsubsidised air services are provided between Cairns and Horn Island and Cairns and Weipa. Regulated and subsidised air services are provided between Brisbane or Townsville and several towns west of the Great Dividing Range. These services represent vital links for regional and remote communities essential services, including health and education services.

### *Restrictions on competition*

Air services are regulated through service contracts that specify minimum service levels which, in turn, specify minimum aircraft types and frequency of service and fare levels. The service contracts are exclusive to the operators that hold them.

Each of the service contracts is for a period of 5 years and, unlike service contracts for road-based urban scheduled public passenger services, the holders of the contract have no right of first offer for a replacement contract at the end of the 5 year period. Instead, public offers are invited for the new contract.

### *Costs and benefits of the restrictions on competition*

The air service contracts provide for services that would not otherwise be provided, or provided to the same level or at the same cost to government, if the service contracts were not exclusive. This, in combination with the fact that service contracts are competitively tendered every 5 years – that is, there is competition for the market if not in the market – indicates that the costs of the restrictions on entry into certain air routes in Queensland are likely to be outweighed by the benefits to the community as a whole.

Some of these benefits include greater reliability and more services than would have occurred under competition for the market, more investment in on-ground infrastructure, the establishment of local booking agencies and the development of better links to services in major centres. Another significant benefit to the government is that exclusive service contracts reduce the direct subsidy cost that is borne by government as the risk of competition to operators does not have to be paid for.

*Recommendation 18*

It is recommended that the Government retains the current system of air service contracts for services to Western and Northern Queensland under which contracts will be open to public tender at the end of each contract term.

## 6 Summary of recommendations

*Recommendation 1*

The review committee recommends that Queensland Transport reviews its information needs and requires operators who receive government funding or some other benefit from government to provide identified information that is relevant to the operation, regulation or promotion of public passenger transport.

### Road-based urban scheduled passenger transport

*Recommendation 2*

It is recommended that the existing regulatory scheme be retained and the competitive tendering for service contracts continues to occur when operator performance has been unsatisfactory or service contract areas are significantly amended.

*Recommendation 3*

It is recommended that the Government considers amending *the* Transport Operations (Passenger Transport) Act to remove the current *mandatory* 5-year term for service contracts and provide for a *maximum* 7-year contract term. In addition, other changes to the service contract regime that may add to the ability of Queensland Transport to flexibly administer public passenger transport services to meet the needs of communities could be considered.

*Recommendation 4*

It is recommended that the Government consider whether there are intercity services that would benefit from the imposition of market entry restrictions under a performance-based service contract regime.

*Recommendation 5*

It is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act to provide for a system of penalties and incentives for performance under service contracts for road-based urban scheduled passenger services similar to that which exists in Western Australia and South Australia.

## **Taxis**

*Recommendation 6*

It is recommended that the Government continues to issue taxi service licences and to set at least the minimum number of licences in a taxi service area by reference to taxi booking companies' performance in meeting the waiting time criteria specified in service contracts. These criteria should also be reviewed before the end of the term of the existing service contracts to ensure they remain relevant to the needs of the community.

*Recommendation 7*

It is recommended that the Government continues with the general direction of the reform agenda first introduced in 1994 by progressively allowing companies greater control over the resources needed to provide taxi services to the community while at the same time requiring them to take more responsibility for those services.

*Recommendation 8*

It is recommended that the Government amends the Transport Operations (Passenger Transport) Act to introduce a system of penalties for companies that fail to meet the terms and conditions of their service contracts (including minimum service levels).

*Recommendation 9*

It is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act to allow for alternative means of issuing licences (either in addition to or in replacement of the existing means of selling new licences by public tender). In particular, consideration should be given to the government having the ability to lease licences directly to companies or to others under certain conditions.

*Recommendation 10*

It is recommended that the Government consider, at least on a trial basis, allowing a more flexible approach to the operation of taxi service areas by removing restrictions on taxis providing services in areas for which they are not licensed but retaining and strengthening the ability of a booking company to direct affiliated operators and drivers to provide services within the area specified in the booking company's service contract.

*Recommendation 11*

It is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act to allow for the establishment of trial areas to allow proposed reforms to be properly evaluated and assessed prior to their adoption on a statewide basis.

**Limousines***Recommendation 12*

It is recommended that the Government retains limousine licensing for those sectors of the limousine industry that compete with taxis but that licences be made available from Queensland Transport for either a once off or annual fee that reflects the value of licences.

*Recommendation 13*

It is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act to allow for the operation of stretch, high luxury, specialty, veteran and classic vehicles to operate without a requirement to hold a limousine service licence. Operators of these vehicles would be free to operate in much the same way as operators of tourist or charter services who are not required to be licensed but are required to hold operator accreditation and to submit their vehicles to 6- monthly safety checks.

*Recommendation 14*

It is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act and Regulation to remove the requirement for tours provided in passenger cars to be provided under a taxi service licence or limousine service licence.

*Recommendation 15*

It is recommended that Queensland Transport amalgamates the existing limousine service areas and allows limousine operators to provide services anywhere in the State.

*Recommendation 16*

It is recommended that the Government consults with the limousine industry and other stakeholders such as the taxi industry about appropriate transitional strategies and pathways to reach the desired regulatory outcomes.

*Recommendation 17*

Irrespective of the implementation path chosen, it is recommended that the Government considers amending the Transport Operations (Passenger Transport) Act to allow for the leasing of limousine service licences.

## **Air services**

*Recommendation 18*

It is recommended that the Government retains the current system of air service contracts for services to Western and Northern Queensland under which contracts will be open to public tender at the end of each contract term.

# 1 Review processes

## 1.1 Background to the review

The review of the *Transport Operations (Passenger Transport) Act 1994* has been undertaken in accordance with the State's obligations under the Competition Principles Agreement. The guiding principle of clause 5 is that legislation should not restrict competition unless it can be demonstrated that:

- the benefits of the restriction to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

The review has been conducted in accordance with this guiding principle. As far as has been possible, the review committee has also conducted the review in accordance with the Queensland Treasury Public Benefit Test Guidelines.

The review was undertaken by an interdepartmental committee with officers from Queensland Transport, Queensland Treasury and the Department of the Premier and Cabinet.

## 1.2 How have the guidelines been applied?

The Queensland Treasury guidelines state that, for major reviews, a full assessment of the costs and benefits, including a detailed quantitative and qualitative analysis, is required. Such an assessment has been made for the restrictions applying to the urban bus, taxi, limousine and air industries in Queensland. Unfortunately, the lack of information on cost structures and consumer values in the Queensland context made the task of quantifying the costs and benefits difficult in some instances. Some work was undertaken by the review committee to develop these costs and benefits; however, more work remains to be done to ensure sufficient information is available in the future.

Another problem facing the review committee is that it has been extremely difficult to determine an accurate 'with-change state' in many instances. The review committee examined the theoretical literature and the empirical evidence from overseas for the taxi and bus industries. The lack of any consistent outcomes between jurisdictions indicated the danger of blindly transferring the experience overseas into the Queensland context. The review committee, therefore, has had to make some judgements about how the 'with-change states' might develop.

The guidelines state that an employment impact assessment is required. The report details the employment impacts if deregulation of the taxi industry was pursued, but does not address the employment impacts of bus deregulation or changes to aviation regulation because the employment impacts are not significant.

The review committee notes that a social impact assessment is also required. The only proposed changes in the regulatory structure of the passenger transport regime outlined in the report are in the area of taxi and limousine services. The review committee has attempted to address the social impacts within the body of the report and has developed measures to mitigate the negative impacts of regulatory change. One of these measures is the provision of compensation and Chapter 17 deals with compensation issues for the taxi industry, for

example. Therefore, the review committee is of the opinion that the steps outlined in the Social Impact Assessment Resource Kit prepared for the Department of Families, Youth and Community Care have been broadly followed in the report. These steps include:

- defining and identifying the issues;
- understanding the community;
- projecting the change and assessing the effects;
- avoiding negative impacts and enhancing the positive impacts; and
- addressing issues of management and monitoring of impacts.

The guidelines note that the key review principles are objectivity and independence, transparency, timeliness and the adoption of a whole of government approach. Objectivity and independence and the whole of government approach have been achieved through the use of a cross-departmental review team which included officers from Queensland Treasury, the Department of the Premier and Cabinet and Queensland Transport, including an officer from Queensland Transport not directly involved in the legislation under review.

The review did not meet its initial timeframes mainly because of the difficulty in obtaining quality data and information about the public passenger transport system in Queensland. Much of the data and information for public passenger transport collected during the review has not, to the knowledge of the review committee, been collected before in Queensland. It is considered important that processes are put in place and adequately resourced to ensure that this information base is built on in the future to allow better management of the public transport sector.

Transparency was ensured through the use of an open and public consultation process which is outlined in the next section.

### **1.3 Consultation processes**

The review process was intended to be as open and transparent a process as possible. With this in mind, the review committee sought to give as many people as possible an opportunity to participate in the review. This section details the actions undertaken by the review committee in this regard.

#### *Reference committee*

A reference committee comprising industry, union, consumer and other public transport stakeholder organisations was set up to advise on consultation and other matters associated with the review. The reference committee met with the review committee twice during the consultation period of the review, once prior to the issues paper being issued and once prior to the commencement of the public hearing process.

#### *Written submissions*

The review of the *Transport Operations (Passenger Transport) Act 1994* commenced in December 1998 with the distribution of an issues paper inviting comments from interested

stakeholders and the public. Copies of the issues paper were sent to 720 organisations representing providers and users of public passenger transport. Advertisements inviting public comment were also placed in newspapers circulating throughout the State. The issues paper was also available from the Queensland Transport web site.

Written comments could be made by mail, fax or e-mail and were required before 2 April 1999. Thirty-two written submissions were received by the review committee prior to the 2 April deadline and one submission was received after the deadline but still taken into account by the review committee.

### *Hearings*

The review committee invited people to make oral submissions at public hearings in Brisbane and the Sunshine Coast. Hearings in other areas were cancelled due to the small number of participants registering to speak at a hearing. People from regional areas who did wish to speak at a hearing were provided with airfares and accommodation in Brisbane. Seventeen people spoke at public hearings.

Some people wished to speak to the committee confidentially. Confidential hearings were arranged for Brisbane and Toowoomba. Again, people from regional areas were either provided with airfares to Brisbane or spoke with the committee by phone.

### *Industry visits*

The review committee undertook industry visits and talked with public transport stakeholders. Meetings were held with airlines, taxi companies, bus companies and with the peak representative bodies for buses, taxis and limousines.

## 2 Objectives

### 2.1 Introduction

Clause 5(9) of the Competition Principles Agreement requires that reviews clarify the objectives of the legislation. The *Transport Operations (Passenger Transport) Act 1994* states the broad overarching objective of the Act as being ‘the provision of the best possible public passenger transport at reasonable cost to the community and government, keeping government regulation to a minimum’. The Act goes on to outline specific objectives to be achieved by the legislation including the provision of a framework to address the challenges of future growth and the creation of an integrated and comprehensive public passenger transport system that is an attractive alternative to the private motor vehicle (see Box 1).

**Box 1: Section 2, Transport Operations (Passenger Transport) Act 1994**

- 2.(1)** This Act is intended to achieve the provision of the best possible public passenger transport at a reasonable cost to the community and the government, keeping government regulation to a minimum.
- (2)** However, this Act recognises that market entry restrictions may be needed in the public interest.
- (3)** The overall objectives of this Act are, consistent with the objectives of the Transport Planning and Coordination Act 1994, to –
- (a) enable the effective planning and efficient management of public passenger transport in the State; and
  - (b) provide a system of public passenger transport in the State that –
    - (i) is responsive to community needs; and
    - (ii) offers an attractive alternative to private transport in a way that reduces the overall environmental, economic and social costs of passenger transport; and
    - (iii) addresses the challenges of future growth; and
    - (iv) provides a high level of accountability; and
    - (v) provides public passenger services at a reasonable cost to the community and the government; and
  - (c) provide a reasonable level of community access and mobility in support of the government’s social justice objectives; and
  - (d) provide an adequate framework for coordinating the different forms of public passenger transport to form a comprehensive, integrated and efficient system.

## 2.2 Provision of the best possible public transport

The objectives of legislation stem from the particular problems facing the transport system at the time the Act was introduced into Parliament in 1994. At that time, public passenger transport was primarily regulated by the *State Transport Act 1960*. As noted in the second reading speech, the State Transport Act was:

originally developed in the late 1950s at a time when dependence on the private motor vehicle was not what it is today. It was also developed in an era when the urban growth patterns of the State were more confined, and less urban sprawl existed.

The Act heavily regulated public passenger transport providers and required that all operators, including tour, charter and long distance operators be licensed. Routes and itineraries were approved by the chief executive and licences could not be sold, leased or transferred without the approval of the chief executive.

In addition replacing the State Transport Act, the Transport Operations (Passenger Transport) Act also repealed a number of Acts providing for the provision of subsidies and funding to transport operators. As outlined in the second reading speech:

the legislation which introduced the bus subsidy scheme was developed in the mid 1970s when inflation was rampant and rising costs to industry threatened its very viability. While the Act was only ever intended to be a stopgap measure, it has survived, despite the fact that the basis for its formation has long since disappeared.

Changing circumstances had meant that the existing public transport legislation in 1994 no longer met the Government's needs and objectives in relation to public passenger transport. These needs and objectives included the increasing population levels in the State. The second reading speech predicted that the entire State was to see significant increases in population and that this would have a significant impact on urban sprawl, increased transport costs and accelerated demands on transport infrastructure and services.

This dispersed land use pattern can only increase transport costs and accelerate demands for new transport infrastructure and services through the creation of longer and more diverse journeys.

In addition to increasing population pressures and lower population densities, public transport usage was declining over time. As noted in the second reading speech:

The decline in public transport usage, rapid population growth and increasing dispersion in land use has placed intolerable pressures on our road system, particularly in Southeast Queensland.

These concerns have been repeated since the introduction of the Transport Operations (Passenger Transport) Act in the Government's IRTP for Southeast Queensland. This plan predicted that the population in Southeast Queensland would increase to around 3 million and that trips taken would increase 70 per cent between 1992 and 2011. This population increase, together with current land use patterns, would lead to increased car dependency and unacceptable congestion on major roads with people in the southeast corner experiencing increased health, social and financial costs as a result (IRTP, 1995).

It is clear from the second reading speech and the IRTP that halting and reversing the decline in public transport usage was to play an important role in dealing with the problems of increased population and reductions in population densities. The second reading speech notes, for example, that:

(t)he final component of the Government's program is a comprehensive reform of the public passenger transport system which is designed to encourage a modal shift in radial commuting as well as in cross-regional and intraregional travel.

Similarly, the IRTP sets targets for public transport usage that would see the overall market share of public passenger trips in 2011 increasing from 7 per cent in 1992 to 10.5 per cent of all trips in 2011.

With these considerations in mind, one of the core underlying objectives of the legislation might be to improve public passenger services so that patronage levels increase in order to assist in addressing the pressures facing the State as a result of increasing population and dispersed land use.

This core objective corresponds to the overarching objective set out in section 2(1) of the Act. However, the overarching objective in section 2(1) adds that the achievement of improved public passenger services is to be done at a reasonable cost to government and keeping government regulation at a minimum.

## **Principles for managing the public transport system**

In relation to the second of these constraints-keeping government regulation at a minimum – the overarching objective in section 2(1) is supported by a number of other secondary objectives. These objectives reflect the principles outlined in the second reading speech:

The overriding principles behind this legislation are that -

The operation of public passenger services should be regarded as a commercial business aimed at pursuing and maximising patronage. In that regard, user needs should be the primary determinant of the type,

nature and frequency of services and infrastructure to be provided. This implies a higher level of professionalism in the industry both in management and operational terms.

The public interest will best be served by ensuring that the providers of passenger transport operate in a framework characterised by greater accountability, competition and contestability. The days when operators can have a lifetime exclusive rights to provide services without any performance or service standard accountabilities are gone.

Limitations on market entry for the provision of services should be imposed only when they will result in a better level of service than could otherwise be provided.

Government regulations should be minimised and restricted to ensuring high levels of safety and the efficient meeting of consumer needs. This necessarily means that there must be greater industry self-regulation and acceptance of high standards of safety and customer service.

Government financial assistance should only be provided in those circumstances where the levels of services and infrastructure cannot be provided in a commercial market but are determined by Government as necessary for social, economic or social justice reasons.

The second reading speech and the objectives outlined in section 2 of the Act provide regulatory principles within which public transport is to be administered. To the extent that

these principles are objectives, they are objectives about the administration of the system. The public transport industry is to be managed to improve patronage but in doing so, the Government intends that any improvement will be in the context of a commercially operated public passenger industry which is customer-focused and which will be accountable to the government for performance. Market entry restrictions and government funding will be provided only where service levels will improve as a result of the provision.

These principles are embodied several of the objectives listed in section 2(3)(a) and (b), primarily the objectives requiring greater accountability, responsiveness to community needs and reasonable cost to governments.

## **2.3 Social justice objectives**

Two other objectives are provided for in section 2 of the Act. The first is that the system of public transport provides a reasonable level of community access and mobility in support of the Government's social justice objectives. As noted in the second reading speech:

Government has an obligation to ensure a reasonable level of mobility and access for those in the community who are disadvantaged through age, disability, income or isolation.

The provision of mobility and access is an objective for the public passenger system over and above to the need to improve patronage to address the challenges of growth. The objective, however, refers to the Government's social justice objectives.

According to the IRTP, a socially just transport system should:

- ensure all members of the community can move around to fulfil basic needs;
- be secure, safe and affordable;
- have minimal intrusion on peoples' lives;
- involve the community in the development and management of the system; and
- ensure the costs of providing transport are shared equitably.

These criteria are also reflected in the Government's whole of government outcomes which includes that all Queenslanders have the opportunity to participate equitably in the social, cultural and economic life of the State. They include:

- a comprehensive and accessible range of social, cultural and recreational facilities and services; and
- opportunities and support necessary for individuals, families and communities maintain and improve their quality of life and achieve their potential;
- improved access and availability of services for Queensland communities, particularly in rural, regional and remote regions of the State.

## 2.4 An integrated transport system

Section 2(3)(d) of the Act states that one of the objectives of the Act is to provide an adequate framework for coordinating the different forms of public passenger transport to form a comprehensive, integrated and efficient system.

A coordinated public transport system essentially contributes to the Act's core objectives of improving public passenger services to increase patronage and improve the level of access and mobility of people within the community. However, it should be noted that the Act's objectives is not that the system be integrated but that the regulatory system in place allows for and contributes to the integration of the public transport system. In this way, the last of the objectives in the Act is akin to the principles outlined in the second reading speech than a core objective of the Act. It is something to be taken into account in the design of the regulatory system rather than something to be pursued for its own benefit.

## 2.5 Summary of core objectives and design principles

The Act has two core objectives:

- The provision of the best possible public passenger transport at reasonable cost to the community and government, keeping regulation to a minimum to improve public passenger patronage to reduce pressures associated with increasing population and inappropriate land use; and
- the provision of a reasonable level of community access and mobility in support of the government's social justice objectives where the government's social justice objectives focus on enabling individuals, families and communities to access community facilities and services irrespective of location or distance.

The Act also has a number of other objectives which are considerations to be taken into account in the design of the regulatory framework. They include that the system of public transport regulation:

- should enable the effective planning and efficient management of the public passenger transport in the State;
- ensure that the public passenger transport system is responsive to community needs and addresses the challenge of future growth;
- ensure that the regulation of the public passenger transport system provides for a high level of accountability;
- ensure that public passenger transport is run as a commercial business with the aim of pursuing and maximising patronage;
- ensure that market entry restrictions should be imposed only when doing so will result in a better level of service;
- ensure that government financial assistance should be provided only in those circumstances where the levels of service or infrastructure cannot be provided in the private market but where the government has determined a need on social, economic or social justice grounds.

## **3 Restrictions on competition in the urban bus industry and their objectives**

### **3.1 Introduction**

This chapter outlines the specific restrictions applying to each mode as well as the objectives behind each of the restrictions. These restrictions form the without change state against which other options will be considered in later sections of this report.

### **3.2 Bus industry regulation in Queensland**

#### **Service contracts**

Entry into, and minimum operating conditions within, the bus industry in Queensland are primarily regulated through service contracts. Service contracts are essentially performance based licences under which operators are required to meet minimum service levels related to the type of service they provide. Holders of service contracts for scheduled passenger services are required to provide services that meet minimum scheduling and route requirements based on the population of the declared area.

Under the Act, minimum service levels must specify:

- (a) the periods when the public passenger service is to be provided; and
- (b) the nature, frequency and extent of the public passenger service during the period or particular parts of the periods.

Minimum service levels are required to have regard to the needs of the community for whose benefit the service is being provided, service levels in comparable communities in Australia and other countries and the cost of service provision.

Service contracts may also establish performance outcomes for frequency, regularity, punctuality, accessibility, customer information and service, fare setting, vehicle quality and set criteria for matters such as government payments, the keeping of records and the provision of information. Box 3.1 details the matters that may be provided for in service contracts.

**Box 3.1: Other matters to be included in service contracts, section 41 of the Act**

**41.(1)** A service contract may -

- (a) establish performance outcomes for frequency, regularity, punctuality and accessibility; and
- (b) establish performance outcomes for customer information and service; and
- (c) establish principles for fare setting; and
- (d) establish performance levels for the quality and type of public passenger vehicles; and
- (e) establish criteria for government payments under the contract; and
- (f) require the holder to provide or fund infrastructure associated with providing the public passenger service; and
- (g) require the holder to have or develop a business plan outlining how the performance levels are to be achieved; and
- (h) require the holder to establish a management information system to monitor, record and report periodically on performance; and
- (i) require the holder to provide the chief executive with information the chief executive may require; and
- (j) establish performance outcomes for other aspects of the way the holder provides the public passenger service or carries on the business; and
- (k) provide for the payment of compensation by the holder if the holder contravenes a condition of the contract, including, for example, compensation for the cost of providing the service through another holder; and
- (l) include other terms required by the chief executive.

**(2)** The chief executive –

- (a) is obliged under a service contract to act in a reasonable way to facilitate the contract's operation; and
- (b) has the other obligations stated in the contract.

**Exclusivity**

Section 38 of the Act indicates that a service contract provides an operator with an exclusive right to operate the kind of public passenger service for a declared area or route. Before a service contract can provide for exclusivity, however, a regulation must be made under section 36 of the Act. Section 36 provides that, before a regulation can be made, allowing for exclusive service contracts, the Minister must be of the opinion that certain criteria are met or will be substantially met by the imposition of market entry restrictions. These criteria are that:

- the level of services would be greater than the level that would otherwise be provided;
- access to public passenger transport would be greater than would otherwise be achieved;
- service innovation would be greater than would otherwise be achieved; and

- the particular public passenger services would better meet the Government's social justice objectives at a lower cost to the Government than would otherwise be achieved.

Areas and routes for which a regulation has been made under section 36 of the Act are listed in Schedule 1 of the Regulation. For urban bus services, Schedule 1 of the Regulation provides that market entry restrictions can be made for 'commercial scheduled services'<sup>2</sup> in the following areas:

- Cities and towns having a population more than 7,500;
- Routes for distances not more than 40 km between cities or towns each having a population more than 7,500;
- Routes for distances not more than 40 km between a village or town if the village has a population more than 500 and the city or town has a population more than 7,500; and
- Services within Airlie Beach, Proserpine, Shute Haven and Cannonvale and routes between those towns and routes between Proserpine and Proserpine Airport.

### **Entering into exclusive service contracts**

Sections 55 to 59 of the Act set out how exclusive service contracts for scheduled passenger services are to be entered into. Section 55 provides for the invitation of offers from the public if there is not an existing operator providing services of the kind provided for in the chief executive's declaration. Whether there is an 'existing' operator depends on whether there is an operator who has an entitlement under section 56 of the Act. This section provides that, where there is an operator who provides the same kind of service for all, or part, of an area or route mentioned in the chief executive's declaration under section 42, then the operator is an existing operator and must be invited to submit an offer for a new service contract.

Section 56 applies only the first time a service contract is entered into by the chief executive. Once a service contract has been entered into, then either the contractor will have a right of first offer at the end of the service contract or, where a contractor's performance has not been satisfactory, no operator will have an entitlement under section 56 and, therefore, there will be no existing operator.

If there are existing operators, then these operators must be invited to submit offers for a new service contract under section 57 of the Act. If no offers are submitted or if the offer submitted is not acceptable, then the chief executive must invite offers from the public. Section 59 lists the matters to be considered in deciding whether an offer is acceptable or not.

### **Amendment of service contracts**

Section 60 of the Act provides for the amendment of service contracts where the chief executive is satisfied that the amendment is necessary to extend services into developing areas

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<sup>2</sup> Commercial scheduled services are defined as a public passenger service (other than a community transport service, a courtesy transport service, a school service and a tourist service) conducted on an established route on a road in accordance with a regular timetable for which the operator is remunerated either from revenue generated by passengers' fares or by payments from anyone else for, or to provide, the service

or because of changed traffic conditions or for reasons of public safety or for improvement of services in the public interest.

If the chief executive proposes to amend a service contract, the contractor and any other operator providing public passenger services within the amended area must be given an opportunity to make representations about the proposed amendment. If the amendment is to proceed, the contractor must be given the first opportunity to offer for the amended service contract. If no offer is made or if the offer is unacceptable, then the chief executive must invite offers from the public for the amended service contract.

## **Compensation**

Section 61 of the Act provides for the payment of compensation from a successful bidder for a service contract to an operator who was providing services prior to the service contract being entered into. The section also provides for the payment of compensation to a service contract holder if an area or route is amended under section 60 of the Act and the service contract holder is not awarded the amended contract. Compensation is payable if the chief executive makes it a condition of a new or amended service contract.

Compensation is determined by agreement of the parties. If parties cannot agree on the amount of compensation, then the matter can be arbitrated. Under section 18A of the regulation, arbitrators are required to take into account only the future maintainable profits or the future cash flows of the services specified in the contract. They may not consider the effect of capital gains tax, costs associated with advisers; emotional distress; loss of employment, lifestyle or public standing; mortgage or loan foreclosures or relocation.

The compensation provision was inserted into the Act as a result of consultation with the bus industry in 1994 and, like sections 56 and 57, it operates primarily as a transitional provision that allows a smooth transition from the legislative scheme of the *State Transport Act 1960* to the scheme in place under the Transport Operations (Passenger Transport) Act. Unlike sections 56 and 57, however, section 61 will continue to have effect in the future because of the ability to require the payment of compensation to holders of service contracts who are not awarded a service contract amended under section 60.

## **Renewal provisions**

Section 62 of the Act provides for contract holders to be given the first opportunity to bid for a new contract at the end of their existing contract's term if their performance has been satisfactory and the chief executive proposes to enter into another contract for the same or substantially the same area or route.

If the service contract holder does not submit an offer for a new contract or if the contract is not acceptable (in terms of the matters specified in section 59 of the Act), then the chief executive must invite offers from the public.

The renewal provisions give existing service contract holders a significant, but not absolute, advantage over potential entrants into a particular service contract area or route because a decision not to accept an offer for a renewal of a service contract must be made in the light of section 59 of the Act. Section 59 of the Act states that, in deciding whether an offer for a service contract is desirable, the chief executive must have regard to:

- the needs of the community for whose benefit the service is to be provided;
- the ability of each offeror to meet the minimum service levels and other standards of performance specified in the offer;
- the cost of providing the service;
- the need for sustainability and continuity of services;
- any matters prescribed under a regulation.

Matters prescribed under a regulation<sup>3</sup> include:

- evidence that proposed minimum service levels will be achieved;
- evidence of financial viability;
- overall suitability of vehicles having regard to vehicle age and accessibility;
- plans to increase patronage through marketing of services and public passenger transport.

There is no obligation on the chief executive to accept any offer for a service contract. If an offer is not accepted, then the chief executive has an obligation to seek public offers for the proposed service contract. To date, one offer for a contract has not been accepted under these provisions and public offers were invited. In this instance, however, the original offeror was awarded the contract as it was determined that they made the best bid under the public offer process.

### **Term of service contracts**

Section 44 of the Act provides that service contracts are for a term of 5 years. However, a service contract can be amended, suspended or cancelled if the holder contravenes a condition of the contract.

### **Review of contract holder performance**

Section 46 of the Act requires that service contracts may be reviewed at any time but must be reviewed as near as practicable to the middle of the term of the contract. Service contract holders undertaking a 'mid-term review' must conduct a market based needs assessment for the public passenger service required under the service contract for the service contract area or route.

If the mid-term review shows that the holder has taken all reasonable steps to fulfil the contract and actively promote the use of public passenger transport, but the patronage levels agreed to by the chief executive and the service contract holder have not been achieved, then the chief executive may review the minimum service levels provided for in the contract or work with the service contract holder to achieve increased patronage.

If a service contract holder's performance has not been satisfactory, then the chief executive may require the holder to take specified steps to remedy the inadequate performance. If the service contract holder fails to do so, the chief executive may terminate the service contract.

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<sup>3</sup> Section 18 – Matters to be considered – Act, s 59(2)(e)

### 3.3 Objectives of service contracts generally

Section 37 of the Act states that:

The purpose of service contracts is to hold operators accountable for minimum performance levels to ensure the communities served under the contracts receive, at a reasonable cost, quality and innovative public passenger services.

This statement of purpose is consistent with, and directly contributes to, the core objectives of the legislation, namely:

- the provision of the best possible public passenger transport at reasonable cost to the community and government, keeping regulation to a minimum to improve public passenger patronage in order to reduce pressures associated with increasing population and inappropriate land use; and
- the provision of a reasonable level of community access and mobility in support of the government's social justice objectives where they focus on enabling individuals, families and communities to access community facilities and services irrespective of location or distance.

Service contracts contribute to these core objectives primarily through the specification of minimum service levels to be achieved by operators over the term of each service contract. Minimum service levels specify minimum frequency and geographic spread of services to expand the coverage of services across communities and to ensure an appropriate frequency of service. The expansion of services in terms of frequency and geographic spread is one of the core objectives of service contracts. As noted in the explanatory notes to the 1994 legislation:

The underlying outcome sought through this legislation is the delivery of better, more responsive and frequent public passenger services to the community.

This is also recognised by David Matters of the Australian Rail, Tram and Bus Industry Union in his submission:

The state government, in considering its legislative changes, had an objective in the public interest of increasing the availability of bus services and public transport throughout Queensland and in particular in regional centres.

Importantly, service contracts also contribute to the 'reasonable cost to community and government' objective through the better targeting of subsidies, rationalisation of service providers to allow greater economies of scale and better route networks. Rationalisation of providers and the ability to design networks covering the whole of a community were designed to reduce costs and increase revenue, thereby reducing the need for government subsidy.

Provisions that do not necessarily restrict competition are important elements of the service contract scheme and ensure that service contracts contribute to the supplementary or regulatory design objectives provided for in the Act. For example, the funding and minimum service level provisions ensure that public passenger transport is run as a commercial business with the aim of pursuing and maximising patronage.

The funding provisions also ensure that government financial assistance is provided only where services or infrastructure cannot be provided by the private market but where government has determined that there is a need on social, economic or social justice grounds. The term of service contracts and the review and amendment provisions ensure that urban bus services are responsive to community needs and the challenges of future growth while the provisions relating to unsatisfactory performance ensure that bus providers operate with a high level of accountability.

### **3.4 Objectives of specific restrictions**

A number of provisions of the Act supporting the scheme of service contracts necessarily impose restrictions on competition. The objectives of these provisions are outlined in this section.

#### **Market entry restrictions**

Section 36 of the Act provides for market entry restrictions to be imposed if the Minister is of the opinion that certain criteria are met, or will be substantially met, as a result of the imposition of market entry restrictions. The objective of this section is to ensure that market entry restrictions are imposed only when doing so will result in a better level of service.

Once imposed, exclusive operating arrangements for urban bus services allow bus operators to provide the unprofitable services that they are required to provide under the minimum service levels specified in the service contract. In the absence of market entry restrictions, other operators could enter the market, reducing the overall profitability of an incumbent. For a given level of service required under service contracts, reductions in profitability necessarily require additional subsidy from government or another source. Market entry restrictions, then, have the objective of reducing the cost to government of providing services at a given level. This is consistent with the legislation's core objective relating to 'reasonable cost to the community and government'.

#### **Entitlement to right of first offer for new contract**

Section 56 of the Act provides that existing operators have a right of first offer for a service contract entered into for the first time for a particular service contract area or route. As this provision applies only to new contracts, it will eventually become largely redundant. As a result, this provision has a transitional nature and assists in the move from the *State Transport Act 1960* to the *Transport Operations (Passenger Transport) Act 1994*.

#### **Compensation**

The compensation provisions are also transitional provisions, allowing a smooth movement away from what were perceived to be lifetime licences under the *State Transport Act 1960* to the service contract regime under the *Transport Operations (Passenger Transport) Act 1994*.

### *Entitlement to first offer for replacement service contract*

Section 62 gives contract holders an entitlement to offer for a replacement contract at the end of each 5-year service contract. This provision restricts the ability of potential operators to compete for the market. The objective of this provision is to provide bus operators with some security of tenure and to allow continuity of service to bus consumers. In this regard, City Bus from Toowoomba noted that:

If urban scheduled services are to be self-funding then security of tenure is paramount. The business of moving people is reliant on historical data to help design new routes and to form strategic plans that might be up to 10 years in advance.

History allows us to monitor trends, to benchmark for improvement and allow any interested party to see the success or otherwise of the business at the present time as well as into the future.

Items such as telephone numbers, colour of buses, familiarity of drivers to customer needs, continuity and reliability are all major concerns of our customers...

From an operators point of view think about this. If we only get 5 years and no real certainty of renewal then everything would be costed over the 5 years... Finance companies would ensure this was the case.

## 4 Overview of the Bus Industry in Queensland

### 4.1 Introduction

The bus industry in Queensland plays a vital role in passenger transport across the State. More than 60 million people travel by bus every year in Queensland. Through urban route bus services, people travel to work, shopping and hospitals and these services allow people to participate more fully in the lives of their community. School bus services carry significant numbers of school children every school day and provide school charter bus services for sporting and other school events. Charter and tourist bus services support sporting and tourism activities while community buses provide vital transport services to people with disabilities or who do not have access to mainstream transport options.

The bus industry also plays an important part in policies to reduce congestion and pollution in South East Queensland. The Integrated Regional Transport Plan, for example, notes that 'improving public transport to provide a realistic alternative to car travel is the single most important transport issue facing the [South East Queensland] region' and makes a number of recommendations to improve bus travel in the region. (IRTP: 1995).

This chapter provides an overview of the bus industry in Queensland. The size and structure of the industry are outlined in section 4.2. Section 4.3 outlines the current regulatory framework within which the bus industry operates. Section 4.4 provides an overview of industry performance.

### 4.2 Size and structure of the bus industry in Queensland

#### Number of operators

In 1997/98, 63 bus companies received funding for urban bus services in Queensland. This is two more than in 1996/97. These companies provided services in most urban areas and between many urban areas and surrounding villages. The only towns of significant size in Queensland that do not have a bus service are Dalby, Charters Towers, Emerald and Mt Isa.<sup>4</sup> Table 4.1 outlines the areas where route bus services operate in Queensland. In addition to urban services, there are approximately 750 school bus services contracted to provide services for distance eligible and other school children.

In addition to urban route and school bus services, 1141 operators held operator accreditation allowing them to provide long distance, tour or charter bus services.

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<sup>4</sup> An operator has made an application to commence a service in Mt Isa but had not commenced at the time of writing.

Table 4.1: **Major route bus services**

<i>Operating area</i>	<i>Bus operator</i>
Albany Creek/Arana Hills	Brisbane Bus Lines
Atherton Tablelands	White Car Coaches
Beenleigh-Tamborine	Logan Coach and Bus Service
Bowen	Bowen Bus Service
Bribie Island	Picton Omnibus Service
Brisbane	Brisbane Transport
Bundaberg	Duffy's Coaches
Burbank	Mt Gravatt Bus Service
Caboolture/Beachmere	Caboolture Bus Lines
Cairns	Transit Australia
Craignish/Dundowran	Bay Bus and Coach
Deception Bay	Kangaroo Bus Lines
Gold Coast	Surfside Buslines
Gladstone	Buslink Qld Pty
Glasshouse Mountains	Glasshouse Country Coaches
Gympie	D J & V B Polley
Hervey Bay	Fultonlawn Pty Ltd
Innisfail	D A & H E M Hastie
Ipswich	Transit Australia
Ipswich-Boonah	Southern Cross Transit
Logan	Clark's Bus Service
Mackay	Mackay Transit Coaches
Magnetic Island	Magnetic Island Bus Service
Maryborough	Fultonlawn Pty Ltd
Mossman/Port Douglas	Coral Coaches
North Stradbroke	Bryson Swan
Park Ridge	Park Ridge Transit
Petrie/Dayboro	Brisbane Bus Lines
Redcliffe/Petrie	Hornibrook Bus Lines
Redland Shire	National Bus
Rockhampton	Transit Australia
Springfield/Camira	Westside Bus Co. Pty Ltd
Strathpine/Murrumba Downs	G K & J M Thompson Pty Ltd
Sunshine Coast	Transit Australia
Toogoolawah-Ipswich	Coast & Country Buses
Toowoomba	CityBus Toowoomba
Townsville	Transit Australia
Warwick	Haidley's Panoramic Coaches
Whitsundays	Whitsunday Transit
Yeppoon	Young's Bus Service

*Source:* Queensland Transport

## Number and size of buses

Under the existing regulatory framework, the number of buses in use by an operator is not required to be provided to the Department of Transport. It is not possible, therefore, to accurately estimate the number of buses or the purposes for which they are used across Queensland. This information was, however, retained under the *State Transport Act 1960* which was repealed in 1994. At that time, there were an estimated 8485 buses in Queensland undertaking airport, charter, general passenger, tours, long distance and other specialised work within the passenger transport industry.

Some data is available on numbers of buses used by service contract holders to provide services in certain areas. Table 4.2 provides details of bus numbers and numbers of seats for selected service contract areas.

Table 4.2: **Bus numbers and seats for selected service contract areas**

<i>Contract area</i>	<i>Number of buses</i>	<i>Number of seats</i>	<i>Average bus size</i>
Caboolture	5	145	29
Cairns	32	1152	36
Cleveland/Redland Bay	77	3386	44
Gold Coast	185	8267	45
Ipswich	16	413	26
Logan	47	2351	50
Maryborough/Hervey Bay	16	719	11
Redcliffe/Petrie	36	1611	45
Rockhampton	14	342	24
Sunshine Coast	36	924	26
Toowoomba	16	713	45
Townsville	19	515	27

*Source:* Queensland Transport and bus operators

Brisbane Transport is the largest operator in the State with 628 buses providing a total of over 33,000 vehicle kilometres (SCNPMGTE, 1997).

## Use of buses

Many bus companies provide a range of services. Many urban route and school bus providers, for example, also provide charter bus services. Using buses for a variety of tasks reduces the overall costs faced by bus companies by allowing more intensive use of the primary capital asset of the business (that is, the bus). This is particularly important for route and school bus operators who experience peak demands during relatively short periods of the day and have little use for at least some of their buses during slow periods. Charter and tours allow vehicles not being used during periods of low demand to be put to other uses. Data from 1994 provides an indication of the scale of the cross-use of buses (see Table 4.3).

It should be noted that discussions with QBIC have indicated that many route bus operators providing services under a service contract with Queensland Transport have moved away from undertaking charter and tourist work to concentrate on the provision of quality route bus

services. Consequently, it may be the case that the incidence of cross-usage indicated in Table 4.3 overstates the current incidence of cross-usage.

In addition to the cross-usage of buses within one bus company, there is a significant transfer of buses in the second-hand market between companies providing different types of services. The most significant trend in this regard is the transfer of vehicles from route bus operators to school transport operators who are allowed to operate older vehicles under the current regulatory framework.

Table 4.3: **Cross-use of buses-1994**

<i>Registered bus category</i>	<i>Percentage of buses also registered in other categories</i>
<b><i>Charter bus</i></b>	
3101 vehicles of which:	11% were also registered as tour buses 11% were also registered as school buses 5% were also registered as route buses
<b><i>School</i></b>	
397 vehicles of which:	42% were also registered as charter buses 4% were also registered as tour buses 24% were also registered as route buses

Source: Queensland Transport

## **Subsidies**

Most bus services in Queensland receive some form of subsidy from the government. Subsidies can be provided for a variety of reasons. Table 4.4 outlines the main types of subsidy payments made to bus operators under the current regulatory structure.

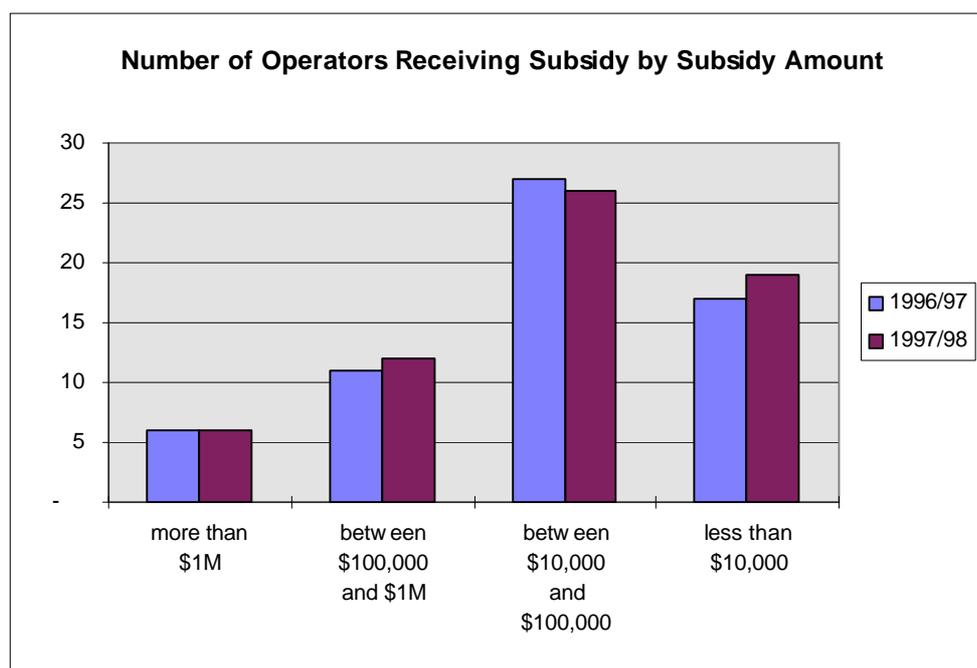
Table 4.4: **Main types of subsidy**

<i>Category of funding</i>	<i>Description</i>
Transitional funding	Provides for the continuation of funding provided for under the <i>State Transport Act 1960</i> . Transitional funding can continue for un-contracted operators until 7 November 1999. Operators holding service contracts can continue to receive funding under the transitional arrangements at the level specified in their service contracts but with funding guarantees for the first year of the contract. All transitional funding arrangements expire on 30 November 2001.
Interest rate subsidy	Interest rate subsidy is another transitional form of subsidy that was provided under the now repealed <i>Urban Passenger Service Proprietors Assistance Act 1975</i> . Interest rate subsidies may continue to be paid to operators if they have a licence under the <i>State Transport Act 1960</i> or a service contract under the <i>Transport Operations (Passenger Transport) Act 1994</i> . However, an agreement to pay an interest rate subsidy cannot be entered into after 7 November 1999 and no interest rate subsidy may be paid after 7 November 2009.
Local pensioner fares	A subsidy may be paid to operators if, before 7 November 1994, the operator received a subsidy for local pensioner services under the <i>Urban Passenger Service Proprietors Assistance Act 1975</i> . Subsidy for local pensioner fares may continue to be paid while the operator holds a licence or permit under the <i>State Transport Act 1960</i> .
Funding under contracts	The chief executive may enter into a service contract providing for funding or other financial assistance if the Minister has approved the basis on which the funding is to be provided. The Act states that the Minister must have regard to the principle that funding or other financial assistance by the State for scheduled passenger services should be provided principally for services that the Government requires to be provided that would not be provided, or provided at the same level, without funding and for reimbursement of government-specified fare concessions.

Table 4.4: **Main types of subsidy (cont.)**

<i>Category of funding</i>	<i>Description</i>
Funding under section 143B	Section 143B allows the chief executive to enter into an agreement providing for help from the State for any public passenger transport service if the Minister has approved the basis on which the help is to be given. Funding under this arrangement has been provided for certain long distance services in rural areas and for the Accessible Bus Pilot Program which provides a 25 per cent subsidy on the purchase price of a new wheelchair accessible bus for certain operators.

In 1997/98, 63 route bus services received \$46,536,074.93 in subsidy under the *Transport Operations (Passenger Transport) Act 1994*. Of this, just over \$29.5 million was provided to the Brisbane City Council for its bus services. The remaining \$17 million was provided to private bus operators across the State.



Of the operators paid subsidies, the majority received between \$10,000 and \$100,000 per annum. Six operators received more than \$1 million per annum in the 1997-1998 financial year. All but one of the operators provide services in one service area in South East Queensland. The other operator provides services across a number of service areas in regional Queensland. In addition to subsidies for route bus services, approximately \$87 million was used to fund school services and a further \$91,124 was disbursed to three long distance coach operators.

### 4.3 Bus industry usage

Excluding people living in remote and rural areas of the State where public transport services are not provided, some 18 per cent of people in Queensland use a local route bus service regularly to travel to work, education or recreation with a further 15 per cent using a bus less than once a month but more than once a year (AC Nielsen: 1998a). This equates to approximately 606,000 people who use buses regularly and a further 553,000 who use buses less than once a month but more than once per year.

Table 4.5 outlines some of the main findings of surveys of bus users in the Gold Coast, Cairns and Maryborough/Hervey Bay areas.

Table 4.5: **Main findings of surveys of bus use**

	<i>Gold Coast</i>	<i>Cairns</i>	<i>Maryborough/ Hervey Bay</i>
<b><i>Main groups using buses</i></b>			
	16-24 year olds unemployed retired	16-24 year olds unemployed retired female without access to car	younger people unemployed retired female without access to car
<b><i>Reasons for using buses</i></b>			
Shopping/recreation	56 per cent	52 per cent	72 per cent
Work or education	30 per cent	37 per cent	23 per cent
<b><i>Times at which buses are used</i></b>			
Use during peak	20 per cent	18 per cent	36 per cent

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Use between peaks	43 per cent	49 per cent	37 per cent
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Source: AC Nielsen (1998b, 1998c, 1998d)

Locational variation plays a part in determining bus usage with lower use made of all public transport (including bus services) in regional areas.

Table 4.6: Use of local transport services in Queensland by location (per cent)

	<i>Brisbane</i>	<i>Gold Coast</i>	<i>Sunshine Coast</i>	<i>Other regional</i>
Bus	27	15	16	9
Taxi	18	13	10	12
Train	23	10	6	2
Ferry	5	1	1	-

Source: AC Nielsen (1998a)

## 4.4 Bus industry performance

### Consumer satisfaction

User and community surveys have been undertaken across Queensland in relation to specific bus services provided under service contracts. Satisfaction in relation to all public transport services was rated on:

- coordination in terms of linking up different buses or linking buses, trains and ferries;
- being well run and reliable;
- meeting most of the transport needs of residents; and
- public transport services overall.

Overall the general community tends to view public transport services as performing at an 'average' standard and in need of some improvement. Public transport users, however, rate public transport generally higher than the general community with scores ranging between 'above average' and 'quite good' for specific characteristics of public passenger transport.

Satisfaction and performance for bus services and other modes of public transport was measured with regard to:

- the broad modal features of accessibility, general service, personal safety and affordability; and
- overall satisfaction with the mode taking all features into account.

Using these criteria, the overall community perception of bus services is halfway between 'average' and a score of 'quite good'. Bus services also compare well with train and taxi services. Existing users of bus services rate bus services higher than infrequent users and the

general community with scores close to the ‘quite good’ level overall.<sup>5</sup> Surveys of individual bus services in Cairns, Gold Coast and Maryborough/Hervey Bay provide similar scores to the statewide survey with infrequent or lapsed users scoring bus services below the scores given by frequent users of the service (see Table 4.7).

Table 4.7: Comparison of survey results for Queensland and by area

	<i>Statewide</i>	<i>Gold Coast</i>	<i>Cairns</i>	<i>Maryborough/ Hervey Bay</i>
<b><i>General community perceptions</i></b>				
All aspects	3.53	3.82	3.53	3.68
Access	3.44	3.66	3.47	3.55
Service	3.49	3.76	3.39	3.66
Safety	3.68	3.83	3.52	3.95
Affordability	3.55	3.64	3.49	3.76
<b><i>User perceptions</i></b>				
All aspects	3.89	3.83	3.62	3.80
Access	3.86	3.66	3.54	3.67
Service	3.86	3.79	3.53	3.73
Safety	3.93	3.85	3.62	4.07
Affordability	3.72	3.58	3.53	3.83

Source: AC Nielsen (1998b, 1998c, 1998d)

Information from the survey reports indicate that scores close to ‘4’ are considered high scores and will be relatively difficult to improve. In this regard, it would seem that bus services across the State (and in particular service areas) are perceived by users to be performing at a relatively high level. This is not to say that nothing can be done to improve these services. The survey results indicate that general service and access issues are key concerns of both users and non-users with areas of possible improvement including:

- The attitude of drivers to passengers;
- Helpfulness of drivers towards passengers;
- Method of handling complaints;
- Overall number and frequency of bus services; and
- Convenience of bus stop locations.

### Patronage performance

Another key indicator of bus performance, particularly given the objectives of the Act and the Integrated Regional Transport Plan, is patronage growth. Patronage of bus services has been in long-term decline across the world. In Brisbane, for instance, absolute patronage figures for buses show a decline from a high in 1971–1972 (caused by the removal of trams from the

<sup>5</sup> Bus users rated overall modal satisfaction of buses at 3.89 out of a possible score of 5 with a score of 4 being rated ‘quite good’ and a score of 3 rated as being ‘average’.

Brisbane area). Overall patronage on all public transport (including trains and trams) has, in Brisbane, declined over the past 60 years (see Table 4.8).

**Table 4.8: Public transport journeys by mode of transport, Brisbane ('000)**

<i>Year</i>	<i>Train</i>	<i>Tram</i>	<i>Bus</i>	<i>Total</i>
1933-34	18,071	69,976	n.a.	88,047
1947-48	23,157	132,107	14,759	170,023
1954-55	29,712	101,849	34,825	166,386
1961-62	22,890	72,664	33,431	128,985
1966-67	23,703	48,525	29,225	101,453
1971-72	30,184	---	58,724	88,908
1976-77	29,296	---	47,830	77,126
1981-82	32,592	---	42,525	75,117
1986-87	38,886	---	41,066	79,952
1991-92	40,080	---	43,185	83,265
1995-96	39,200	---	48,700	87,900

*Source:* Queensland Government Statistician, various sources

*Note:* Bus figures exclude private bus transport

While absolute patronage rose slightly between 1991-92 and 1995-96, the share of the total travel undertaken in South East Queensland that is provided by bus has declined from a high of 40 per cent in 1960 to just 7 per cent in 1992 (IRTP, 1995). The decline in mode share is also reflected in the decline in the number of passenger journeys undertaken on public transport on a per capita basis. Interestingly, the decline in mode share experienced in South East Queensland almost exactly reflects the decline experienced in the United Kingdom where the mode share of buses has fallen from 42 per cent in the 1950s to 6 per cent in recent years where it has shown signs of levelling out (Poole, 1999).

The long term decline in patronage has been reversed in recent years in Queensland following the introduction of service contracts. Patronage growth in Queensland overall is in the order of 3 per cent per annum with some contract areas experiencing significant growth following the introduction of service contracts that have led to the removal of impediments to effective operations. CityBus Toowoomba, for example, indicated almost a 20 per cent increase in patronage following the removal of three of the four operators and the introduction of a single contractor servicing the whole of the Toowoomba area. Some service contract areas have experienced growth of over 100 per cent above the previous year's patronage levels in the first years after introduction of service contracts. At the same time, some service contract areas have experienced a decline in patronage. Table 4.9 provides summary patronage growth statistics for Queensland bus operators.

**Table 4.9: Patronage growth 1997 to 1998**

<i>Operators</i>	<i>Growth rate</i>
Brisbane Transport	-0.27%
Major Brisbane	6.91%
Minor Brisbane	-1.37%
Major Provincial	1.9%
Minor Provincial	4.84%

Small Provincial	104.22%
Overall increase	3.14%

Source: Queensland Transport

The patronage growth following the introduction of service contracts correlates with the experience of the United Kingdom where patronage has declined in areas that have been deregulated but has risen in London where bus services are provided under exclusive contract arrangements (White, 1997).

### Productivity

Productivity describes the efficiency and effectiveness of an organisation. Efficiency relates to the ability of an organisation to transform a set of physical inputs into outputs. Effectiveness has two components: cost effectiveness and service effectiveness. In the context of the bus industry, cost effectiveness can be thought of as the relationship between inputs and patronage levels while service effectiveness is the relationship between vehicle kilometres produced and patronage levels (Hensher and Daniels, 1995).

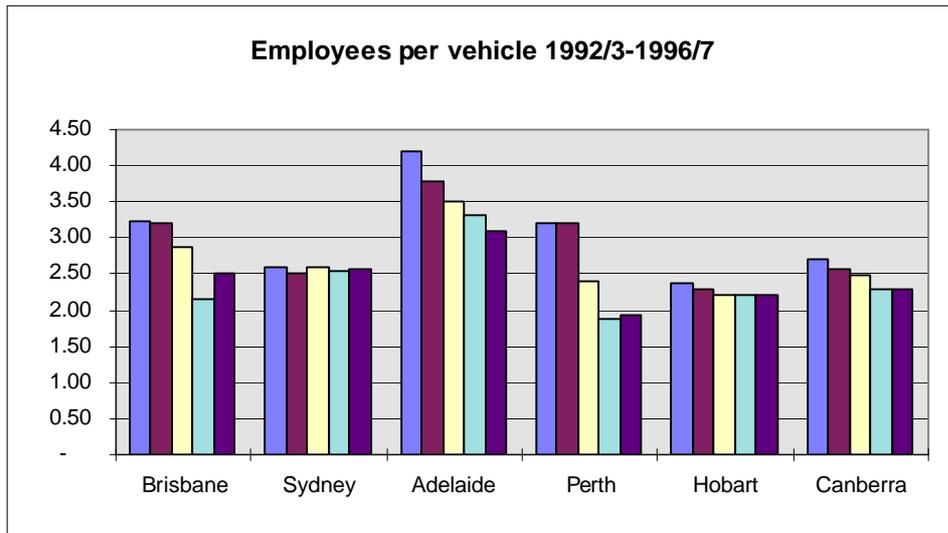
Measurements of cost efficiency and cost effectiveness have been made for the Australian bus industry by Hensher and Daniels (1995). In addition, some partial indicators of efficiency are available for Brisbane Transport (and other State-owned urban bus companies). Work on partial productivity measures has been undertaken by the Steering Committee on National Performance Monitoring of GTEs (SCNPMGTE, 1997).

#### *Partial measures of productivity*

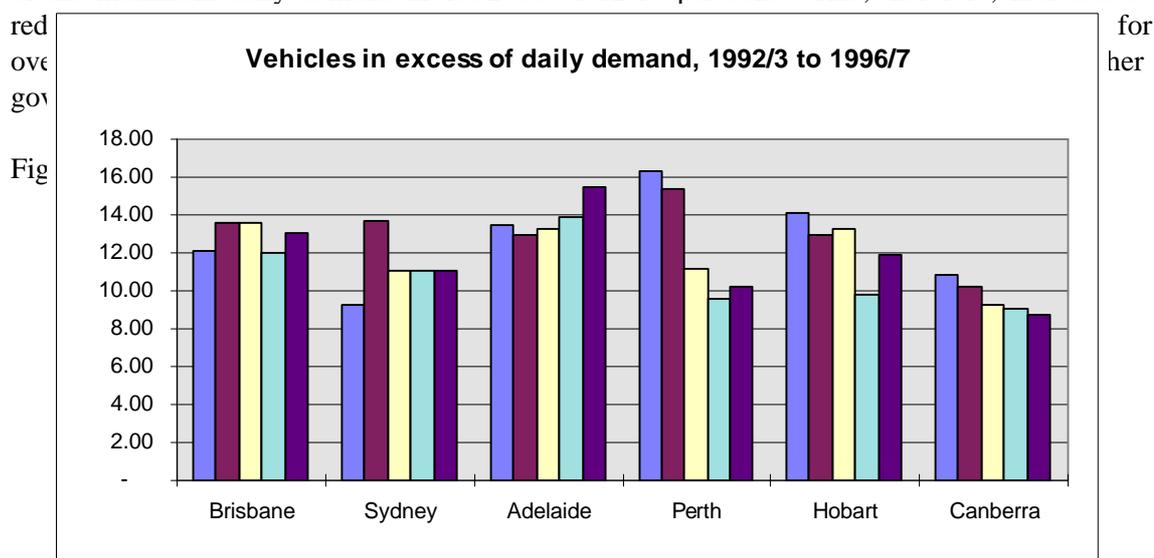
The work of the Steering Committee on National Performance Monitoring of GTEs covers only government-owned enterprises and, therefore, Brisbane Transport is the only bus operator for which performance data is available. The partial measures indicate that Brisbane Transport has improved its labour productivity (in terms of employees per vehicle and vehicle kilometre)

perfor  
gover

Figure



An important measure of the capital productivity is the peak to base ratio. Studies in the United States have indicated that the higher the number of buses used in the peak compared to the off peak, the lower the likely overall productivity of a bus operator (Nolan, 1995). Brisbane Transport reported that the percentage of vehicles in excess of the maximum daily demand in 1996/97 was 13.04 per cent. This represented an increase in the number of vehicles in excess of the maximum daily demand in 1992–93 of 12.10 per cent. This, therefore, indicates a red



### Total factor productivity measures

Hensher and Daniel, (1995) estimated partial and total factor productivity (TFP) measures for 32 private and public bus operators. Private operators were drawn from areas in and around Brisbane, Sydney and Melbourne, while public bus operators included all major government-owned bus companies, including (what is now) Brisbane Transport. It is important to note that the estimated productivity measures are relative. That is, they do not provide a measure of absolute productivity but measure one organisation's productivity in comparison with one or more other organisations' productivity. In addition, it is also important to note that significant changes have been made to the regulatory environment in Queensland since the initial TFP calculations. These changes included the removal of subsidy arrangements which may have encouraged operators in Queensland to overstate their true costs (Hensher and Daniels, 1995).

Nevertheless, the productivity measures do provide some useful indications about the performance of bus services in and around Brisbane relative to other parts of Australia. One of the most consistent outcomes of the productivity measures is that private operators are generally more efficient than public operators, but public operators are more effective on a gross TFP passenger measure. This Hensher and Daniels (1995) attribute to the advantage most public bus operators have in servicing inner and middle suburbs of the capital cities which

are more likely to contain bus users than the outer suburbs and satellite towns serviced by most private operators. Table 4.10 provides an indication of the relative efficiency and effectiveness of public and private bus operators.

**Table 4.10: Comparison of private operators with their own state public operator**

<i>Location</i>	<i>Gross TFP passenger measure</i>	<i>Gross TFP vehicle kilometre measure</i>
Brisbane privates are...	4% less effective than BCC	37% more efficient than BCC
Sydney privates are...	12% less effective than STA	45% more efficient than STA
Melbourne privates are...	19% more effective than PTA	29% more efficient than PTC

*Source:* Hensher and Daniels (1995)

Comparing Brisbane Transport’s performance with other public operators indicates that it is ranked second in both gross TFP passenger measure and TFP vehicle kilometre measure, making it the most consistent public operator surveyed. It should be noted that, since the TFP calculations were made, Brisbane Transport has undergone a commercialisation process within the context of the NCP agenda as well as entering into agreements with the State which require significant productivity improvements.

The gross TFP scores for private bus operators providing services around Brisbane ranked operators from 12th overall to 30th overall (in comparison with all 32 bus operators surveyed). The dispersion of scores for the private operators in Brisbane is mirrored in the scores of Sydney and Melbourne private operators.

A potentially significant outcome of the measures, however, is the number of operators with high productivity measures (relative to other operators) in the Sydney area. In this regard, the eight operators that received the highest gross TFP measures on a passenger basis and the vehicle kilometre basis were Sydney operators.

Further analysis by Hensher and Daniels (1995) indicates that the strongest effects on variations of gross TFP for passengers come from where the bus companies operate. This suggests that the method of regulation may be an important element in determining productivity levels. If this is the case, it would be expected that the overall productivity levels of Queensland operators will have risen as a result of the 1994 reforms which put in place a contract regime similar to that which existed in Sydney at the time the TFP measurements were made.

### **The review committee’s investigations**

The review committee undertook an preliminary analysis of Queensland private bus operators’ technical efficiency and compared them to the technical efficiency of New Zealand private bus operators using Data Envelopment Analysis (DEA). New Zealand operators were chosen for comparison because entry into the bus industry is less regulated than in Queensland. In broad terms, the analysis concluded that the level of technical efficiency displayed by Queensland bus operators as a group, was not statistically significantly different from levels displayed by New Zealand bus operators. This suggests that the efficiency improvements seen in New Zealand after deregulation arose more as a result of the privatisation of the bus industry rather than the opening up of entry restrictions.

## 5 Considerations in the regulation of buses

### 5.1 Introduction

Clause 5 of the competition principles agreement requires that the benefits of a restriction to the community as a whole outweigh its costs and that the objectives of the legislation cannot be achieved without restricting competition (NCC, 1997). To assess whether the existing restrictions meet this test, the NCC guidelines (CIE, 1999) require that the advantages and disadvantages of existing restrictions be assessed against the state that would occur if no restrictions were in place. That is, the existing restrictions on urban scheduled bus services need to be assessed against a state in which there were no restrictions on the provision of bus services.

The NCC (CIE, 1999) has noted that the situation that would prevail in the absence of restrictions must be constructed from theoretical evidence or from observation of similar situations in other industries or countries. This chapter outlines the theoretical evidence while the next chapter outlines the experience of other jurisdictions that have removed entry and fare restrictions on urban scheduled passenger transport.

### 5.2 Arguments for subsidies

#### User economies of scale

There are several theoretical arguments for some form of assistance or subsidy to the bus industry. One of the most common is that there are economies of scale flowing from the inputs provided by the users of scheduled passenger services in the form of their time. As noted by Morhring (1972):

Transportation differs from the typical commodity of price theory texts in that travelers and shippers play a producing role not just a consuming role. In using common carrier services, they must supply scarce inputs, their own time or that of the goods they ship, that are essential to the production process. ... Transport demand can be dealt with as if the price of a trip equals whatever the fare is charged plus the money value the traveler attaches to the time his trip requires.

The result of dealing with transport demand in this way, is that optimal bus fares and frequencies depend not only on the cost of providing buses but also on the costs incurred by users.

The relevant user costs are time costs which are related to the frequency of service. The relevant time costs are waiting time spent at bus stops, and any other user delays caused by services departing at times which do not suit users. An increase in frequency and thus the scale of operation, will cause these user costs to fall for all users (Tisato, 1997).

Because additional frequency causes all user costs to fall, the marginal user cost is below the average user cost-implying economies of scale in user costs and:

As a result, as in all cases of economies of scale, efficient pricing at marginal social cost will result in a financial deficit and a need for subsidy (Tisato, 1997).

Put another way:

If the number of bus runs and the number of passengers both went up  $x$  per cent, total waiting time would not go up  $x$  per cent. So marginal social costs are below average social costs. We have a classical case for subsidy in order to achieve optimal resource allocation (Turvey and Morhring, 1997).

User economies of scale apply not only to greater frequency but also to greater number of routes, which reduce user costs through reduced walking time to access bus stops (Tisato, 1997), and reductions in service reliability, which reduce users' unplanned delays (Tisato, 1998). At the same time, a framework based on user costs should also consider the effect of additional bus services on other road users. It may well be the case that the congestion caused by an additional bus (or bus route) will impose costs on all other road users which will actually swamp the costs incurred by bus passengers if frequency was reduced (Kerin, 1992). Whether user costs require subsidisation of a bus service is, then, an empirical question.

### **Option value**

Another source of benefit from public transport that is not captured by operators (and therefore, external to their decision to provide transport leading to an under-provision of transport) is the value of consumers and potential consumers being able to use public transport in the future. Option value is essentially, the value of being able to choose public transport at some future date and is occasionally recognised by transport planners as a potentially significant benefit from public transport operations. Work by Chu and Polzin (1998), for example, suggest that the option value of public transport in the United States could be as high as \$18.6 billion annually, which represents 70 per cent of the total cost of public transport provision in the United States.

### **Externalities**

The external effects of bus services are often cited as reasons for the regulation and subsidisation of bus services. In an economically efficient 'first best' world, all modes of transport would be priced at their marginal cost. However, many resources are under (or over) priced. Roads are often mentioned as being underpriced in relation to private vehicle use and that this leads to cars being used proportionately more than other modes of transport for travel (Kerin, 1992). While the first best optimal response is to price roads properly, this is unlikely to be an option, at least in the short term. In the absence of a first best option, the theory of second best suggests that there may be a case for subsidising an alternative mode to move the modal split towards the optimal level. the size of the optimal subsidy depends on the cost of the externality and the impact that reducing public transport fares will have on reduced car use (that is, the cross-elasticities between modes).

## 5.3 Regulatory considerations

### User costs and natural monopolies

Several commentators have noted that user costs can have important implications for scheduled bus services being natural monopolies (IC, 1994; Evans, 1991a). Evans (1991a) notes that a natural monopoly occurs where a single firm can produce goods and services at a lower average cost than if there were more than one firm. Under this conditions, if two firms were producing goods or services, the cost the community would be higher than necessary and if one firm was producing at the lowest average cost, and the second firm produced at a higher average cost, then the second firm would probably not survive. Under these conditions

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monopoly is both the likely and the desirable result. However, monopolists are able to raise prices and exploit their customers if not controlled so that natural monopolies are usually either regulated or in public ownership (Evans, 1991).

The available evidence suggests that scheduled route bus operations are not natural monopolies. Large operators do not have any cost advantage relative to small operators. However, Evans (1991a) notes that if user costs are taken into account, there may be economies of scale that lead to a natural monopoly outcome.

A “better” service is one with lower average user costs. In the case of one route, the scheduled of one operator might be more convenient for passengers than the combined independent schedules of more than one operator. In the case of a network of routes, a single operator’s services might provide convenient connections and ticketing than several operators’ combined services. In a word, a single operator’s services might be better integrated (Evans, 1991).

Hensher (1994) notes that –

the Morhring (that is, user costs) argument does not (necessarily) imply natural monopoly, since in principle several firms could operate a service. Also, the presence of deficits in the presence of marginal costs does not automatically mean that natural monopoly is present,

but supports Evans (1991a) saying that since the empirical evidence in the UK –

points towards economies of integration, and that competitive services are less convenient for passengers than a service of a single operator using the same resources, there is appealing evidence that local urban bus operations at the area level are natural monopolies (Hensher, 1994).

The Industry Commission (1994) also recognised that the presence of user costs may mean that government intervention is needed to ensure urban public transport services operate effectively as integrated networks through optimal scheduling and service coordination between operators and modes, integrated ticketing and information provision.

The Commission suggested, however, that operators will face strong commercial incentives to cooperate with other operators to enhance their profitability and that this may reduce the need for government intervention. The experience in England is that has not occurred –

scheduled headways (that is, time intervals between buses) are more haphazard on competitive routes than on monopoly-operated routes. This means that average passenger waiting times are longer than they need be in relation to the frequency provided, or, equivalently, the current average waiting times could be achieved with fewer resources if the services were better integrated. The proportion of bus-kilometres which are thus wasted is of the order of 5-10 per cent: not great, but not negligible (Evans, 1991a).

There is also some theoretical justification for this position with Savage (1984) concluding that:

Unless peak inadequacy is relieved, or unless substantial traffic is generated – which in practice is unlikely – it appears that in the short run any additional capacity introduced by a competitor will lead to a reduced level of social welfare. This is especially true when the favoured competitive tactic of “headrunning” is employed.

### **Contestability**

The deregulation of the route bus industry in the United Kingdom was based on the view that the bus industry was contestable. That is, the mere threat of entry from other operators would mean that incumbent operators would provide services at the level and at the fare that would maximise social welfare.

In the absence of regulation any operator will know that, in respect of any service he is providing, he is liable to challenge from other operators or potential operators who think they can offer better value for money. The bus market is therefore a highly contestable one. Substitution of one operator for another will not be frequent once markets have settled down after deregulation. In practice, the actual degree of competition on the ground - and therefore the amount of change travellers will have to face - will be much less than the potential degree of competition. Incumbent operators will be kept up to the mark by this consideration. (UK DOT, 1984)

There are theoretical considerations (and empirical outcomes) that suggest that the views of the UK government overstated the case for contestability in scheduled route bus services and many commentators have said that the market is not contestable<sup>6</sup> and that even bus services were contestable, that it would guarantee that services were provided at minimum cost but not that the optimal level of service or optimal fares are provided (Evans, 1991b).

One of the reasons for the view that the scheduled bus market was contestable was that sunk costs in the bus industry were low.

(In buses costs of entry are low, sunk costs are comparatively small in relation to operating costs and economies of scale are limited (UK DOT, 1984)

However, this position ignores the possibility that there are sunk costs associated with the bus industry that may impact on the ability or desire of operators to enter markets and act as a brake on the ability of incumbents to benefit from a monopoly (or oligopoly) position. Sunk costs may include staff training and the time invested in establishing operations, local knowledge, livery and brands and the costs associated with disseminating timetable and route information (McNamara, 1998). These sunk costs may have had an impact on how entry was effected in the United Kingdom with entry occurring in areas and in ways to reduce sunk costs (for example, entering with a headway a few minutes in front of the incumbent to reduce the need to disseminate timetable information) (Preston, 1991; James, 1998).

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<sup>6</sup> Evans (1990) cites, for example, Mackie and Preston (1988), Gwilliam (1989) and Dodgson and Katsoulacos (1990)

Even if sunk costs are small enough to not materially matter, the view that bus markets will be contestable disregard the fact that incumbents in perfectly contestable markets are unable to rapidly change the pre-entry price in the face of actual competition (Dodgson and Katsoulacos, 1988).

The usual presumption is that prices can be changed quickly relative to the amount of time that would be required for the entrant to dominate the market in order to cover any sunk entry costs. If this is true, as is likely to be the case (and bus service markets do not seem to constitute an exception in this respect), then the threat of entry with arbitrarily small sunk costs will not imply competitive profits and may even be consistent with monopoly pricing (Dodgson and Katsoulacos, 1988).

In effect, Dodgson and Katsoulacos (1988) are saying that because bus operators can rapidly change price, they may be able to respond instantaneously to actual entry and therefore, an entrant will not be able to profitable enter in a hit and run fashion as would occur if the market was contestable. Under these conditions,

markets can be made non-contestable in the sense that pricing behaviour becomes unaffected by the threat of entry (Dodgson and Katsoulacos, 1988).

A non-contestable does not mean that entry will not occur but that incumbents have the ability to increase the cost of entry by a number of strategies. Potential entrants will have to form expectations about the action that an incumbent may take after entry has occurred. The incumbent benefits from having already entered the market.

This gives him first-mover advantages and it is 'this fundamental asymmetry in the pre-entry game (that) provides the foundation for the theory of strategic barriers against equally efficient entrants' (Salop cited in Dodgson and Katsoulacos, 1988).

There are several forms of 'strategic barrier that may be pursued by an incumbent. One such barrier is predation. Predatory behaviour may occur through price reductions or by incumbents responding to entry by increasing frequency levels or by scheduling buses at similar times as entrants in order to reduce the profitability of entrants and drive them out of the market (Dodgson and Katsoulacos, 1988).

Not all commentators agree that predation and other strategic entry deterring behaviour occurs. James (1998), for example, notes that predation and entry deterrence will be difficult under conditions that apply in the bus industry because of the ability of entrants to 'free ride' on the timetables and networks of larger incumbents. James (1998) notes that under these conditions, two options are available to incumbents. The first is to merge with or take over entrants. The second is to 'ring fence' customers with discounted season and multiple tickets.

The review committee notes that both the UK experience has seen both mergers and ring fencing of customers. It also notes, however, that a number of actions have been taken by the United Kingdom Office of Fair Trading against operators undertaking alleged predatory behaviour<sup>7</sup> and while some of these actions have resulted in changed behaviour of incumbents in local markets, there is evidence that large bus companies, through their actions and through their reputation for taking action are able to affect the decisions of rivals to enter a market.

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<sup>7</sup> Several examples of action by the OFT can be found in Dodgson and Katsoulacos (1988, 1989), Dodgson et al. (1993), McNamara (1998) as well as in OFT (1997). Beesley (1990) notes that in the first 3-4 years of deregulation in the UK, 239 agreements in restraint of trade had been submitted to the OFT and 3 cases involving alleged predation had been investigated.

There do appear to be circumstances, relevant to the operation of bus services, where existing firms may find it optimal to act in a predatory behaviour so as to delay, slow down or deter entry (Dodgson and Katsoulacos, 1988).

If markets are not contestable, the question that is raised is whether incumbent bus companies are able to extract above-normal profits as a result of their monopolistic (or oligopolistic) market structure. Little evidence is available on this issue but both the OFT (1997) and the Evans (1991) state that the available evidence is that fares where competition exists are lower than fares where competition does not exist, suggesting that incumbents can extract a fare premium from their monopoly position.

## **5.4 Other considerations**

### **Social justice concerns**

A significant reason for successive governments ensuring the provision of a scheduled public passenger service has been to ensure that people who are transport disadvantaged have access to the transport system for employment, essential services, shopping and for access to the general community.

The role of public transport is to provide access to entertainment, shopping, social visiting and to employment. A well developed public transport system acts as a lever to improve the quality of life for many disadvantaged people. Those that are too poor to afford a car or to afford housing in anything other than in remote suburbs or are too young to drive rely heavily on public transport to get to and from all of these venues.

The deregulation of public transport does not immediately improve the lot for these people. (Sub. no. 32)

The importance of public transport as a means of enhancing social justice seems to be generally recognised as is the fact that a completely deregulated public transport system would not lead to levels of service that would meet the social justice requirements of the government. Because of this, both the UK and New Zealand have implemented subsidy arrangements for non-commercial services which are considered necessary in the public interest.

### **Stability of service**

Participants raised the issue of service stability as an important quality consideration in the provision of scheduled public passenger services.

Items such as telephone numbers, colour of buses, familiarity of drivers to customers needs, continuity and reliability are all major concerns of our customers. (Sub. no. 8)

This position is supported by some of those who have commented on the UK experience of bus deregulation. Service instability, for example, is cited by the Chartered Institute of Transport (CIT, 1993) as one of the main reasons for the fall in patronage:

For metropolitan areas, research has suggested that (car ownership and fare increases) cannot explain more than half the fall (in patronage). Deregulation has also led to more frequent changes in services, a more complex pattern of services and hence less readily available information to passengers ... In one large metropolitan area, where in fact the overall level of provision of bus services has remained fairly stable, there have consistently

been between 1000 and 1200 service changes per year. This level of change makes the provision of accurate passenger information extremely expensive. It also undermines passenger confidence, contributing to the decline in bus use and further cutting the revenue to operators.

And,

the rapid changes of the early deregulated period have often been blamed for at least a portion of the passenger decline, due to the public confusion which arose (White and Farrington, 1998).

It is clear that there are problems with unstable services. However, it could also be argued that service changes of the type mentioned by the Chartered Institute of Transport ensure that services reflect changing consumer preferences and patronage levels.

Changes in registered services in the region (mostly in Glasgow) were averaging 12 per day immediately after deregulation, but have now stabilised at five. These may now represent a fine tuning, or even rectification of errors by operators (White and Farrington, 1998).

he fact that patronage has declined, however, is an indicator that is likely that factors other than a desire to meet consumer needs are associated with the levels of instability reported in the British bus markets.

## **Standards**

A number of participants in the review process suggested that standards would fall under a system of open competition.

To open up urban and non urban services in regional areas like ours to competition, would be disastrous and drag operating standards that have been gained over years, backwards.

What has the public gained out of the deregulation in this charter area? Passenger safety standards have dropped. Public may have gained cheaper travel, but long distance charter is carried out in older vehicles in this market, over time more accidents would happen because of old equipment... (Sub. no. 9)

And,

The realisation that further commercialisation will lead to greater competition on the basis of reducing inputs into the production of these services will eventually have a social cost in respect of unsafe vehicles being put on the road to carry our youth and our elderly. (Sub. no. 32)

This issue was also addressed in the Industry Commission's review of urban transport (IC, 1994). The Commission noted the need to differentiate between safety and economic regulation but suggested that removal of restrictions on competition was

likely to stimulate general improvements, not falls, in service quality (IC, 1994).

It does not seem possible to determine theoretically whether safety and other standards will fall or rise under a deregulated scheduled bus regime. Nor does it seem possible to say with any certainty (given existing information) whether a fall or a rise in non-safety-related standards reflects a desire on the part of consumers for low cost, low quality options.

## 6 The overseas experience

### 6.1 Introduction

A few countries have deregulated entry of their urban passenger transport industry over the past 10 to 15 years. These countries can provide valuable lessons not only about the effects of regulation and deregulation but also about the economics of the urban scheduled bus industry. This chapter outlines some of the information available to the review committee about bus industry regulation overseas, particularly in Great Britain, where a substantial body of work exists evaluating the deregulation and privatisation of the industry that was undertaken in 1985, and in New Zealand.

While this chapter concentrates on these two countries, the review committee notes that deregulated entry and fares into urban passenger transport markets is not a regulatory regime that is commonly implemented around the world. Reforms are more likely to concentrate on privatisation and franchising arrangements than complete deregulation of entry and are generally driven by concerns about rising subsidy costs (see, for example, Andersen, 1992). Table 6.1 demonstrates the low level of adoption of entry and fare deregulation in Europe.

Table 6.1: Survey of regulatory systems in Europe

	Entry/Exit regulations					
	<i>Exclusive rights to public operators</i>	<i>Needs-based licences</i>	<i>Contracts by arbitration</i>	<i>Contracts by tendering</i>	<i>Free entry</i>	<i>Control of fares</i>
Denmark	x		x	x		x
Belgium	x	x				x
Finland		x				x
France	x			x		x
Greece	x	x				x
Ireland		x				x
Israel		x		x		x
Italy	x	x				x
Netherlands	x	x				x
Norway		x		x		x
Portugal		x			x	x
Spain	x			x		x
Sweden			x	x		x
Switzerland		x				x
Turkey	x	x				x
United Kingdom						
(outside London)				x	x	
(London)	x			x		x
Yugoslavia	x					x

Source: Andersen (1992)

## 6.2 Bus reform in Great Britain

### The reforms

Bus reform in Great Britain began in 1980 with the passage of the 1980 Transport Act. This Act effectively deregulated the use of passenger vehicles with less than eight seats and long distance bus services. It also allowed county councils to apply for 'trial area status' which would allow the effective deregulation of urban route bus services within all or part of the county area (Bannister, 1985). In 1984, the Government released a White Paper outlining its plan to extend the deregulation of urban buses to the rest of the country (see UK DOT, 1984). This plan was brought into effect by the Transport Act 1985, which abolished the road licensing system in Great Britain with the exception of London and replaced it with a registration system, removed the duties of local authorities to coordinate public passenger transport and empowered them to subsidise public passenger transport on condition that the subsidy was put to tender (Poole, 1999).

### *Requirements of deregulated markets*

Under the deregulation requirements of the 1985 Act, any licensed bus operator could register its intention to set up a bus service by giving at least 42 days notice to the traffic commissioner responsible for the area in which the service was to be provided. Any variation or withdrawal of the service also required 42 days notice (Poole, 1999) unless the variation was a minor one (that is, within 5 minutes of the registered timetable). Once registered, the bus operator is required to run the service as registered. Bus operators are responsible to the timetable and introduction of new services. There are no government requirements about fares.

Traffic commissioners are required to deal with disciplinary cases and ensure the quality and safety of the service being offered. They can become involved with a service if the operator is not running the service in the way registered but have no power to instruct an operator to run a particular service or to stop a service that is being run (Poole, 1999).

Passenger transport executives and county councils were given powers to secure socially necessary services which were not being provided as commercial services through the subsidisation of bus services. Councils could impose conditions on services subsidised including conditions of fare levels and/or type of bus. All bus operators could be required to participate in concessionary fare schemes but they had to be reimbursed for the loss in revenue incurred as a result (Poole, 1999).

### *Privatisation*

In addition to the removal of licensing and the deregulation of entry into urban bus markets, the Government reorganised the publicly owned bus industry into smaller units to ensure fairer competition with the private sector (Bannister, 1985). Part III of the 1985 transport Act required the sale of the National Bus Company (NBC) subsidiaries to the private sector. The NBC reorganised its services into 72 separate companies and these were sold to the private sector or to management or employee buyouts. Local authorities that owned bus services also sold them to the private sector. By 1999, only 17 operators comprising about 6 per cent of the total bus market were still owned by the public sector (all local authorities) (Poole, 1999).

## *London*

In contrast to the rest of the country, buses in London were not deregulated. In London, bus services are provided by private operators following competitive tendering with the level and structure of fares to be charged, the general structure of the bus routes and frequency of operation being decided by the London Transport, which is effectively a government entity. London Transport also provides and maintains infrastructure used to provide bus services, promotes customer information and develops technology to ensure operators deliver safe, reliable and clean buses (Poole, 1999).

### **General outcomes of reform**

There is a substantial body of literature on the outcomes of the deregulation and privatisation of bus services in Great Britain and many commentators differ in their opinion about the effectiveness and desirability of the reforms. It is not the review committee's intention to replicate that body of work here but to draw out some outcomes that it sees as particularly important given the government's objectives for the urban bus system in Queensland and to identify some of the potential outcomes if the removal of entry restrictions were considered in Queensland.

### *Costs*

#### ***Government costs***

The cost of bus operations and subsidies was one of the primary reasons for undertaking the reform of the bus industry in Great Britain.

Competition also brings continuing pressure to keep costs down. In the 10 years from 1972 to 1982 the cost of operating buses went up by 15 to 30 per cent over and above inflation (UK DOT, 1984).

A principal objective of the changes to the industry in the 1980s was to bring down costs and decrease the need for subsidies (Bayliss, 1997).

Cost reductions are seen as one of the successful outcomes of deregulation and privatisation. Hibbs and Bradley (1997) note that in the 10 years after the reforms:

costs have fallen, while the remaining subsidy has been offset by a substantial contribution to the Exchequer through corporate taxation.

Poole notes that by 1999 –

71 per cent of bus income comes direct from bus passengers compared with about 64 per cent ten years ago.

Public transport support, in real terms, is now one third of what it was in 1986-1987. The provision estimate of support during 1997-1998 is put at about 222 million pounds.

At the same time, subsidised kilometres of bus travel are reported to have stayed constant as a *proportion* of the total distance travelled by local bus services (Poole, 1999). However, as total kilometres travelled by commercial bus services have increased, the total subsidised

kilometres will have also increased. In effect, local councils seem to be getting more kilometres per dollar of subsidy today than they were in 1987.

At the same time, concerns were recently raised by the Environment, Transport and Regional Affairs Committee (ETRAC, 1999) in their report on the 1998 White Paper on Integrated Transport noted that the increasing concentration of bus operators (see below) was leading to creation of ‘private monopolies’ which, in turn, were leading to high tender prices when socially necessary services were being tendered.

### *Operating costs*

Real operating costs per vehicle kilometre are reported to have fallen by 23 per cent in Great Britain between 1985-1986 and 1987-1988 with a less marked reduction at 28 per cent in total over the 8 years following. In 1995-1996 average operating cost per vehicle kilometre was reported as being 83 pence per kilometre compared with approximate 150 pence per kilometre in 1985-1986 (DETR, 1996).<sup>8</sup> Some of these costs are the result of the introduction of minibuses on urban bus routes which have cheaper capital and lower hourly labour costs than full-sized buses.<sup>9</sup> Other sources of cost reductions have been reported relaxed constraints on scheduling of labour, lower labour costs through reductions in services outside core hours and through reductions in the ratio of peak buses to non-peak buses (which reduces capital costs) (Shaw and Wilson, 1995).

White and Turner (1991) report that, in addition to reduced labour costs associated with the introduction of minibuses, reductions in costs came about because of reductions in the world price of fuel and increases in staff productivity, mainly as a result of reductions in staff numbers but also as a result of an increase in local bus km travelled.

Reductions were particularly marked in non-platform staff. Whereas total staff fell by 9 per cent, maintenance staff fell by 20 per cent, and “other” (administrative, etc.) by 18 per cent.

Overall staff input per vehicle fell by 19 per cent. If staff costs represent 75 per cent of total operating costs, this would account for a 14 per cent overall reduction (White and Turner, 1991).

On a cost per passenger basis, bus operators have experienced net reverse productivity as costs per passenger fell marginally between 1985-1986 and 1995-1996, reflecting the decline in total passenger numbers (see below) (DETR, 1996).

### *Fares*

While costs have fallen, fares have, in general, increased. Poole (1999) notes that between 1989 and 1999, local bus fares increased by 19 per cent in real terms while motoring costs increased just 4 per cent in real terms. The increase in bus fares differed across the country with the largest increases occurring in metropolitan areas outside of London (see Table 6.2).

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<sup>8</sup> It should also be noted that the CIT (1993) report a reduction in operating costs excluding depreciation of 24 per cent between 1985-1986 and 1991-1992 and this would suggest a lower reduction in costs than the DETR (1996).

<sup>9</sup> White, Turner and Mbara (1992) estimate the cost of a full-sized bus to be 69.5 pence per km while a minibus with a 20 per cent driver wage differential to be 45.7 pence. If minibus drivers are paid the same wage as drivers of full-sized buses, then the cost of the minibus increases to be about 15 per cent higher than the full-sized bus.

Table 6.2: **Increases in local bus service real fares by area**

<i>Region</i>	<i>1985-1986</i>	<i>1990-1991</i>	<i>1995-1996</i>	<i>% increase 85/86 to 95/96</i>
London	100	111	135	+35
Metropolitan (other than London)	100	131	153	+53
Rest of England	100	103	111	+11
Scotland	100	94	106	+6
Great Britain	100	107	123	+23

*Source:* (Baylis, 1997)

### *Stability and integration of services*

Service instability and the lack of an integrated services and information has been one of the most consistent criticisms of the bus deregulation in Great Britain.<sup>10</sup> The current government, for example, noted that it was –

keen to see an end to the worst aspects of the deregulation free-for-all, which led to such instability in bus services and such problems over timetable information (DETR, 1998).

And that –

deregulation of the local bus market, outside London, caused substantial upheaval because of ‘bus wars’ and confusion over changing service patterns. There have been some good examples of innovation but frequent changes to bus services, poor connections and the reluctance of some bus operators to participate in information schemes of through ticketing undermined bus services (DETR, 1998a).

The Select Committee on the Environment, Transport and Regional Affairs made similar criticisms noting that –

Although there are exceptions, the industry remains characterised by ... a lack of integration with other bus services and modes of transport; inadequate passenger information ... Passenger confidence is further undermined by frequent changes to services, which can be made at relative short notice (ETRAC, 1999).

This is in contrast to the Industry Commission’s (1994) view that instability was a short term phenomenon and that bus operators would face commercial incentives to coordinate their services with other operators and with other modes.

### *Patronage*

High fares, increased instability and a reluctance on the part of bus operators to coordinate services and information or participate in ticketing schemes have all been blamed for falls in patronage that were greater than the long term trend decline in patronage following deregulation.<sup>11</sup>

<sup>10</sup> The Confederation of Passenger Transport UK, which represents bus operators, is an exception. The suggest that the large ‘volume of changes to registrations is not necessarily a reflection of overly-active competitive manoeuvring’ but ‘a response to changing passenger needs’ (CPT, 1998).

<sup>11</sup> See, for example, McGuinness, Gillingwater and Bryman (1994), Bayliss (1997), White and Turner (1991) and Colson (1996) for discussions on the possible source of the decline in patronage.

halting the decline in patronage was one of the core objectives of the deregulation of bus services in 1985-1986. With the notable exception of London, this did not occur:

Overall there was a drop of 5.3 per cent in Britain as a whole. However, in London there was an increase of 10.2 per cent - in marked contrasts to trends elsewhere. Taking all of Britain, excluding London - that is, the deregulated area - the overall fall was 9.3 per cent. It was most acute in the Mets., at 16.2 per cent. It was least evident in the English shires, at 3.3 per cent; and Scotland, at 3.4 per cent (White and Turner, 1991).

White and Turner (1991) note that there was a sharp drop in 1986-1987 and a smaller fall in patronage in 1987-1988. They attribute this to the severe disruption and instability caused to the network after deregulation while others have identified the increase in real fares (see previous section) as having a significant impact on ridership.

Notably, the decline in ridership has slowed in recent years. White (1997) notes that the 1994-1995 saw the fall in patronage outside of London fall marginally (by 0.5 per cent) with a small increase in the English shires being offset by losses elsewhere, against a trend rate of decline of between -3 and -4 per cent per annum in the previous 8 years. London continued to experience patronage growth of around 4.5 per cent. These changes are also noted in the UK Government's White Paper 'daughter document' on buses:

ridership across Great Britain as a whole remained at a similar level to the previous year, contrasting with the long term steady decline until the mid 1990s. Local bus journeys in England actually increased by 1 per cent (DETR 1998b).

However the government notes that while patronage overall is improving,

over the last decade, bus use has continued to decline in overall in the metropolitan areas (DETR 1998).

## **Bus operation profitability and investment**

Research by industry consultants in England suggest that a return of 16 to 18 per cent is required for the bus industry to re-invest and remain profitable in the long run. Poole (1999) reports that the operating margin for the industry as whole is just 11.8 per cent but that this disguises considerable differences between regions and firms. She reports that of 146 operators surveyed –

21 per cent achieved an operating return of 15 per cent or more and 21 per cent achieved 12 to 15 per cent. However, 14 per cent were making less than 5 per cent and 8 per cent were making a loss. (The consultants undertaking the survey) found that there was a continuing growth in investment, an improvement in profit levels (and) a real growth in revenue (Poole, 1999).

The survey also found, however, that –

small operators were not investing enough, labour shortages were hampering reliability and profit improvements were coming from cost control rather than revenue growth (poole, 1999).

Poole (1999) also notes that the reluctance to invest in new vehicles is beginning to change with the number of new registrations running at historically high levels.

## Impact of reform on market structure

As noted in the previous chapter, the UK Government assumed that a bus industry without government-imposed licences would be highly contestable and that this would lead to cost reductions and optimal market outcomes. The weight of opinion seems to be that the bus industry is not contestable, however, and that market structure in the bus industry can have significant impacts on market outcomes. This section outlines some of the impacts of deregulation on market structure.

### *Concentration*

As noted earlier, the UK Government broke up the publicly owned National Bus Company into 72 separate operating companies and sold those companies to the private sector or through management and employee buyouts. Since the privatisation of the National Bus Company in 1985 the bus industry has seen a return to a concentrated bus industry with three private groups controlling over half (53.3 per cent) of the bus market by turnover (Poole, 1999). As noted by the OFT (1997), this level of concentration is higher than the typical concentration ratio in manufacturing industries.

The portion of the national market held by each of these operators overstates the extent to which these companies compete in the market, however, because of the local nature of bus markets. The OFT (1997) notes that each of the big bus groups tends to have a significant presence in only a few regions and that on the road competition between the big companies is very limited or non-existence. Within individual local markets, however, bus companies can have a significant presence. Of the ten local bus markets studied by the OFT (1997), the average market share held by the market leader in each area was 83 per cent and, in half the cases, it was 90 per cent or more.

### *Effects of concentrated markets*

One of the significant effects of highly concentrated markets is that bus operators can benefit from economies of scale associated with the purchasing of buses. As noted by the OFT (1997) –

It appears that the very largest operators, such as Stagecoach, may now enjoy non-trivial unit cost advantages over smaller operators, mainly because of scale at the national market level, and, possibly a lower cost of capital. Such operators are able to purchase new buses significantly (20 per cent) more cheaply than small operators, and, by virtues of operating ‘younger’ fleets than many smaller companies, also enjoy lower maintenance and operating costs per bus mile. This cost effect will work whenever, as in most of the case study areas, the incumbent is owned by a subsidiary of one of the market leaders.

Certainly bus companies, themselves, see that there are economies of scale to be exploited:

In evidence to the Transport Committee both Badgerline (now FirstBus and Stagecoach said they had achieved such economies: Stagecoach estimated that they had a cost advantage of 4 per cent for this reason (White, 1997).

These economies of scale encourage mergers of bus companies and minimise the long-run average cost of providing bus services. In this regard, they improve social welfare. However,

they also present a barrier to entry to new entrants who face a higher cost structure because of the higher cost of capital and higher cost of purchasing and operating buses.

As noted in the previous chapter, where barriers to entry are present or where markets are not contestable, the incumbent may have the ability to raise fares above or reduce output below the optimal level that would be provided in an open market. There are some difficulties in determining whether this has actually occurred with the OFT (1997) reporting that fares in some of the highly concentrated areas studied increased at a rate faster than the national average but that fares in other highly concentrated areas increased at around the national average. They noted, however, that the national average rate of increase is not necessarily an appropriate comparator as the average increase would be influenced by the potentially monopolistic pricing policies of market leaders across the country as a whole. The OFT reports no evidence that bus mileage is lower than might be expected.

An interesting contrast to the highly concentrated areas, however, is Portsmouth, where there was effective competition between two significant bus operators. Portsmouth saw fare increases that were below the average rate for the rest of the country and a likely increase in bus mileage. The OFT (1997) cautions, however, against making judgements based on one case study. The OFT (1997) does note, however, that the profitability of firms has increased after predatory practices were undertaken signalling that the predation may have decreased the threat of competition.

Increased concentration also makes collusion between operators easier and more effective. The OFT (1999a, 1999b) reports, for example, prosecutions of bus operators in the Northwest of England and in Hull for collusion to share markets and to agree on minimum priced bids for tendered services leading to higher fares and a lower level of competition than would otherwise have been the case.

## **Tendered services**

As noted above, services that are not provided commercially but that county councils or passenger transport executives believe as socially desirable may be subsidised if the contract for the service is put out for tender. By 1997, about 85 per cent of the services outside of London were commercial and the remainder tendered services (White, 1997). Often, however, the tendered services form an important part of commercial operator overall service delivery. Preston (1990) reports, for example, that 80 per cent of commercial services in West Yorkshire had a tendered element by the late 1980s.

Commercial operators have adopted three main strategies with respect to tendered services. The first has been to commercially register as much as possible of the existing network. This requires operators to cross-subsidise their less profitable routes, which is possible if the commercial market is not contestable. The second was to shut down services at unprofitable times. This strategy was often based on the view that if services were put out to tender, they could easily be won back, particularly as incumbents would have informational advantages over non-incumbent operators. The third strategy has been to recast the network to maintain coverage throughout the week but to reduce service frequency to ensure a commercial return. Under this strategy, it was difficult for councils to tender services that would not compete with a commercial service (Preston, 1991).

In some cases where tenders have not won by incumbents, the incumbent has registered the service commercially to run just before the tendered service to ensure that its commercial

operations are not jeopardised by the tendered operator. Councils have usually decided to withdraw the tender in these cases (Preston, 1991). The Office of Fair Trading has acted against commercial operators registering services in this way on the basis that the operators are acting predatorily (OFT, 1997).

### **The future of bus regulation**

The UK Government released a White Paper on integrated transport in 1998 (DETR, 1998b) outlining a range of proposals for transport generally. Among its proposals for the bus industry are the strengthening of Quality Partnerships (QP) and the introduction of Quality Contracts.

QP are partnerships between the bus operator and the local authority in which bus operators invest in high quality services and staff training. The local authority invests in traffic management schemes which give buses priority, better bus stations, shelters and other facilities for passengers. QP have been developed in about 30 towns and cities and have typically led to patronage increases of between 10 and 20 per cent and by up to 40 per cent where there is bus segregation and substantial improvements in roadside infrastructure. The UK Audit Commission, however, criticised QP, noting that there was only limited evidence that they resulted in a switch from cars to public transport with the Commission suggesting that increases in patronage were the result of existing passengers traveling more often (Poole, 1999).

Quality contracts are intended to be trialled as replacements of QP when QP are insufficient to guarantee the necessary improvements. Quality Contracts allow for operators to bid for exclusive rights to run bus services on routes or a group of routes on the basis of local authority specification and performance target. This reflects the current situation in London and is similar to the regulatory framework in place in Queensland.

The government expects that the benefits of Quality Contracts will include:

stability of the network and services, local authority control over fares and the ability to specify quality and quantity of services, and the connections with other buses - or other modes. There is also an important argument that passengers would benefit if operators used revenues on the business routes to subsidise the less busy ones (DETR 1998a).

The government recognises that there are a number of disadvantages as well

Decision making would be largely removed from the operators, with a danger that there would be less responsiveness to the customer, reduced flexibility and less incentive to innovate. Smaller operators in particular could find themselves squeezed out by the larger groups. Experience suggests that contracting can become a competition between operators for the lowest-cost wages and conditions for staff. And there would be costs to local authorities in setting up and monitoring bus Quality Contracts (DETR, 1998a).

The bus industry has also raised a number of concerns with Quality Contracts:

Our belief, backed by independent research, that quality contracts offer nothing to users or local communities is well known. The best passenger growth in recent years has been seen not in London (where numbers are now falling) but in towns and cities where quality partnerships are working (CPT, 1998).

## **6.3 New Zealand**

Another country with significant deregulation of bus services in recent times is New Zealand. Fare and capacity controls in the local route bus industry were effectively removed in July 1991. However, unlike Britain, 14 regional councils were given greater powers to specify routes, capacities, frequencies and fares in regional transport plans and operators were then invited to propose any commercial service over the specified routes that they considered worthwhile. Commercial operators can also provide services that are not specified by the regional council. The only requirement on commercial operators is that they notify the relevant regional council of their intention to commence a service 21 days before the service was to start. Minimum notice periods also applied to withdrawing services.

Services specified in regional transport plans that are not provided commercially can be subsidised by the regional authority. Operators receiving subsidies must do so through a tender process (Wallis, 1993). Wallis (1995) reports that most contracts are for 3-5 years and are structured so that the maximum size of individual tenders is limited to about 12 buses, limiting tenders to specific routes or corridors rather than an area. Most tenders have been of the net subsidy type (where revenue is retained by the operator) although gross subsidy contracts (where revenue goes to the regional authority) are also used. In an effort to reduce transitional costs, regional authorities were, initially at least, permitted to favour incumbent operators by up to 25 per cent in the tender evaluation process (Mein, 1995). Unlike in Great Britain, a council may 'contract over' a commercial service if it is not happy with the performance of the commercial service operator (Wallis, 1993).

## **Outcomes of deregulation**

### *Costs*

#### *Operator costs*

Both Wallis (1993) and (1995) report significant reductions in overall operator costs and attribute this to increased staff productivity. However, much of this increase in productivity has been in the ex-publicly owned operators, who have all experienced substantial staff reductions, the introduction of new awards and changed management practices. Wallis (1995) reports an overall reduction of more than 40 per cent in the ratio of total staff to bus kilometres. He also notes that the scale of staff and cost reductions is similar to those experienced in the ex-public sector operators in Great Britain. Interestingly, private operator practices and costs have not been significantly affected.

#### *Government costs*

Wallis (1995) reports that public funding of services (that is, funding for the subsidised tendered services) fell immediately after the reforms commenced in 1991. The size of the funding reductions varies from 10 per cent to around 40 per cent, depending on the region. Overall funding has declined by around 20 per cent. Wallis (1993) and (1995) notes, however, that this average is dominated by the subsidies paid by Auckland which dominates funding because of its size. Subsidies in Auckland, reduced by around 10 per cent because of the 25 per cent preference for incumbent operators adopted by the regional authority in the tender evaluation process.

### *Standards*

The deregulation of bus services including deregulation of standards. While regional councils can impose vehicle standards within their tender processes, there was a noted decline in vehicle quality immediately after deregulation. Wallis (1993) noted that:

There has been virtually no investment in new conventional city buses since 1989-1990. This is partly a short-term response to the uncertainty associated with deregulation the tendering process, partly a reflect of the fact that, so far, regional councils' tendering specifications and tendering evaluation procedures mean that operators are more likely to win tenders with vehicles of lower capital value.

Mein (1995) notes that

Where competition has emerged, this has often been at the expense of service quality. In some cases, successful tenderers have entered the service with poorer quality vehicles than previously existed.

Deregulation of vehicle standards, however, has also meant that smaller vehicles can provide commercial and tendered bus services that were previously closed to them. Both Wanganui and Palmerston North have had scheduled passenger services provided by the local taxi company using small vehicles (with taxis as backup vehicles) with some success. Surveys of Wanganui residents indicated that the frequency and speed of the smaller bus vehicles was preferred over larger buses with reduced speed and less frequent services. The preference for smaller buses by residents and the lower cost structure led to the larger bus service that was competing with the small bus service exiting the market three weeks after commencing (Baxter and Davis, 1992).

### *Fares and patronage*

Between 1991 and 1995 fare levels in New Zealand are reported to have changed very little (Wallis, 1995). Wallis (1993) suggests that this is the result of regional councils retaining pre-deregulation fare levels. Low public transport fares are an explicit policy objective of some regional councils who see that public transport fares need to be kept low to attract people away from private car use (see for example, Wellington Regional Council, 1996). These policies are effectively implemented through the powers that regional councils have over the tendered/subsidised services and the ability they have to contract over commercial services where commercial operators offer fares that are substantially higher than desired by the regional council.

Lower (real) fares do not seem to have had a significant impact on patronage. Between 1987 and 1992, patronaged rates declined by 10 to 15 per cent per year. Wallis (1993) reports that by 1993, that the decline had slowed to around 5 per cent per year and that this may have reflected the bottoming out of the economy. Importantly, however, Wallis (1993) estimated that in Christchurch, patronage levels were between 5 and 15 per cent lower than the trend as a result of the reforms. Much of this decline is linked to bad publicity and unfamiliarity with changed service.

It is unclear whether the decline in patronage was a temporary response to instability and bad publicity or whether it was a permanent phenomenon as patronage data is not collected centrally and bus operators treat the information as confidential. What is clear that data from Auckland indicates a decline in people using public transport to go to work. The Auckland Draft Regional Land Transport Strategy (ARC, 1997), for example, notes that journeys to work using buses as a proportion of all journeys to work declined from 11 per cent in 1986 to 6

per cent in 1991 to 5 per cent in 1996. While car journeys to work increased by 21 per cent between 1986 and 1996, journeys by all public transport fell by 50 per cent. The Auckland Regional Council also reports that in 1996-1997 there were an estimated 38 million public transport trips, down from a peak of 62 million public transport trips in 1984.

## **Effect of tendering**

Unlike Great Britain, most services in New Zealand are tendered.

Only about 20-30 per cent of NZ bus services are provided commercially, the remainder being subsidised through the competitive tendering process (Wallis 1995)

In Great Britain, tendered services account for only around 15 per cent of the total bus market (White 1997b). Competition for tendered services seems to have been low with Mein (1995) noting that a total of 388 bids were received for 285 tenders called in the Auckland area with 199 tenders receiving only one bid. As a result, there were few changes in either service levels or operators in the first round of tenders. Mein (1995) also reported limited competition for tenders in Canterbury with 61 bids for the 50 tenders.

Average tender prices in Auckland are reported to have fallen over the first four years of deregulation (Mein, 1995). Otago too, has reported falling subsidy costs for the last five years (56 per cent reduction since 1993-1994) which they attribute directly to the competitive nature of tendering in that region. They highlight the importance of competition for tenders, however, with Otago paying a subsidy of 62 cents per passenger compared with 90 cents per passenger in Christchurch (ORC, 1999).

## **The future of bus services**

New Zealand regional councils continue to have responsibility for overall network planning, information provision and service coordination. They are also continuing to exert control over bus operators through tendering processes to ensure that fares are kept low and that services are coordinated. In recent years, regional and city councils have started to develop dedicated bus corridors and other infrastructure designed to improve service provision. In Auckland, for example, the Auckland Regional Council, Auckland City Council, the Yellow Bus Company and Cityline Auckland are developing bus priority schemes along certain corridors leading to 10 per cent increases in patronage along prioritised routes (Auckland City, 1999). Wellington regional council is also examining bus priority measures to speed up bus services and improve the image of scheduled services over cars (Wellington Regional Council, 1996).

## **7 Key findings**

### **7.1 Introduction**

This chapter outlines the review committee's findings about some of the key outcomes and lessons from the empirical and theoretical evidence considered in the previous two chapters. These key findings and lessons from the experience in other jurisdictions form the basis of the review committee's understanding, views and opinions about the advantages and disadvantages of both the existing restrictions on competition. This chapter outlines these restrictions and the review committee's view on the advantages and disadvantages.

### **7.2 The bus industry needs subsidy**

While there are difficulties with determining how much a bus service should be subsidised, it is clear to the review committee that there are cogent arguments for subsidising bus services to some degree. User costs, externalities and the value of users and potential users having a public transport choice are all arguments for the subsidisation of bus services to some degree. It is also clear from the empirical considerations in the United Kingdom and New Zealand, that bus operators are unlikely to provide all of the services desired by governments without at least part of those services being subsidised.

Subsidy is required, therefore, on two groups. The first is that the social benefits of public transport are likely to be greater than the private cost of transport (that is, the cost of fares). The second is that some subsidisation of bus services will be necessary to ensure the government's social justice requirements are met.

The review committee is of the opinion that the second rationale for public transport subsidies is more likely to be the reason that subsidies are provided to public transport operators. Certainly, in Great Britain and New Zealand, as well as in Queensland, there is no general subsidisation of passenger journeys on public transport. There is, however, significant subsidisation of public transport provision to ensure government social justice outcomes are achieved. Under these circumstances, the review committee notes that the regulatory framework can have a significant impact on how subsidisation occurs within the scheduled bus industry.

### **7.3 The bus industry is not contestable**

In this regard, an important finding is that where entry is open and fares are set by operators, the bus industry is not highly contestable and that operators are able to erect barriers to entry through their behaviour both before and after entry. Predatory behaviour such as price reductions and service expansions can deter entry and force competitors out of local markets. It also allows operators to create a reputation for toughness in the face of competition which can allow price increases and service reductions in the future below that which would have occurred under an open and free market. This can have impacts not only on commercial services but also on the cost of government subsidies as the number of tenderers falls.

## **7.4 And there are economies of scale**

Another important finding is that there are economies of scale in the operation of buses, particularly in relation to purchasing and availability and price of finance that will contribute to the development of a relatively small number of large bus companies that operate smaller subsidiaries in local markets. This has occurred in Great Britain and in Sweden.<sup>12</sup> The trend toward oligopoly can impact on the cost of subsidy, particularly if operators have local monopolies. At the same time, Great Britain and New Zealand have a number of smaller independent operators that operate in the tender markets to keep prices down.

The review committee does note, however, the suggestions by the Office of Fair Trading in Great Britain that fares have increased at a higher rate in areas that have low levels of competition. The review committee also notes the court cases reported by the OFT exposing collusion on tenders in the bus industry. Both predation and monopoly (or oligopoly) have the ability to reduce competition and impact on fares and service levels.

## **7.5 The transitional effects on patronage can be significant**

One of the key lessons from the overseas experience is that the cost from a regulated regime to one in which entry, fares and standards are effectively deregulated is that patronage inevitably falls. Patronage reductions were reported in Great Britain and New Zealand and attributed to instability in service provision and general confusion service changes. The British experience also highlighted the impact on service coordination and information provision. This may explain the larger reductions experienced in Great Britain as New Zealand regional councils retain some measure of control over service coordination and information provision. The transitional impact on patronage in New Zealand, however, was still estimated to be between 5 and 10 per cent in Christchurch. Other areas of New Zealand have also reported long term declines in patronage that have not been reversed by the deregulation.

In contrast to the decline in patronage is the experience of London, where deregulation was not effected and a system of tendered franchises was implemented instead. In London, patronage increased in the 10 years since deregulation – the only place in Great Britain to experience such an increase.

## **7.6 Cost reductions are biggest where public operators provide services**

One of the biggest positives of deregulation in New Zealand and Great Britain has been the reduction in operating and subsidy costs. However, it needs to be recognised that a large proportion of the cost reductions in these countries came from public operators adjusting to competition with the private sector. In Queensland, only one publicly owned operator remains and even it performs relatively well against in comparison to other publicly owned operators. It is unlikely, therefore, that there will be significant cost reductions if deregulation of entry were adopted. This is an important consideration in determining the potential costs and benefits of removing existing entry restrictions.

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<sup>12</sup> The Swedish experience is not reported in the previous chapter but it seems that since deregulation in that country, there has been increasing concentration of bus operators with the largest two operators accounting for a combined 46 per cent of the market (Alexandersson et al. 1996).

## **7.7 But they also flow from effective competition for tenders**

Cost reductions can also come from having effective competition for tenders. The Otago Regional Council reports reductions in subsidy levels every year since 1993-1994, resulting in an overall subsidy per passenger of just 62 cents. Cost reductions depend, however, on effective competition for tenders. Predatory behaviour and collusion between small numbers of operators can impact significantly on subsidy levels.

## **7.8 Some government input is required**

Without suggesting that Great Britain or New Zealand are moving back towards a highly regulated regime, both countries seem to be increasingly recognising that patronage improvements will not come about unless infrastructure, services and information are coordinated and allow for the effective development of a network of services. New Zealand regional councils are working with local governments and with bus operators on bus priority schemes and have always been involved in the development of network planning, information provision and service coordination. Great Britain has started to see greater integration between local government and bus operators through Quality Partnerships and in the future through the Quality Contracts foreshadowed in the Government's White Paper on Integration. The review committee is of the opinion that any regulatory regime considered by government should allow an appropriate level of control over or input into areas such as network planning and information and infrastructure provision and coordination. Improvements in patronage have been reported in Great Britain and in New Zealand when such coordination has taken place. It is considered unlikely, given the experience in both countries, that coordination in the areas mentioned would have occurred without some form of government intervention.

## **8 Costs and benefits of existing restrictions on competition**

### **8.1 Introduction**

Clause 5(1)(a) of the CPA requires that the benefits of a restriction on competition outweigh the costs to the community as a whole. This chapter attempts to outline the committee's views on the extent to which the existing restrictions on competition meet this test. In doing so, the committee has drawn on the key findings outlined in the previous chapter and used them to construct scenarios in which the restrictions are removed.

### **8.2 Scenario development**

The Queensland guidelines (Queensland Treasury, 1999) and the NCC guidelines (CIE, 1999) require the analysis of the costs and benefits of restrictions against the state that would have existed in the absence of the restrictions on competition. In this regard, the review committee notes the comments of both the NCC (CIE, 1999) and Guasch and Hahn (1999):

Establishing the 'without' framework is arguably the most important and difficult task in conducting a review.

Perhaps the most difficult task in estimating the impact of a regulatory changes is specifying the counterfactual: What would have happened in the absence of that change? (Guasch and Hahn, 1999)

The review committee has approached this 'difficult' task by using the key findings from the previous chapters to underpin the development of a broad brush scenario from which the direction and incidence of the costs and benefits of the existing restrictions can be ascertained.

### **8.3 Broad scenario development**

#### **Removal of restrictions without subsidy**

Under this scenario, entry into the bus industry would not be restricted and there would be no control over fares. Subsidy for bus operators would be limited to the provision of top-up funding for government specified fare concessions (for example, pensioner concessions). Cross-subsidy from profitable services to unprofitable services would not be required.

The review committee is of the opinion that this scenario would not meet the government's objectives for the urban passenger transport industry. The committee notes that one of its key findings (outlined in the previous chapter) is that the urban scheduled passenger transport industry needs subsidisation on both economic efficiency and social justice grounds and that the removal of subsidy and the removal of the requirement for bus operators to cross-subsidise unprofitable routes would lead to the withdrawal of services being provided under the current restrictions. For this reason, the review committee does not propose to consider a scenario without some form of subsidisation of non-profitable services.

## Removal of restrictions with subsidy

The alternative scenario reflects the British and New Zealand systems, in which entry and pricing restrictions are removed and operators are free to provide urban passenger services on a commercial basis. Some registration requirements would be imposed to allow the government to determine which routes were not being provided and to allow some safety checks on vehicles and operations.

Routes that the government wished to be provided but which were not provided commercially would be tendered by the government. Subsidy rates would be determined on the basis of competition between operators for the tendered route.

Under this scenario, the government would be responsible for determining the route structure for either the entire service area (as in New Zealand) or the non-commercial routes only (as in Britain).

It is expected that the government would continue to specify minimum safety-related regulation of operators under this scenario.

## 8.4 Patronage impacts

The British and New Zealand experience provides some important indicators as to the likely impacts of deregulating entry and price while subsidising unprofitable routes. The first of these is that patronage levels are likely to fall as a direct result of deregulation. Britain and New Zealand reported greater than trend reductions in patronage after deregulation of entry. There is nothing to suggest that similar declines would not occur in Queensland. In New Zealand, deregulation was estimated to lead to patronage reductions of between 5 and 15 per cent per annum. Similar falls in Queensland would mean a decline in patronage of between 2.8 and 8.6 million in the first year of deregulated entry and pricing. If patronage declined at 10 per cent a year, 46 million fewer journeys would be made by bus (from the current level of 57.5 million per annum) after 10 years.

The decline in patronage is particularly significant if the declines occur during peak travel periods. While a small proportion of travel to work is undertaken on buses on a statewide basis – around 3.4 per cent (ABS, 1996) – bus travel accounts for a significant proportion in the Southeast corner of the State and in particular in Brisbane, Logan and Redcliffe areas where it accounts for around 5.9 per cent of journeys to work. Declines in the number and proportion of people using buses to travel to work will have significant impacts on congestion, pollution and vehicle accidents, particularly in Southeast Queensland.

### Competition impacts

#### *Competition 'on the road'*

It is to be expected that the freeing up of entry will result in some operators competing directly with other services. New Zealand and British experiences, however, suggest that competition 'on the road' will be limited and that competition will occur primarily at the edges of service areas. It could be expected that, in the transitional phase of open entry, 'on the road' competition would occur in the larger towns in Southeast Queensland and possibly in towns such as Cairns, Townsville and Toowoomba, where there may be operators able to enter a

route in direct competition with a larger incumbent. It is unlikely that such 'on the road' competition would be sustained in the long-term.

### *Competition 'for the road'*

Competition 'for the road' has two forms. Firstly, there is competition for commercial routes that will sustain only one operator. Secondly, there is competition for non-commercial tendered services.

#### *Commercial services*

The experience overseas is that competition for commercial services is more likely to come from small operators existing at the edges of a service area dominated by a larger operator. Small operators typically provide services that do not directly compete with a larger operator's services or which are complementary to the larger operator's services.

#### *Tendered services*

The presence of smaller operators is an important element in ensuring competition for tenders is effective. It is considered that, in Southeast Queensland and in the larger regional towns, competition for tenders would be effective. However, in the smaller regional towns, it is possible that competition for tenders would be less effective because of the smaller number of operators able to provide services. In this regard, the experience of New Zealand suggests that non-traditional urban scheduled operators, such as the local taxi company, may move into scheduled services. In Queensland, taxi companies have already expressed interest in offering to provide scheduled services within some regional Queensland towns. Further capacity in regional areas may be available as a result of the expanded charter and tourist sectors which were deregulated in 1994.

The committee is of the opinion that there are enough potential operators, both in Southeast Queensland and in regional Queensland, to ensure effective competition for tendered routes as well as providing competition on a commercial basis in selected areas.

#### *Extent of commercial routes*

In Britain 15 per cent of services were tendered, while in New Zealand between 70 and 80 per cent of services were tendered. The review committee is of the opinion that the requirement for tendered services in Queensland would be closer to New Zealand levels than British levels. In making this assessment, the review committee notes that car ownership and population densities are similar to New Zealand and significantly different from British car ownership and density levels. The committee also notes that a bus operator visited by the review committee estimated that 70 per cent of the routes being provided by the company were likely to be unprofitable in their own right.

Fares in New Zealand were more closely controlled by the regional councils than was the case in Britain, where fares increased in real terms. As fares increase, it is possible that a larger percentage of routes become profitable, particularly as bus travel is widely perceived to be price-inelastic. It is possible, therefore, that in the absence of price controls, real fares could rise above their current levels and the proportion of profitable routes to unprofitable routes in Queensland would be higher than in New Zealand.

The number of profitable routes has important impacts, not only on the amount of direct subsidy to operators but also on the cost of administering and applying for tenders, which is borne by the government and business. The proportion of profitable routes to unprofitable routes also has important impacts. In New Zealand, the regional councils are able to exert more control over commercial operators because of the high proportion of routes which are tendered and therefore controlled by the regional councils. In contrast, in Britain, less control is able to be exercised over commercial operators. Where the proportion of services tendered is high, it can be expected that costs associated with integration of service levels and fares will be lower.

## **Subsidy impacts**

### *Will competition for tendered routes reduce subsidy levels?*

The review committee is of the opinion that the tendering of routes will place some downward pressure on operator costs subsidy levels but that cost reductions are likely to be small. The committee notes that operating cost reductions in New Zealand and Britain primarily occurred within former publicly owned entities. In Queensland, most bus services are provided by privately owned companies which already have a strong incentive to minimise costs and improve profitability.

The committee also feels that the reform process undertaken over the past five years has reduced operator costs and subsidy requirements in many cities and towns in Queensland and that there are only limited opportunities to further reduce costs. Nevertheless, competition for tendered routes and for commercial routes will ensure that inefficient operators are removed from the market, ensuring that costs are constantly kept at the minimum level possible.

The one exception to this general view is Brisbane, where services are provided by a publicly owned entity. The committee notes that there have been significant cost savings where publicly owned operators have been exposed to the full force of competition and that cost reductions of 30-40 per cent have been achieved. It also notes that Brisbane Transport is committed to reducing its costs by 30 per cent. If such cost savings are achieved, the impact of competition for Brisbane Transport is one of timing. Under competition, it would be expected that significant cost savings would need to be made by Brisbane Transport within a relatively short period of time. Under the existing contractual arrangements, Brisbane Transport is able to migrate to a lower cost structure over time.

While there may be some small cost savings from cost reductions resulting from competition, the review committee notes that operators would not be required to cross-subsidise any unprofitable services under the proposed scenario and it is considered unlikely that they will choose to do so. The removal of the requirement to cross-subsidise internally will increase the overall direct government subsidy requirement.

The net effect on subsidies depends on whether the cost reductions resulting from competitive pressures to reduce costs outweigh the additional subsidy requirement to pay for the services that were previously cross subsidised from profitable routes.

## **Industry structure impacts**

One of the important determinants of competition impacts and subsidy/cost impacts is industry structure. Mergers in Britain have led to a concentrated industry structure, with three large

operators providing services across much of the UK with smaller operators providing services in one or two towns each. Some concentration of the bus industry has occurred in Queensland over the past 5 years, with one company operating in five service contract areas. It would be expected that mergers and competition for routes would lead to additional concentration ratios.

A highly concentrated industry may lead to reduced levels of effective competition for commercial and tendered routes and, in turn, lead to lower output or higher prices than would prevail under open competition. The concentration of industry in Britain has led to trade practices action against bus operators for predation, anti-competitive mergers and collusion. It could be expected that similar practices would occur here if the industry were sufficiently concentrated. The committee notes the potential for anti-competitive activity to occur within a concentrated industry structure but is of the opinion that such activity should be controlled by trade practices legislation that applies generally.

### **Quality impacts**

Quality impacts have two aspects. The first is vehicle quality. Vehicle quality is assumed to fall in the scenario where operators defer investment in new vehicles while uncertainty about the competitive arrangements continues to exist. Deferring investment can be a rational response to uncertainty about the future, particularly where the uncertainty is likely to reduce in the future. Deferred investment has been an outcome that has occurred in New Zealand and Britain. British sources have reported a resurgence in investment in new vehicles this year.

One impact of a deferment of investment in new vehicles is that vehicle age increases, vehicle quality (in comparison to levels that would have occurred under a regulated industry) decreases and vehicle maintenance costs increase. It is likely that increases in maintenance costs will eventually be outweighed by the impact of uncertainty, particularly for larger companies that can reduce their investment costs (through lower-priced vehicles and reduced capital costs) and particularly as uncertainty levels start to reduce. This may explain the investment in new vehicles occurring in Britain some 14 years after deregulation of urban bus markets.

In addition to vehicle age and quality, another aspect of vehicle (and service) quality is the provision of different vehicle types. One of the often-mentioned outcomes of British deregulation has been the rise of the minibus, while in New Zealand, the taxi-bus is presented as an outcome from deregulation. The review committee is sceptical of opportunities for these outcomes in Queensland, mainly because there are few barriers to providing urban scheduled passenger services with these vehicles now. Certain scheduled and demand-responsive urban services in Mackay are provided with taxis and minibuses while the taxi operators in other parts of Queensland have tendered for service contracts. Even where taxi operators do not directly provide the scheduled service, bus operators can use taxi operators to provide scheduled services. Smaller than standard buses (minis and midis) are being used now in many service contract areas, as are wheelchair accessible and low floor buses.

The second quality impact is in relation to service quality. Service quality has several aspects, including frequency and spread of service, speed and integration with other services and other modes. The experience from Britain, where networks were largely privately planned (by the bus operators), is that service quality levels decreased. Other than routes where actual 'on the road' competition occurred, frequencies fell, as did the spread of hours over which services

were provided. Weekend services were reduced, as were services at night. Integration of services was limited and has led to the introduction of Quality Partnerships and Quality Contracts.

Another aspect of quality that seems to be valued by consumers is consistency of service. Bus services in Britain, in particular, seem to have suffered from constant timetable and fare changes in response to actual or threatened competition. It is likely that timetable and fare changes will occur at a greater frequency than under the current system with service quality being negatively correlated with levels of competition.

## Overview

Table 8.1 provides an overview of the committee’s views on the major changes that would result from the removal of restrictions on entry and fares in the urban scheduled passenger transport market.

**Table 8.1: Overview of impacts with estimated magnitude and direction impacts**

<i>Element</i>	<i>Estimated magnitude</i>	<i>Estimated direction</i>
Patronage levels	Large	Decline in patronage in the medium to long term (that is, at least 10 years of decline)
Congestion, pollution and accident costs	Large	Increased congestion and pollution and increased number of motor vehicle accidents, particularly in Southeast Queensland
Competition impacts	Medium	Limited ‘on the road’ competition but opportunities for small operators to compete at edges and for tenders
Subsidy costs	Small/Medium	Unknown – patronage decreases and removal of requirement to cross-subsidise may increase subsidy costs to government. However, competitive pressures may lead to operator cost reductions which allow reductions in subsidy costs on per km basis.
Fare levels	Unknown	Possible increase in real fares
Vehicle standards	Low	Decline in vehicle standards and fleet age
Vehicle innovation	Nil/Low	Vehicle innovation occurs now under current regulations. However, some additional improvements may occur under competitive conditions.
Service standards	Medium/ Large	Reduced frequency and spread of services except where ‘on the road’ competition occurs
Operating costs	Small	Possible reduction in operating costs resulting from competitive pressures and increased ability for larger operators with economies of scale to enter new markets.

Administration

Small

Increase in administrative costs for government and industry

## 8.5 Identification of stakeholder impacts

Several groups of stakeholders are potentially impacted by a move to unrestricted entry and pricing with subsidisation of non-commercial routes. This section assesses the major impacts and identifies those stakeholders affected by each particular impact category.

### Patronage reductions

Patronage reductions have a direct and significant impact on operator profitability and, consequently, their ability to invest in new vehicles and services. Reduced investment in vehicles and services further reduces the benefits accruing to bus users, leading to more people moving away from bus use.

Assuming those who no longer catch buses will be using private motor vehicles, patronage reduction will also then increase road congestion, which will impact on all road users. This will increase the direct cost of travel as well as the user costs of travel, particularly in Southeast Queensland where congestion is increasingly an issue. Increased road congestion also impacts on scheduled passenger services, further reducing their attractiveness to passengers and increasing the cost of provision.

Increased car travel and reduced patronage also impacts on pollution levels and this impacts on the entire community, but particularly on those who suffer respiratory illness or diseases such as asthma.

Table 8.2: Summary of stakeholder impacts of decline in patronage

<i>Stakeholder group</i>	<i>Impact</i>
Bus consumers	Increased cost of bus travel as a result of increased cost per passenger and lower vehicle quality  Increased user cost as a result of possible reductions in service levels and as a result of increased congestion on roads flowing from passenger move to private motor vehicles
Other road users	Increased user costs associated with increased congestion on roads flowing from passenger move to private motor vehicles  Increased operating cost of motor vehicles due to congestion
General community	Health impacts from increased pollution levels resulting from passenger moves to private motor vehicles  Increased compliance costs of additional tax requirement from increased subsidy requirements
Bus operators	Reduction in revenue resulting from decline in patronage leading to increases in the cost per passenger carried
Government	Increased subsidy requirement requiring an increased taxation requirement which has impacts for general business compliance costs and also efficiency impacts of taxation

## Competition

Competition for, or on, bus routes impacts on both bus operators and bus users. The combined effect of these impacts is a reduction in passengers, at least in the short to medium term.

For bus operators the main impact of competition for, or on, routes is the pressure to reduce costs. In Britain, this occurred through reductions in vehicle and service quality, through deferring investment or through reducing service delivery at high cost times (notably weekends and nights). If actual ‘on the road’ competition occurs, the pressure to reduce costs is particularly strong because of the reduced revenue that will be received. Bus operators facing ‘on the road’ competition also face reduced revenue levels on those routes subject to competition. New operators, of course, will gain by having new revenue streams but may face higher costs than the incumbent if they face environmental or planning regulations that may apply to new businesses but not to existing ones.

Reductions in service and vehicle quality have direct impacts on the benefits that users obtain from using a bus service. Lower quality vehicles and frequent changes to service times and fares will lead to some users transferring to private motor vehicles because of the reductions in quality. This occurred in Britain, even when the number of services (that is, service frequency) increased.

Reductions in service levels have an impact on both existing users as well as all potential users of bus services. That is, the option value of bus services is reduced. This impact can be significant but will be ameliorated somewhat by government subsidy of services that are not commercially provided. This, however, has a cost to government as well as the compliance and efficiency costs of collecting tax revenue to pay for the subsidy.

**Table 8.3: Summary of stakeholder impacts of competition**

<i>Stakeholder group</i>	<i>Impact</i>
Bus consumers	Reduction in service quality flowing from reduced vehicle quality and frequency of changes to service levels, frequencies and prices. Reduction of waiting time costs where ‘on road’ competition occurs. However, these may be small if competitors engage in ‘headrunning’.
All travellers	Reductions in the option value of buses if services are reduced at weekends and nights to cut costs in the face of competition. This impact is, however, likely to be reduced to the extent that government subsidies are provided to operators for non-commercial services.
Incumbent operators where ‘on the road’ competition occurs	Some reduction in revenue from reduced overall patronage as well as reductions as a result of entry. Possibility that revenue reductions will lead to losses and possible withdrawal from market
Entrant operators where ‘on the road’ competition occurs	New revenue stream; however, there is the possibility that costs will be higher than incumbent because of differential application of regulations (through grandfathering).
Bus manufacturers	Reduction in bus sales

Government

Possibility of increased subsidy requirement

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## Fares

Increases in bus fares impact directly on existing users, who will pay higher prices for their travel. Some existing users, however, will choose not to pay the higher price and instead will change travel patterns or modes. Theoretically, this imposes a cost on these users at some level above the cost of the existing bus fare but below the higher fare. As noted above, reductions in patronage as a result of higher fares will lead to a greater decline in patronage, which will lead to higher costs.

Some people will stop travelling altogether. For these people the cost of social isolation include more health problems, with attendant costs which impact on the budgets of health and other social services.

Higher real fares may mean higher real revenue for bus operators given the inelastic demand for bus travel. However, some of this revenue will be split between operators where there is 'on the road' competition.

Table 8.4: **Summary of stakeholder impacts of higher fares**

<i>Stakeholder group</i>	<i>Impact</i>
Bus consumers	<p>Increased cost of bus travel for those consumers who continue to travel</p> <p>Increased cost of travel by other mode (for example, car or rail) or increased costs associated with changed travel patterns or through alternative non-travel arrangements (travel to local, but more expensive, shop, rather than more distant supermarket)</p> <p>People who reduce travel may become socially isolated, which leads to increased health costs</p>
Bus operators	Improved revenue as an industry but with some operators receiving lower revenue streams than under the existing restrictions because of 'on the road' competition
Government subsidy	Increased real fares will increase the number of routes that can be provided commercially and therefore reduce the need for government subsidisation of non-commercial routes

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## Administration

Currently, the administration of bus services, routes and networks is largely undertaken by operators who are required to meet minimum service levels for route scheduling and design. Operators under a system of open entry and without price control would probably face lower administration costs in this area as they would not have to design routes that met the minimum service levels specified in the contracts. However, they would continue to have some level of route scheduling and design capability to allow them to identify commercial routes and to

tender for non-commercial routes. These costs would be lower if all routes were specified by a government authority, as occurs in New Zealand.

Government costs would rise as a result of the need to identify routes that are socially desirable but which are not being provided by commercial providers and as a result of the administrative costs associated with tendering and evaluating offers for non-commercial routes. The full extent of these costs would depend on whether the whole network was being specified (as in New Zealand) or whether individual routes were being specified (as in Britain). Administrative tendering costs would also depend on the number of routes being tendered. As noted above, the review committee is of the opinion that the proportion of routes requiring tendering would be significantly greater than the 15 per cent of routes tendered in Britain.

**Table 8.5: Summary of stakeholder impacts of administration costs**

<i>Stakeholder group</i>	<i>Impact</i>
Bus operators	<p>Potential for reduced administrative costs as a result of reduced need for route identification and planning</p> <p>Likely increase in administrative costs as a result of more frequent and larger number of tenders</p>
Government	<p>Increased administration costs associated with additional route identification and planning requirements and from administrative costs of more and more frequent tenders</p>

## **Innovation**

Competition and competitive pressure are widely promoted as prompting those in the market to innovate to the benefit of consumers. Under the current system of area franchises some of this competition pressure to innovate is retained through the yardstick competition approach and the potential for periodic tendering. Under a ‘free entry with tendering of non-commercial routes’ regime, some of this innovative pressure will be reduced with the extent of the reduction dependent on the proportion of routes that are tendered. Where this proportion is high, it can be expected that there will be a reduction in innovation because the government’s role in identifying, tendering and monitoring routes will necessarily increase the time it will take to make changes to tendered routes.

This will have a direct impact on passengers, particularly where patronage levels are underestimated or where patronage grows. In these situations, the original tender requirements may result in less capacity being provided than is required. Under commercial conditions, this will be quickly identified and rectified by the commercial operator. However, under tendered conditions, it may take a significant amount of time to identify and rectify service problems. Certainly, in London, changes to services took about six months to process, leading to complaints from bus operators and passengers about the time taken to adjust routes and service levels under the tendered system.

Of course, bus operators would be free to enter tendered routes that are not innovative enough without a subsidy. However, the benefits of the innovation would have to be substantial to turn

a non-commercial route into a commercial one, thereby limiting the incentive for operators to enter these routes in competition with an established subsidised operator.

## Mergers

One of the most marked effects from overseas was the tendency toward increased concentration in the bus industry. Increased size has allowed operators to take advantage of cost reductions in the purchase of buses and in obtaining finance. The existing system of area franchises has also led to some concentration in the bus industry, with one operator providing services in five major regional centres while, in other areas, one operator now provides services where there were previously two or more operators.

With open competition and tenders for non-commercial services, it can be expected that additional mergers will occur in the bus industry, leading to a more concentrated industry structure. This will reduce overall operating costs through savings in areas such as the purchase of buses and obtaining finance. Some additional cost savings may arise where merged businesses are able to share depot and other facilities.

Reduced operating costs as a result of mergers are likely to flow through to reduced subsidy costs for government when services are tendered. However, if the industry becomes over-concentrated, subsidy costs may rise as a result of collusion and other illegal practices. This will also raise the enforcement and monitoring costs of agencies such as the ACCC which is charged with administering the *Trade Practices Act 1974*.

## 8.6 Conclusion

The main cost arising from deregulation of the bus industry is associated with the decline in patronage that has occurred in New Zealand and the United Kingdom (outside of London). This patronage decline has been linked with uncertainty associated with frequent changes to timetables and higher fares. It may also have been associated with the lower quality buses in the short to medium term.

Patronage decline imposes significant costs on the industry and on the community. Lower patronage means more cars on the road, leading to increased pollution and congestion, both of which impose costs on the community as a whole.

On the benefits side, the main benefit that has flowed from deregulation of bus services in New Zealand and the UK has been the decline in industry costs associated with the removal of public ownership of bus companies. This is not a significant issue in Queensland as all companies bar one are privately owned. The committee has already stated its view that there is little opportunity for cost reductions in the private bus industry in Queensland. The main benefit for Queensland seems, therefore, to be associated with the removal of the cross subsidy from profitable to unprofitable routes. Information from the Gold Coast bus operator suggested that 70 per cent of routes would be unprofitable, while the Toowoomba operator noted that only two of the current six routes would be operated in a deregulated environment. This suggests that the level of cross subsidy may be considerable but also that the number of people who would face higher fares or reduced service would be substantial.

Given these considerations, the review committee is of the opinion that the costs of the current regulatory regime are outweighed by the benefits of the regulatory regime. In coming to this conclusion, the committee particularly noted the privatised structure of the bus industry in

Queensland, the patronage increases achieved under the present regulatory regime and the patronage losses in both the UK and New Zealand. The committee recognised the potential that similar patronage losses in Queensland would impose significant costs on the community and, finally, that such losses would be contrary to the Government's stated objectives to increase the mode share of public passenger transport outlined in the Integrated Regional Transport Plan.

## **9 An alternative regime – competitive tendering**

### **9.1 Introduction**

The previous chapter concluded that the costs of the existing regulatory regime were outweighed by the benefits. The second part of the test in clause 5 of the Competition Principles Agreement requires that there are no other means of achieving the objectives of the legislation other than through the restriction of competition. This section outlines an option that is theoretically less restrictive of competition and discusses whether it would viably meet the objectives of the existing restrictions.

### **9.2 Competitive tendering of bus services**

Competitive tendering or the contracting out of bus services involves the specification of some or all routes, fares, service levels, and frequencies by a tendering body, with bus companies periodically tendering for the right to provide services in accordance with the specifications. Bus companies compete with each other at the end of defined terms to provide the specified service.

Competitive tendering of all bus services occurs in London, while in the rest of the UK and in New Zealand, competitive tendering occurs for services that are subsidised by the local authority.

In Queensland, competitive tendering of bus services already occurs, albeit in a limited way, when the Government decides that a bus service should be provided under a service contract and there is no existing operator providing services in the area bound by the service contract or when a service contract holder's performance has been unsatisfactory or the holder decides not to offer for a new contract. Competitive tendering is limited in Queensland, however, by section 62 of the Act which specifies that, subject to satisfactory performance, a service contract holder has an entitlement to make the first offer for a new contract at the end of each 5-year contract term.

Under the option under consideration, this entitlement would be removed and every service contract area would be open to competition at the end of each 5-year contract period.

### **9.3 Benefits and costs of competitive tendering**

#### **Benefits**

Competitive tendering is widely promoted as a means to reduce costs and improve operating efficiencies:

The introduction of competition in the Australian urban bus industry, in the form of competitive tendering, has undoubtedly produced savings of around 20% - the figure cited worldwide as the savings achievable from open competition (Moore, 1998).

And certainly cost reductions have been found in London where the tendering authority has estimated an average weighted cost saving (net of the additional administrative costs

associated with tendering) of 16 per cent (Glaister and Beesley, 1991). Teal, cited in Glaister and Cox (1991) finds that cost savings of 25-30 per cent have been achieved in the US.

Not all commentators agree that cost savings are inevitable. Glaister and Cox (1991) note that the documented experience of competitive tendering has been variable while McCullough, Taylor and Wachs (1998) in a survey of US operators between 1989 and 1993 found that:

bus services operated under contract are sometimes, but not always, less costly than directly operated services ... The findings indicate that vehicle and labour utilisation have far more influence on cost efficiency than either wages or a contracting arrangement. We conclude that cost efficiency can be achieved in many different ways, depending on local conditions, and contracting should not be assumed to be the most appropriate strategy in every situation.

Importantly, the major savings from competitive tendering, and much of the evidence outlined above, tend to be associated with the introduction of competitive tendering by private companies to situations where all services were undertaken by publicly owned companies (Glaister and Cox, 1991). This is generally not the situation in Queensland, where analyses undertaken by the review committee indicate that the technical (or productive) efficiency of Queensland private operators is similar to (and slightly higher than) that of their New Zealand counterparts, who are subject to the pressures of competition. If cost reductions were to occur anywhere they would occur in Brisbane, where the bus operator is owned by the local authority. The review committee believes, therefore, that the benefits of competitive tendering are likely to be small in relation to the privately provided bus services in Queensland but recognises that potentially significant savings might be made in relation to Brisbane Transport's services.

## **Costs**

Competitive tendering also has costs which have to be taken into account. Extra administrative and monitoring costs have been estimated to be between 3 and 10 per cent of the contract cost, with most systems not exceeding 5-6 per cent.

In the reported studies, cost savings typically come from readily identifiable changes such as changes to wages and benefit rates, improved labour productivity and streamlined management. The competitive pressures on companies control these inputs to the production process (Glaister and Cox, 1991). These pressures have their own costs. Pressure on labour to be more productive may increase stress levels and have other health impacts on bus drivers, who appear to be a high risk group with respect to health and well-being (Kompier, 1996). This point was also made by the Australian Rail, Tram and Bus Industry Union (Sub. No. 32).

A decline in vehicle and operational safety is often raised as an outcome of competitive processes including competitive tendering. The impact of competitive tendering and competition *per se* on pollution levels and air quality was also raised by the Australian Rail, Tram and Bus Industry Union (Sub. No. 32), which argued that competitive pressures already in place under the Act have led to a decline in innovation in vehicle and fuel systems. Any further competitive pressure would, presumably, only increase the pollution and decrease air quality.

To some extent, the review committee accepts that safety, the environment and worker health can all be impacted on by competitive pressures that are not controlled. This is not necessarily an argument against competition, but recognition that some elements of the

competitive tendering process need to guard against and to influence safety, environmental and workplace health and safety standards.

### **Comparison of costs and benefits**

As noted above, the review committee is of the opinion that the benefits of introducing competitive tendering outside of Brisbane are unlikely to be significant because of the private ownership already in place. At the same time, it notes that costs can be in the order of 3-10 per cent of the contract costs. Assuming that there is a 20 per cent reduction in costs in Brisbane Transport and assuming that the existing subsidies are of a similar scale to those that would prevail under a competitive contracting regime, it could be expected that the benefit of competitive tendering would be in the order of \$5.9 million in costs saving for the State with a further \$5.9 million for the Brisbane City Council. However, the administration, monitoring and enforcement costs would be between \$2.28 million and \$7.6 million across the State.

This does not include the additional costs that might flow from requiring the contractors to meet specified environmental, safety or workplace health and safety requirements. Such requirements would reduce the savings available to the State and the Brisbane City Council. It should be noted that there is no benefit to the consumer in terms of lower fares or increased frequencies from the competitive contracting regime.

## **9.4 Issues in implementing competitive tendering**

Competitive tendering requires more than simply removing the entitlement to make the first offer for a new contract at the end of each 5-year contract period. The contracting processes in the Act will need to be amended and policy decisions made on a range of issues to ensure optimum competitive tendering outcomes.

### **Contract size and duration**

#### *Contract size*

One significant issue to be addressed is the size, duration and scope of the competitive contract. Currently, contracts require the provision of services over large areas to allow for operators to extract economies of scale. This, however, reduces the opportunities for competition for contracts because smaller companies and operators will be unable to bid for larger contract areas. Brisbane Transport, for example, has approximately 700 buses to service the Brisbane service contract areas while Surfside Buses has more than 200 buses to service the Gold Coast.

To address this, many commentators suggest that competitive tendering contracts should be for shorter periods of time and for routes or areas that require fewer buses. In New Zealand, individual tenders were limited to a maximum of 12 buses in order to encourage smaller operators and new entrants (Wallis, 1995). Glaister and Cox (1991) suggest that:

As a rule of thumb a single contract should not normally involve more than 25 vehicles. Very exceptionally, should it be as much as 75 vehicles.

South Australia and Western Australia are reported by Wallis (1995) to have contracts requiring 80 to 90 buses with tenders that have been subjected to considerable competition from interstate operators. Even at this size, however, some existing service contract areas,

including the Gold Coast and Brisbane, would have to be divided up to allow for effective competition.

Dividing up existing service contract areas has the benefit of allowing more competition for contracts but only at the expense of economies of scale and integration and coordination. Some evidence exists to suggest that economies of scale do exist in the bus industry up to a certain size with constant returns after that size. Cowie and Asenova (1999) estimate that the minimum efficient scale (MES) of a bus fleet in the UK was around 200 buses. If a similar MES was to apply in Queensland, breaking up the larger service contract areas to encourage more competition could result in a decline in efficiency (or an increase in costs).

Integration of bus services is also likely to be more difficult (but not impossible) if the existing service areas are divided into smaller areas to encourage competition.

### *Contract duration*

Contract duration is another difficult issue. Service contracts are currently for 5-year terms but shorter or longer contracts may be more appropriate if competitive tendering was to be introduced. Shorter contracts allow more frequent competitive opportunities but at the expense of encouraging operators to take a 'cash cow' approach and not develop services. In discussions with the review committee, representatives of the bus industry also raised the impact that short contracts have on finance costs. Long contracts give operators a greater incentive to develop the market but at the expense of developing effective competition for the tenders.

In New Zealand, most contracts are for 3 to 5 years with a maximum 5-year limit. Both South Australia and Western Australia are reported to have 5-year contracts with a 5-year rollover while Victoria has a 7-year contract with the possibility of a rollover.

### **Asset ownership**

Effective competition can also be inhibited by other factors and these will need to be addressed in the design of any competitive tendering regime. One of these factors is that large incumbent operators may have significant advantages over potential entrants at the end of each contract period. Wallis (1995) suggests that this is a good reason for splitting up large operators, possibly on a depot-by-depot basis. Again, this involves a tradeoff between encouraging contestability and competition for the market and the economies of scale and integration of services that result from larger operators.

Another potential barrier to entry is associated with ownership of assets. Ownership of a fleet of vehicles and, possibly more importantly, a depot can give an incumbent operator a significant advantage over potential entrants. This is particularly the case if the operator has certain entitlements as a result of the incumbency which cannot be replicated by an entrant. Town planning restrictions may, for example, make it difficult for new enterprises to secure land for depots (Glaister and Cox, 1991). Wallis (1995) suggests that this problem can be overcome by the tendering authority owning the assets and then making them available on the same terms to all tenderers. This, however, would require the compulsory acquisition of land and/or vehicles across Queensland and would impose a substantial transitional cost on the government.

### **Monopolisation**

The danger of monopoly or cartelisation is recognised by a number of commentators. Glaister and Cox (1991) suggest that market share limitations should be considered to guard against this possibility. In the United States, for example, any one operator is allowed to operate only 25 per cent of the contracted services (Hensher, Battellino and Beesley, 1991). Similar rules apply in Britain (Poole, 1999).

## **9.5 Will the option meet the government's objectives?**

A number of issues need to be resolved and changes made to the legislative and industry structure if competitive tendering is to effectively contribute to meeting the government's objectives for the urban scheduled public transport system. Even then it is likely to be an expensive exercise with ongoing cost estimates of between 3-10 per cent of the contract price and with considerable transitional costs.

It is also possible that competitive tendering will not be appropriate in all cases and may lead to higher rather than lower contract costs than under the existing legislative regime. This is particularly so when the level of contestability is low and the incumbent has access to better information about the market or has better asset ownership conditions.

Considering all the factors outlined above, the review committee is of the opinion that the wholesale introduction of competitive tendering in the urban bus industry in Queensland will not meet the government's objectives for public transport. In particular, the committee is concerned that competitive tendering will:

- increase administration and enforcement costs without any reduction in the contract costs of the existing privately provided services; and
- reduce the ability to effectively plan and efficiently manage public transport in the State because of the need to break up the larger areas to allow the introduction of effective competition leading to a reduced ability to take advantage of economies of scale and an increase in the resources needed to administer effective integration of services.

The committee is also concerned that the introduction of competitive tendering across the State may impose significant transitional costs on the government, particularly if the government is to acquire the private infrastructure (depots, vehicles) to ensure effective competition.

This is not to say, however, that competitive tendering should never be used. There may be cases where a competitive tendering regime may be beneficial to the community and the government and, if so, the Act would have to be structured in a way that would allow such a regime to be developed and effectively implemented.

## 10 Other areas of reform

While the review committee is of the opinion that the costs of the current restrictions on competition are outweighed by the benefits, it has also identified areas of the legislation that would benefit from amendment. These are set out below.

### Improved flexibility

The review committee suggests that certain aspects of the regulation of urban scheduled bus services could be made more flexible. The length of service contracts could, for example, be set as a maximum as they do in New Zealand rather than a set period of time (currently 5 years). The maximum contract length could also be longer than is currently the case. QBIC and CityBus Toowoomba both raised the length of contracts as a concern, suggesting that the 5-year terms increase costs, particularly in relation to financing. QBIC supports a 10-year term to enable finance to be obtained more easily.

The review committee suggests that Queensland Transport examine the possibility of amending the Act to allow for a maximum term rather than a specified term for service contracts and to also examine extending the maximum term to longer than the current 5 years.

### Penalties and incentives

Currently, service contracts set out minimum service levels and other performance requirements but do not contain any penalties or incentives (other than those associated with additional profits/losses from patronage increases/decreases). The lack of a penalty and incentive scheme within the Act or within the service contracts themselves means that there is limited opportunity for the government to seek to rectify deficiencies in operator performance without the threatened or actual termination of the service contract itself.

The review committee notes that Western Australia imposes penalties for late running and other failures to meet specified performance standards. The committee suggests that Queensland Transport should examine the possibility of introducing a similar penalty and incentive scheme within the existing service contract regime.

### Long distance and intercity services

At least one participant in the review commented on the need for the government to consider amending the legislation to provide for service contracts to be awarded to some intercity bus services that travel for more than 40 kilometres. These services typically provide daily services to commuters and other regular travellers in a way similar to the village to town services currently subject to market entry restrictions.

The review committee is of the opinion that intercity services that are more than 40 kilometres should be examined by Queensland Transport to determine if there is likely to be a public benefit associated with the imposition of market entry restrictions for these services. If there is a demonstrable public benefit, then the government may wish to give consideration to the amendment of schedule 1 of the Transport Operations (Passenger Transport) Regulation which deals with allowable market entry restrictions.

# 11 Restrictions on competition in the taxi industry and their objectives

## 11.1 Introduction

This chapter outlines the specific restrictions applying to the taxi industry as well as discussing the objectives of those restrictions. These restrictions form the without change state against which other options are considered in later sections of this report.

## 11.2 Taxi regulation in Queensland

Taxis have been regulated in Queensland since 1905, when both hackney carriages and cabs were regulated under the *Brisbane Traffic Act 1905* (Bletchly 1986). Since then, taxi operators and drivers have been regulated by a number of Acts. In 1994 the *Transport Operations (Passenger Transport) Act 1994* continued to regulate drivers and operators and licensed taxis. For the first time, it also introduced regulation of booking companies. Drivers, operators and booking companies must now all meet minimum standards and all are bound by the absolute prohibition of certain practices—charging more than the maximum fare or touting, for example. This section outlines the primary means of regulating each of these levels of the taxi industry and outlines the restrictions on competition.

### Taxi booking companies

Before 1994, taxi booking companies were not recognised in any legislation in Queensland. With the introduction of the *Transport Operations (Passenger Transport) Act 1994*, the chief executive of Queensland Transport could declare an area within which the provision of a service for the booking of a taxi and the assignment of taxis to customers would only be allowed if the person taking the bookings and assigning the taxis held a service contract with the State.

All taxi service areas with a population greater than 10,000 have been declared and taxi service contracts have been entered into with each of the taxi booking companies providing services in those areas (see Table 11.1).

Table 11.1: **Taxi service areas requiring service contracts**

Bribie Island	Ipswich
Brisbane	Mt Isa
Bundaberg	Redcliffe
Caboolture	Rockhampton
Cairns	Sunshine Coast
Gladstone	Toowoomba
Gympie	Townsville

Unlike the commercial service contracts for bus services (see Chapter 3), taxi service contracts are not exclusive. Any person who can demonstrate that he or she can meet the specified minimum service levels is able to obtain a service contract and commence a taxi booking company. In practice, a person's ability to demonstrate this is limited by the

restrictions on the number of licences allowed within a specified taxi service area (see next section).

### *Minimum service levels*

Minimum service levels for taxi service contracts are specified as maximum waiting time requirements for phone booked work. In general, 85 per cent of calls must be met within 10 minutes of the booking being made and 95 per cent of calls must be met within 20 minutes of the booking being made. Allowances are made for regular peak periods, Friday nights for example, but not for irregular peaks.

Booking companies are required to provide data on their performance in meeting these minimum service levels on a quarterly basis. Reporting is required for the entire taxi fleet as well as for the wheelchair accessible taxi fleet. A failure to meet the minimum service levels is an indication to the regulators of the industry that there are insufficient numbers of taxis within the relevant taxi service area and may lead to the issuing of additional taxi service licences. Separate reporting for wheelchair accessible taxis allows decisions to be made as to whether additional taxi licences should require wheelchair accessible or conventional taxi vehicles.

### *Other contract conditions*

The service contract also specifies other conditions that must be met by the holder of the contract. Some of these conditions are outlined below.

- The contractor is not permitted to require the purchase of a share or of some other security as a condition of a licensee receiving booking services from the company. This addresses a long-standing practice of some booking companies to require that new licensees buy a share in the company before being allowed to receive bookings. This practice effectively restricted the movement of licensees between companies. In this respect, then, the contract condition is considered pro-competitive rather than anti-competitive.
- Contractors have to hold quality assurance at specified levels.
- Contractors have to provide convenient access to the public to make inquiries and complaints and they have to maintain a register of complaints detailing any action taken in response to each complaint.
- Contractors are required to participate in the government-funded Taxi Subsidy Scheme which provides half-price travel for people with certain disabilities.
- Contractors are required to maintain and provide certain information specified in the contract.
- Contractors have to use their best endeavours to ensure that taxi vehicles of licensees affiliated with the contractor are maintained in a safe condition.
- Contractors have to maintain certain insurances specified in the contract.

While service contract holders have obligations under their contracts, the contractor is

permitted to make reasonable requests of their affiliated licensees in order to meet the minimum service levels and other conditions specified in the service contract. This ability to make reasonable requests is a significant strengthening of the position of booking companies relative to taxi operators. Prior to service contracts, many operators could choose where and when to provide services. Once service contracts were implemented, booking companies could give operators a direction about where and when to provide a service and to do other things to ensure that the conditions of the contract were met.

### *Other operational restrictions*

All taxi booking companies are restricted from providing a vehicle that is not a taxi if a person asks for a taxi or suggesting to a person who requests a taxi that they accept a vehicle that is not a taxi.

## **Taxi operators**

Taxi operators are required under the *Transport Operations (Passenger Transport) Act 1994* to hold operator accreditation and to hold (either through ownership in their own right or through the leasing or management of a licence) a taxi service licence for each vehicle used to provide a taxi service.

### *Operator accreditation*

Operator accreditation is a form of negative licensing under which any person who meets stated minimum standards can obtain accreditation. If, however, the minimum standards are not met, or if there is a history of failing to meet the standard while being accredited, the accreditation can be withdrawn or the person can be fined. Operator accreditation is required by all public transport operators and is not considered to be a significant restriction on competition.

### *Taxi service licences*

Under the *Transport Operations (Passenger Transport) Act 1994* every taxi in Queensland is required to be licensed. The Act provides for a regulatory scheme of taxi service licences and specifies that the number of licences is to be fixed, how new licences are to be issued and the conditions of a taxi service licence.

Section 71 of the Act states that the chief executive must fix the number of taxi service licences in an area. In fixing the number of licences, the chief executive must ensure that there are enough taxi service licences for the area to meet public demand and, in doing so, must take into account the following:

- the views of users of taxi services in the area;
- recent changes to travel patterns in the area;
- the types of taxi services available in the area;
- the performance of the existing taxi fleet in the area; and
- the productivity of the fleet.

New licences are periodically issued. Under the Act, licences must be issued by issuing a public notice inviting offers for the purchase of a taxi licence. In practice, new licences are issued to the person or persons making the highest bid with some weighting attached to offers that include the provision of wheelchair accessible vehicles on a conventional taxi service licence. Taxi service licences may also specifically require the provision of a wheelchair accessible vehicle.

Other licence conditions include:

- requiring the operator of the licence to charge no more than the maximum fare;
- requiring the operator to install and maintain stated equipment (for example, communication devices, emergency lights); and
- requiring the operator to cooperate with the holder of a taxi service contract and to comply with all reasonable requests made by the holder of the contract and not to act in a way likely to prevent the holder of the taxi service contract complying with the conditions of the contract.

Taxi service licences may be sold or leased to another accredited operator and there is provision for licences to be transferred between taxi service areas under certain circumstances. In practice, licences have been transferred out of areas where the number of licences has been determined to be too high (given the existing levels of demand) to service areas where additional licences are needed. Licences have also been transferred between areas to allow the issuing of a wheelchair accessible taxi licences without increasing the overall number of taxi service licences.

## **Drivers**

Like all public passenger transport drivers, taxi drivers are required to hold driver authorisation under the *Transport Operations (Passenger Transport) Act 1994*. Like operator accreditation, driver authorisation is a form of negative licensing which allows every person who meets specified minimum standards to obtain authorisation. If standards are not met or are breached whilst authorised, the government can withdraw authorisation and the driver is prevented from driving taxis (or any other form of public passenger service). Like operator accreditation, driver authorisation is not considered a restriction on competition.

Drivers are required to adhere to any licence conditions pertaining to the taxi they are driving. To assist drivers in this regard, a copy of the licence conditions and any other restrictions on the taxi are required to be made available in the vehicle.

## **Fare regulation**

The Act provides for the chief executive to set the maximum fare by gazette notice. The Act allows, however, that the chief executive can decide that maximum fares do not apply to a type of taxi stated in the gazette notice if the taxi is specifically requested by the hirer and the operator and hirer agree on the amount of the fare at the time of booking.

Current exemptions from the maximum fare are available for high occupancy vehicles and for taxi services provided in a luxury motor vehicle (as listed in Schedule 3 of the *Transport Operations (Passenger Transport) Regulation 1994*).

The effect of the fare regime currently in place in Queensland is that there is a maximum fare for a standard taxi. Standard taxis include every taxi hired from a rank or hailed on the street and every taxi booking where the hirer did not specifically request a high occupancy or luxury taxi.

### 11.3 Objectives of the restrictions

Table 11.2 outlines the review committee's views on the primary objectives of the existing restrictions on competition in the taxi industry.

Table 11.2: **Restrictions on competition and their objectives**

Regulation	Objective
1. Overall regulatory framework	<ol style="list-style-type: none"> <li>1. Ensure unscheduled public passenger service is provided to communities at reasonable cost to consumers</li> <li>2. Ensure unscheduled passenger services are available 24 hours a day and to every person in a community</li> <li>3. Ensure that the unscheduled public passenger services provided to the community are safe</li> </ol>
2. Licensing of taxis (quantitative restrictions)	<ol style="list-style-type: none"> <li>1. Ensure that sufficient taxis are provided within specified areas</li> <li>2. Ensure taxi services remain financially viable given requirement to provide community service obligations (24 hour service, not refuse hiring etc.)</li> </ol>
3. Licensing of taxis (quality restrictions)	<ol style="list-style-type: none"> <li>1. Ensure taxi providers do not reduce quality levels given inherent market power</li> </ol>
4. Licensing of taxis (business conduct restrictions)	<ol style="list-style-type: none"> <li>1. Specify community service obligations of taxis</li> <li>2. Ensure quantitative restrictions are maintained</li> </ol>
5. Imposition of maximum fare	<ol style="list-style-type: none"> <li>1. Ensure taxi services are provided at reasonable cost to community given:               <ol style="list-style-type: none"> <li>a) inherent market power of taxi services</li> <li>b) restrictions on licence numbers</li> </ol> </li> </ol>
6. Licensing of taxis (requirement to affiliate with taxi booking company)	<ol style="list-style-type: none"> <li>1. As far as possible ensure taxi operators are subject to competitive market pressures given inherent market power of individual taxi operations</li> </ol>
7. Taxi service contracts	<ol style="list-style-type: none"> <li>1. Ensure supply of taxis equates with demand for taxis</li> <li>2. Ensure taxi administration companies have greater control over factors of production</li> </ol>

## 12 Overview of the taxi industry in Queensland

### 12.1 Introduction

The taxi industry is estimated to provide more than 60 million trips to people across Queensland each year. Some 104 cities and towns are serviced by 2790 taxis.

The sheer number of trips that are undertaken in taxis each year indicate that the taxi industry plays a vital role in the transport system. But it is not just a role for the wealthy. People on low incomes, people with disabilities, older people and younger people are all significant users of taxis. It is clear that, like the urban scheduled bus system, the taxi system provides people with an important link into their communities. This chapter provides an overview of the taxi industry in Queensland.

### 12.2 Industry size and structure

#### Industry size

As noted in the introduction, the taxi industry operates 2790 taxi vehicles in 104 cities and towns throughout Queensland. The largest number of taxis operate in Brisbane (with 1589 taxis) while 48 towns have just one taxi (Table 12.1). Taxi service areas not listed in table 12.1 have fewer than 10 taxis.

Table 12.1: Major taxi services areas

<i>Area</i>	<i>No. of taxis</i>	<i>No. of wheelchair-accessible taxis</i>	<i>Value</i>
Brisbane	1589	99	\$270,000
Gold Coast	223	24	\$409,000
Cairns	127	12	\$260,000
Townsville	123	13	\$215,900
Toowoomba	92	5	\$157,000
Rockhampton	64	6	\$255,000
Sunshine Coast	63	8	\$279,000
Mackay	61	9	\$187,000
Ipswich	61	7	\$186,900
Mt Isa	33	1	\$230,000
Redcliffe	31	2	\$267,000
Bundaberg	28	2	\$170,000
Gladstone	22	1	\$185,000
Thursday Island	17	0	\$40,000
Maryborough	14	2	\$102,730
Gympie	14	0	\$180,000
Hervey Bay	12	3	\$215,000
Innisfail	11	0	\$120,000

## **Industry structure**

### *Taxi drivers*

Data on the number of active taxi drivers in Queensland is not available to Queensland Transport. However, more than 12,000 people have driver authorisation for taxis in Queensland, meaning that there are, on average, four drivers authorised for every taxi.

Drivers are typically considered self-employed and pay for the use of a licensed taxi by either paying a percentage of the fare box to the licence holder (for example, 50 per cent of the fares collected) or by paying a set pay-in (for example, \$100 per shift). Set pay-ins vary depending on the shifts that the pay-ins cover. There is no definitive information on driver remuneration. However, many drivers participating in the review noted the low hourly rate of driver remuneration.

For a taxi driver to make a living he has to work six 12-hour shifts and would make \$7 to \$8 per hour (transcript p. 2).

Drivers are making \$4.50 to \$5.50 per hour (transcript p. 58).

This reflects information provided to the review committee in confidential hearings.

My average gross earnings are in the order of \$510 (per week) that is, \$8.16/hour (confidential hearings).

### *Operators*

Taxi operators either own or lease a taxi service licence which gives them the right to provide a taxi service. Many operators own more than one licence and some will lease a large number of licences and provide a taxi management organisation. These organisations take advantage of the economies of scale associated with running a large number of vehicles. These organisations continue to operate within the larger taxi booking company organisation.

### *Taxi booking companies*

Taxi booking companies take bookings for taxis and allocate taxis to bookings. They also provide goodwill and communications networks for taxi operators. Booking companies may provide training services as well as credit facilities for cabcharge and the taxi subsidy scheme. Table 12.2 provides details of the larger booking companies operating throughout the State.

A booking facility is provided in every taxi service area in Queensland.

Table 12.2: **Taxi booking companies in selected areas**

<i>Taxi service area</i>	<i>Taxi booking companies</i>
Brisbane	Yellow Cabs, Black and White Taxis, Brisbane Cabs
Caboolture	Yellow Cabs, Black and White Taxis
Cairns	Black and White (Quick Service) Cabs
Gold Coast	Regents Taxis
Ipswich	Yellow Cabs
Mackay	Mackay Taxi Transit
Redcliffe	Yellow Cabs, Redcliffe Taxis
Rockhampton	Rocky Cabs
Sunshine Coast	Suncoast Cabs
Toowoomba	Yellow Cabs, Garden City Cabs
Townsville	Standard White Cabs

### *Investors*

Because taxi service licences have value and can be leased to operators, it is possible to invest in a taxi service licence. Investors are licence owners as opposed to taxi operators and expect to obtain a rate of return on licences. Participants in the review suggested that the rate of return on licences was about 8 per cent. This reflects the current lease rate for licences in Brisbane of between \$1,700 and \$1,800 per month.

## **12.3 Taxi industry ridership**

### **Taxi usage**

Most people in Queensland use a taxi sometime in their lives. 75 per cent of Queensland residents use taxis at least once a year and just over half use taxis at least once every three months. Brisbane residents use taxis more often than residents in other parts of Queensland. Younger people (18-29) are more likely to use taxis more frequently than people in older age groups.

Surprisingly, taxi ridership suggests that taxis are not just a transport mode for the well off. Retired people, pensioners and people who are unemployed are more than twice as likely to use a taxi more than once a week than people who are in white collar employment. People without a driver's licence are also more likely to use taxis more often than people with a driver's licence and people who have a disability are also over-represented as taxi users.

### *Reasons for using a taxi*

Based on surveys undertaken by AGB McNair (1996) on behalf of Queensland Transport, the most common reason for using taxis is for entertainment or for social outings (52 per cent). This is followed by business or work-related reasons (19 per cent), shopping (14 per cent) and personal appointments (9 per cent). Males were more likely to use taxis for business while females were more likely to use taxis for shopping or for personal appointments.

## 12.4 Taxi industry performance

Taxi industry performance can be measured in different ways based on different performance criteria. Queensland Transport surveys taxi users every 2 years to determine broad trends in waiting time and other performance criteria as well as surveying users and non-users to determine levels of satisfaction with existing service levels and performance.

### **Waiting time performance**

Surveys undertaken by Queensland Transport indicate that the time spent waiting for a taxi is an important element in the quality of service received by frequent and infrequent users (AC Nielsen, 1999). Table 12.3 outlines reasonable average wait times for users.

Table 12.3 **Reasonable waiting times**

<i>Time period</i>	<i>% expecting within 10 minutes</i>	<i>% expecting within 20 minutes</i>	<i>Average reasonable waiting times</i>
During the day 5am to 5pm	61%	95%	12 minutes
Friday evening 5pm to 10pm	25%	68%	19 minutes
Evenings other than Friday	44%	84%	15 minutes
Any evening after 10pm	42%	76%	14 minutes

Source: AC Nielsen (1998e)

When asked what the actual waiting time was, 73 per cent of users in 1998 remembered being picked up in 10 minutes while 90 per cent recalled being picked up within 20 minutes of ordering a taxi. This equates to an average perceived waiting time of 10.9 minutes overall. Perceived waiting times are generally overestimated by users by about 2 minutes (AGB McNair, 1995). This would mean that industry waiting time performance, on average, is within the reasonable waiting time performance criteria as outlined by users.

Waiting time performance has declined slightly over the six years that these surveys have been undertaken. In this regard, the average waiting time in 1998 was 10.9 minutes, slightly longer than the 9.8 minutes in 1996 and 10.5 minutes in 1994. The shift in waiting time data suggests that waits on Friday afternoons could be increasing while waiting time on Friday evenings could be shortening.

Waiting times can vary considerably between towns and cities. The worst areas, in 1996 at least, had an average wait time of 14 minutes or more, while the best had waiting times of less than 6.5 minutes. It is clear that there is a significant variation in waiting time performance and that, where waiting time is high, more licences or better utilisation of the existing licences will

be required to ensure waiting times are brought within the waiting time performance criteria specified in the service contracts.

Another area in need of improvement is the waiting time performance of wheelchair accessible taxis. The review committee is aware that, in some taxi service areas, wheelchair accessible taxi users can generally expect waiting times above the level experienced by people who use conventional taxis. In other areas, waiting times for both types of taxis are similar.

While some areas are in need of improvement, it is clear that, on average, the taxi industry in Queensland performs relatively well against the waiting time benchmarks developed from the consumer surveys and embodied in the service contracts.

*Other performance criteria*

Surveys of taxi users undertaken on behalf of Queensland Transport asked users to rate aspects of the taxi service from being ‘very poor’ to ‘very good’. Seven service aspects were rated on a five-point scale with 5 being ‘very good’ and 1 being ‘very poor’. Table 12.4 outlines results over the 3 surveys undertaken since 1994.

**Table 12.4: Ratings on service aspects (mean scores)**

<i>Service aspect</i>	<i>1994</i>	<i>1996</i>	<i>1998</i>
Availability in your area	3.9	3.9	3.9
Waiting time after telephone hire	3.7	3.8	3.8
Comfort of the taxi	4.1	4.1	4.1
Driving safety	3.8	3.8	3.8
Personal security	4.1	4.2	4.2
Courtesy of drivers	3.9	4.0	4.0
Knowledge of drivers	3.9	3.9	3.9

Source: AGB McNair (1995, 1996), AC Nielsen (1998e).

The ratings on service aspects indicate that users believe that taxi services are performing well with all mean scores aligning closely to a rating of ‘quite good/mostly good’ (4). Similar scores have been achieved for infrequent or lapsed users of taxi services who rated the overall performance of taxi services at 3.39 (on a five-point scale) indicating that overall taxi services are perceived to be slightly above the average level of performance expected by infrequent users. Users rated taxi services on the same scale at 3.72.

Overall, it would seem that taxi services are providing services at levels that satisfy the community in general and users in particular. Average waiting times are within ‘reasonable’ levels specified by consumers and other service aspects of the taxi industry as a whole are rated at the ‘quite good’ level.

## 13 Analysing the effects of restrictions

### 13.1 Introduction

The analysis of the impacts of the existing regulation and the impacts of alternative regulatory frameworks is an important part of assessing the public interest under National Competition Policy processes. In order to analyse these impacts, it is necessary to develop not only options for assessment but also scenarios about the likely outcomes of those options. The Centre for International Economics (CIE, 1999), in their report for the NCC providing guidelines for NCP reviews, termed these scenarios as the ‘without regulation’ states.<sup>13</sup> They noted that constructing and establishing these scenarios:

is arguably the most important and difficult task in conducting a review. The without situation by definition does not exist. It must be constructed from theoretical evidence or from observation of similar situations in other industries or countries (CIE, 1999).

The theoretical evidence and the situations in other countries is the subject of the next two chapters. This chapter outlines the theoretical arguments relating to taxi regulation. In doing so it is apparent that the need for the regulation of the taxi industry has been the subject of much argument and dispute over time and across interest groups. Not even economists are immune:

The taxi market in large cities has been one of the prototypical examples used by economists of the inefficiency of governmental regulation and of the power of the market to regulate an industry so as to maximize social welfare. In the more specialized literature of transportation economics, however, a long standing debate has raged over whether the industry ought or needs to be regulated by civic authority (Cairns and Liston-Heyes, 1996).

### 13.2 Summary of arguments

Broadly, arguments about the need for regulation of the taxi industry address one of three areas.<sup>14</sup> The first of these areas deals with the regulation of quality standards. The objective of these regulations is to ensure user and non-user protection in matters concerning the physical safety and suitability of vehicles. It also, to some extent, covers safety of passengers by ensuring drivers are appropriately qualified and do not present a danger to consumers. The second area is concerned with the performance of the taxi industry. Regulation in this area typically takes the form of price and entry regulation and has an objective of enhancing the performance of the industry. The third area is concerned with potential external effects of the industry. This area of regulatory concern includes, for example, congestion and visual externalities associated with taxi appearance.

#### Regulation of quality

Some, but not all, commentators support the continued regulation of safety standards.

There is much less argument about the need for some form of quality regulation. The important questions concern the appropriate levels. The overriding concern is to protect the

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<sup>13</sup> Note that the Queensland guidelines refer to the same hypothetical scenarios as ‘with change’ states. That is, they describe the outcomes of scenarios where change has occurred.

<sup>14</sup> This schema of regulatory areas of concern follows Toner and Mackie (1992) but has combined the public safety and consumer protection areas outlined by Toner and Mackie into one broad area of regulation under quality standards and has expanded the discussion of congestion into one that more broadly addresses all externalities.

public, both users and non-users. Taxi users need to be sure that they are entering a safe vehicle which is adequately insured, that the driver is capable and of good repute, and, especially for strangers to an area, that the driver is not going to exploit their ignorance by unduly prolonging the journey. Other road users likewise need to be protected from unsafe and under-insured vehicles and drivers (Toner, 1992).

Similarly, the Industry Commission considered that:

Getting into a taxi, a user may not be in a position to establish the roadworthiness of the vehicle or the ability and integrity of the driver. This provides an argument for government to ensure vehicle roadworthiness and driver standards in the public interest. At issue here is not the need for safety regulation, but the most effective way to achieve it.

Safety and quality of service concerns can and should be handled by requiring vehicle standards to be met, having minimum levels of driver training including English and local geography tests, and ensuring all drivers are 'fit and proper' persons (IC, 1994).

Frankena and Paulter (1986) suggested that in the area of quality regulation:

for example, vehicle safety requirements and liability insurance requirements ... we have concluded that there are potential justifications for those regulations.

The review committee also notes that public safety concerns are at the centre of the recent move to regulate the London minicab industry for the first time.

The London minicab trade should be regulated, for reasons of public safety. People who use minicabs in London - women or men, young or old - should have the confidence that the drivers, vehicles and operators have all been subject to proper checks (DETR, 1997).

In contrast, Findlay and Round (1995) suggest that the market may cope with reductions in the mechanical quality of taxis, driver skills and personal safety of travellers by developing new institutional arrangements.

New companies could emerge in order to act on behalf of consumers in monitoring the quality of the services their members offer. This service of brand identification and certification would reduce consumers search costs and significantly lower their risk of making bad decisions. Such companies could identify themselves and their services by appropriately marking their cars.

Gaunt and Black (1994-1995) make a similar point.

Even if safety reduced under deregulation this does not indicate market failure. On the contrary, it recognises that safety incurs costs and the regulated safety requirements impose costs which market participants judge to be sub-optimal. In a deregulated market, if firms provided a level of safety which is judged by consumers to be undesirable despite the consequential price reduction, then such firms are unlikely to survive.

A deregulated market is likely to have a range of services including various safety levels thereby enabling each consumer to make their preferred choice.

Participants making submissions to the review disagreed with the view that the market would provide an appropriate level of safety and quality in the absence of externally imposed standards. Standard White Cabs (Sub. No.15), for example, cited Fingleton (1988) who stated that:

It is possible that de-regulation of entry could reduce quality of service in the absence of quality standards. This is not an argument against deregulation of entry but rather an argument for improved quality standards if entry is deregulated ... Anything which makes the market more keenly competitive will increase the incentives of suppliers to skimp on quality. Thus one would expect de-regulation of price and entry to lead to a reduction in standards if no change in standards was made.

This view was also held by the Taxi Council of Queensland.

The community's recognition of taxis as providing a homogeneous product means that the integrity of the industry can be destabilised if there are taxi operations below the minimum acceptable standards which are not controlled.

In simple terms, if low cost lemons infiltrate the industry and are left unchecked, they will become the norm and drive out operators who have a higher cost structure because they continue to comply with the previous standards (Sub. No. 30).

Similarly, Five Star Taxi Management were of the view that:

If prices were deregulated the quality, safety and appearance (of taxis) would be drastically reduced. Because of the cheaper fares (if in fact this was to happen), the income levels per car would drop, leading to cars being badly maintained, safety jeopardized and cleanliness and appearance at an all time low (Sub. No. 23).

## **Performance of the taxi industry**

The debate about regulation designed to enhance taxi industry performance centres on the regulation of price and entry in the taxi industry. Proponents of a deregulated market make a number of arguments against regulation but generally hold the view that a free market in which producers are free to make decisions about pricing and entry and where consumers are able to choose between different taxis is superior to the outcomes of a regulated market.

### *Deregulation of price and entry*

Arguments for a deregulated market take three forms. First, there are those who assert that taxis are like any other product and their regulation works only to increase fares, reduce innovation and transfer wealth from consumers to producers.

The consumer suffers as a result of the homogeneity (of taxis). The range of services which the consumer enjoys in other unregulated or even less regulated industry is unavailable in the taxi industry. For example, when buying fruit and vegetables, consumers have a choice of vendors, each offering different services.

In addition to the regulation resulting in an homogeneous product, inflexibility and lack of innovation, it sets inflated (above market) fares. This fare premium is directly attributable to the restricted number of licences on issue (Gaunt and Black, 1994-1995).

The then Industry Commission shared this view in the Commission's inquiry into urban transport:

The Commission is convinced that relaxing entry controls into the taxi industry would bring major consumer benefits through greater price competition, market segmentation, innovation and more choice (IC, 1994).

The second argument suggests that taxis are different from other products and require some regulation but that this need not restrict competition through entry or price controls. Those making these arguments suggest, for example, that there may be problems with information or market power but that these can be dealt with through regulation requiring the provision of appropriate fare information or through trade practices legislation requiring access to communications or credit systems.

The substantial benefits of deregulation with respect to entry conditions and fare controls could be lost if monopoly controls remain or emerge in other key parts of the package after deregulation. Thus, it is essential that any new entrant into the market should have access to credit services and communication facilities, and that care be taken to ensure that new communications technologies cannot be captured by any one particular group such that it develops significant monopoly power in the market.

(If the problem is lack of information, or if taxi drivers can exercise monopoly power only in particular well-known locations, then a variety of solutions can be provided. For example, airport authorities or local tourist promotion authorities could offer advice to travellers or even offer the services of preferred taxi companies at prices that they negotiate on behalf of travellers (Findlay and Round, 1995).

The Industry Commission noted that:

If maximum fares were required to be posted both inside and outside a taxi, that would help consumers overcome any information hurdle. Taxis would be required to make their fares easy to understand with no 'fine print', although they would be free to charge less than the maximum fare (IC, 1994).

The third form of argument made for unregulated taxi markets is that a market with no entry restrictions and without price controls may not lead to outcomes that maximise social welfare but that it attains an equilibrium that is closer to the optimum than would occur under regulation of price and entry.

We have shown that given the assumption of uniform time values efficient regulation would be possible in principle but extremely difficult in practice. Rejecting the assumption (of uniform time values), the calculation of either competitive or efficient solutions would require far more information than the regulator can usually be expected to have.

As the choice between regulation and competition is so difficult to make in terms of the arguments analysed, we think that other arguments about free entry, indicated in the introductory section (of the paper), should be prominent in such a decision (Beesley and Glaister, 1983).

Apart from the arguments based on the direct impacts of regulation, there are two other arguments that have been made about the benefits of a deregulated market over a regulated market. Toner (1996) characterises these arguments as concerned with the practice of regulation rather than the economic effects of regulation. The first area of concern is the cost of regulation.

Regulation costs money ... the expenditure on defending a policy of restricted entry is money which could have been better used to provide a higher quality of service, by paying for more enforcement staff, or providing grants for wheelchair accessibility (Toner, 1996).

The second area of concern is that regulators can be captured by industry being regulated:

This hijacking of the regulator will be most likely where the two sides have good relations and can, in extreme cases, lead to a complete lack of independence on the part of the regulator who then allows the regulated to decide the policy (Toner, 1996).

This potential was also recognised by Gaunt and Black (1994) who based their analysis on insights from public interest theories of regulation.

Politicians are expected to balance the support of these groups in creating the regulation with the dominant group of (taxi) licence holders expected to be the major beneficiary.

The point was also succinctly made by B. Hollis,

Every time the Government has controlled a (sic) industry it has created inefficient monopoly (Sub. No. 13).

### *Arguments against deregulation*

In contrast to those who call for deregulation, there are many commentators from within the academic community who support some form of regulation of price or both price and quantity contributing to the long-standing debate mentioned by Cairns and Liston-Heyes (1996). The taxi industry also, unsurprisingly, supports the continued regulation of the industry.<sup>15</sup>

Academic arguments for some form of regulation generally start with the special features of taxi markets. In this regard, Foerster and Gilbert (1979) identify three areas where the supply and demand relationships are significantly more complex than they are for many other goods and services.

First, the demand for taxi services is not only a function of price but also varies with level of service; second, not all costs associated with the provision of taxi transportation are incurred during the actual carriage of passengers; and finally, there is a sequence of states of vehicle usage consisting of vehicle availability, dispatching to pickup and utilization, all of which are necessary for the provision of passenger transportation.

The complexity of the supply and demand relationships will have significant impacts on the outcomes of deregulation. Foerster and Gilbert (1979), for example, discussed a number of possible regulatory actions and arrived at the view that:

one is left with no clear cut regulatory strategy but rather a number of possible scenarios each with certain advantages and disadvantages ... From an economic point of view it is clear that competition should be encouraged, but if one starts with the concept of need for transportation as opposed to willingness to pay for it, different answers might be found. It seems that there is no hard empirical evidence, but it seems possible that current taxi regulations have desirable distributional effects.

The reason that there is no clear-cut regulatory strategy is that optimal strategies depend on the value of people's waiting time. Toner and Mackie (1992) summarise the argument:

If regulation of entry and/or price is to produce a better result for consumers than an open market, it is necessary to show that regulation will produce a preferred price/service level

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<sup>15</sup> Although some drivers and licence holders were ambivalent about deregulation if they were to be adequately compensated.

combination. This in turn requires knowledge of the relevant price and service elasticities and consumers valuation of service (Beesley and Glaister 1983). The principal dimension of service in this market is the time required to make the journey, including access time, waiting time and in-vehicle time. Values of time are important because they are the prime determinant of optimal regulatory behaviour. If travellers' value of waiting time is very low, then the regulator can best serve the interests of the public by keeping fares down, allowing queues of passengers to form and waiting times to rise. If the value of time is high, then it is worth increasing service quality by ensuring a ready supply of taxis at the expense of lower occupancy rates and higher fares.

Toner and Mackie (1992) analysed the optimal strategies for two English towns and found that, when the ridership maximisation was pursued, the deregulation of both price and entry:

could produce poor result, with low occupancy rates, long cab waiting times and little service improvement for consumers; there would simply be more cabs chasing essentially the same business.

In this case, the optimal economic strategy involved the continued regulation of price and quality.<sup>16</sup>

Other commentators have gone further. Cairns and Liston-Heyes (1996), for example, noted that the social optimum is achieved when taxis are used to the optimal intensity and price is set at the marginal cost of adding capacity. At this price, however, profit is negative and a subsidy would be required to ensure a viable taxi industry.<sup>17</sup> Their solution is that price must exceed the average cost of running a taxi but note that the second best price may not be lower than the monopoly price if the value of people's waiting time is very costly. Under these conditions:

it may be socially superior to increase the number of taxis and to reduce the quantity demanded by holding price above the monopoly level. Still, second best pricing yields zero profit; optimal regulation would produce a medallion value of zero (Cairns and Liston-Heyes, 1996).

Cairns and Liston-Heyes (1996) go on to analyse how the second best price/quality combination can be achieved.

Price regulation is necessary to produce equilibrium in a simple model of the taxi industry but if only price regulation is attempted, the second best cannot be attained because of an externality among passengers. The second best can be achieved only if at least fares and intensity of use of taxi-cabs is regulated, but intensity of service may be difficult to monitor. The authority can improve upon price regulation by regulating the number of taxis as well. In this case, positive medallion values may be observed.

Cairns and Liston-Heyes suggest another justification for positive licence values.

Given the efficiency rationale, the medallion also constitutes a bond of the owner to the authority, which hopes to prevent shirking in the delivery of services.

This rationale is also proposed by Gallick and Sisk (1987).

The medallion serves as collateral offered by the taxi driver to assure that he will comply with the regulations established within a jurisdiction ... The owner of the medallion can expect to

<sup>16</sup> They did recognise the possibility that there may be social reasons for maintaining licence premia and that industry stability and equity may provide rationales for entry controls.

<sup>17</sup> Arnott (1996) and others have made similar points although De Vany (1994) notes that consumers value some excess capacity because of the reductions in average waiting time it allows.

earn a normal return on his investment as long as he does not violate his contractual commitments (that is, any of the regulations in the jurisdiction)

Under the medallion system, suspension of the right to operate the taxi imposes a cost on the owner.

Some taxi industry members noted that high licence values led to improved service in a way similar to a bond, because of the need to finance the cost of the licence.

It is in the government and the community's interest that taxi service licence prices stay high because [if] the leases, costs, repayments are high owners, lessees and drivers will continue to work very long hours to cover them (Sub. No. 14).

The use of medallions as bonding devices to ensure compliance with regulations and reduce shirking has been criticised. Frankena and Paulter (1984) are cited by Cairns and Liston-Heyes (1996) as opposing the use of medallions or licences as bonding devices because the benefits of the bonding would have to be weighed against the impacts on competition. Gallick and Sisk (1987) also prefer direct bonds to a licence or medallion bonding system which restricts entry:

Another hypothetical possibility is the requirement that all entrants post a bond. While this would entail a greater capital requirement than entry in a free market, it need not restrict entry.

Cairns and Liston-Heyes (1996) note several theoretical objections to direct bonding, citing literature from labour economics, particularly noting that bonding itself does not lead to a Pareto efficient outcome and that a medallion system prevents regulators from acting opportunistically through unjust suspensions of operators in order to obtain interest payments on posted bonds.

## **Other economic arguments against deregulation**

### *Externalities*

Commentators have noted a range of other arguments against deregulation. Externalities, for example, are often cited by supporters of regulation. Apart from the externalities associated with waiting times, Dempsey (1996), states:

It has been argued that restrictions on entry increase efficiency by reducing the street congestion and air pollution caused by an excessive number of vehicles.

The possibility of congestion is also raised by Toner and Mackie (1992), Toner (1996) and others:

There may be wider traffic management reasons for wanting to regulate taxis. For example, in a congested town centre it may be useful to prohibit cruising and impose return to rank rules. This requires a rank designation policy which can cope with the number of cabs and possibly a restriction on the number of licences issued (Toner and Mackie, 1992).

Taxicabs impose various external costs. Mainly, they increase traffic congestion and raise the level of air pollution (Shreiber, 1975).

A city with traffic or pollution problems will wish to avoid an excessive number of vehicles on the road. To do so, it might prohibit hawking, establish taxi stands, or even limit the number of taxis (Trudel, 1998).

The Taxi Council of Queensland also suggested that the regulation of the taxi industry benefited the public interest by addressing:

(t)he need to avoid an oversupply in locations of high demand with its resultant impacts on congestion and the environment (Sub. No. 30).

In addition to externalities related to pollution and congestion, Dempsey (1996) suggests another source of external costs:

Still another externality involves the impact taxi service has upon a city's image, for the economy of a city as a whole may be adversely affected by poor or highly priced transport services. The taxi is the first and last impression a city will make on visiting tourists, conventioners and businessmen. A city's hotels, restaurants, airport, convention and business traffic, are dependent upon ubiquitous, reasonably priced, and efficient on-demand taxi service.

### *Absence of a competitive market*

Another argument raised in the literature on taxis is that a competitive market is not possible because of the nature of the industry itself:

Modelling this industry (that is, the taxi industry) as competitive would imply large numbers of firms facing large numbers of customers at a given instant at a given place. These conditions do not hold even approximately in the taxi industry (Cairns and Liston-Heyes, 1996).

Absence of a competitive market exists not just at cabstands, but in the cruising market as well. Competition in the cruising market is unlikely unless a number of taxis congregate in a single location at the same time the patron is present (Dempsey, 1996).

In particular, arguments are made that pricing will not conform to a competitive price outcome because of the structure of the industry.

Since in a competitive taxicab market, the price has a tendency to creep upward, the actual price/availability combination that will emerge is unlikely to be a desirable one according to any criterion ... Price regulation is therefore needed to achieve a satisfactory price/availability combination (Shreiber, 1975).

The tendency for fares to creep upward flows from the problems consumers have in assessing the likelihood that a lower priced taxi will arrive within an acceptable time and the incentives that drivers have to raise fares above the marginal price of supply.

When the cab drives up, if the fare is 15 cents higher than expected, is the customer going to reject it and wait for another cab? Maybe not. In other words, in the cruising market shopping around is costly for the customer because he actually has to wait for another cab. He doesn't know when it is going to come or whether that cab will have a lower fare. Therefore the cruising cab companies may not have an incentive to lower their fares (Frankena and Paulter, 1986).

Surveying the price and quality of available services costs time and money, thus limiting the number of vacant taxis each commuter consults. Irrespective of the actual existing capacity,

these search costs give operators an incentive to hide the true capacity from patrons and simply claim excess demand whenever bargaining. One simple method is to raise the posted fare above marginal cost (Schuurmans-Stekhoven, 1996).

To some extent, it would seem that these problems exist mainly in the cruising and rank markets and less so in the phone booked markets. Effective competition may still exist:

because cruising cabs are still competing with the taxi-stand and radio dispatch services. It is still a possibility for fleets to enter the cruising market and make it well known that there are a lot of cabs offering a lower fare if the customer is willing to wait for one (Frankena and Paulter, 1986).

### *Imperfect information*

Perfect information is a prerequisite for perfect competition. Several commentators have noted, however, that consumers have imperfect information about price and the standard of vehicles:

A prospective (taxi) patron can tell something about a taxi visually by the make and model of the automobile, as well as its dents, scrapes and paint job. But not until s/he enters the taxi will s/he know how long the trip will take or how circuitous the trip will be, how smooth and comfortable the ride will be, how knowledgeable and courteous the driver may be, and whether the price will be a fair one (Dempsey, 1996).

More importantly, consumers will have limited information about where taxis are and how close the next one is to arrive. Search and transaction costs associated with finding a taxi may impede the competitive process and lead to higher than optimal fares. As a result:

the regulation of prices and services can significantly reduce consumer transactions costs, thereby increasing the number and variety of trips (Dempsey, 1996).

### *The absence of sound economic conditions*

Dempsey (1996) raises the possibility that regulation is needed for the taxi industry, citing results from game theory:

(V)arious modes of transport are subject to core theory, which “really amounts to saying that competition just isn’t possible in some industries” ... Core theory emerged from game theory, and as we shall see, offers a fascinating insight into the question of why the taxicab market fails to perform the way one would expect under neo-classical economic theory.

An empty core exists when each and every coalition can be outbid by a rival coalition, so that the market cannot achieve stability; quantity and price fluctuate constantly. With an empty core, the market finds itself mired in unsatisfactory results, unable to achieve competitive equilibrium.

Dempsey (1996) citing Tesler (1985) outlines six prerequisites for an empty core:

(1) demand is uncertain or periodic; (2) plant capacities are large relative to demand; (3) plants exhibit increasing returns to scale; (4) plants have fixed capacities; (5) there are avoidable fixed costs; and (6) it is costly to store the product. Several modes of transport exhibit these characteristics including ... unregulated taxicabs.

## Non-economic arguments against deregulation

The preceding arguments for and against regulation were very much centred on economic analysis. However, as Foerster and Gilbert (1979) have noted:

Economic analysis is one approach to the question of government intervention in markets. It makes an important assumption: that the existing income distribution is optimal ... It is important to recognize the assumption of this approach to regulation, especially when the indicated strategy is to promote a free market. When it is recommended that prices be set by the market mechanism, it must be realized that some trips will become very expensive and others may decrease in price. Costs of service will no longer be averaged out over space and/or over the day. Persons with a low ability to pay, but a high need for transportation, may no longer be able to use taxi service.

Many rationales for taxi regulations in Queensland and in many other places are based on ensuring that people who need transport rather than people who are willing to pay for it have travel options. As noted by the taxi participants in their submissions, regulation:

makes it possible for the most disadvantaged to receive a public transport service in areas where services relying upon profit would not be established (Sub. No. 30).

From a social justice perspective, the government saw the need to not just provide a service to the community but make the taxi service accessible to those who are disadvantaged by location, age, income and disability (Sub. No. 15).

Several participants at public hearings also noted the role that taxis play in ensuring services are provided at a standard price even though the cost of providing the service is greater than the revenue. Foerster and Gilbert (1979) noted that cross-subsidisation of services would not occur under a deregulated system.

There will no longer be any geographic or intertemporal cross subsidization. The economic approach finds the elimination of these subsidies to be efficient and usually favours explicit income transfers if it is felt that income is not distributed in a socially desirable way.

In their view:

The adoption of one policy (that is, taxi deregulation) is not likely to be related to the adoption of the other (income redistribution). Thus the elimination of whatever cross-subsidies now exist without income transfers could lead to socially undesirable results (Foerster and Gilbert, 1979).

Dempsey (1996) sees the common carrier status of taxis as itself requiring regulation to ensure that taxis maintain profitability in the face of competition from transport operators that are not common carriers. Regulation of entry is proposed as a means of reducing competition that reduces overall profitability and jeopardises the provision of services to areas or at times that are not commercially viable in themselves.

The Taxi Council of Queensland made a similar point:

This approach has clouded the seamless web concept where an unregulated service operates the “cream” market when it suits the operator and dabbles in the taxi market in quiet times (Sub. No. 30).

Other participants noted the difficulties of competing with operators who were not required to provide common carrier services:

If it is the intention of the Government to use this review to bring in changes to legislation that continue to highly regulate the taxi industry while effectively making them operate in a deregulated environment with no protection, then it is time to get out, whatever the cost (Sub. No. 22).

There are peaks and lows in this dynamic society. The question is, how do you subsidise people in the low times? The ebbs and flows across the week and across the day still remain (Oral submissions, p. 101).

A number of participants in hearings and people making submissions noted that a regulated industry allowed greater control over drivers to ensure that services were provided across a geographic area and at times of low demand and that the services were provided to a standard acceptable to the Government and the general community. The implication being made in these submissions was that similar control could not be imposed in a deregulated market and that this would lead to a deterioration of service standards.

Drivers must be trained, have the ability to communicate well and be suitable to deal with the needs of the general public ... In essence, under a deregulated open entry of the taxi industry we would not be able to put in place these quality transport requirements (Sub. No. 3).

## 14 Experiences in other jurisdictions

### 14.1 Introduction

Several submissions made to the review committee referred to outcomes of deregulation overseas. The Review Committee is of the opinion that the experience of taxi regulation and deregulation overseas can provide useful information on the likely impacts of deregulation of the Queensland taxi industry. However, like the rationales for regulation and deregulation discussed in the previous chapter, there are varying reports of the outcomes of deregulation of the taxi industry overseas. This chapter outlines some of the reported outcomes of deregulation considered by the Review Committee.

### 14.2 New Zealand

#### Regulated system

Prior to 1989, the number of taxi operator licences was controlled primarily by four geographically based Transport Licensing Authorities (TLA) and new licences required the TLA undertaking a public hearing into the need for, and the public good of, the proposed service. In addition, every town with a population exceeding 20,000 was subject to a triennial review, conducted by the relevant TLA with data and analysis of demand provided by the New Zealand Minister of Transport. Under this system, the number of licences declined from 3,245 in 1975 to 2,762 in 1989 (Gaunt, 1996a). At the time of deregulation, taxi licences typically traded for approximately NZ\$25,000 (Morrison, 1997).

Fares were also controlled with a fare schedule in place for each licence area. As a consequence, 78 different fare schedules were in place in 1987. Fares were set on a cost plus basis taking into account running costs, standing costs and a 10 per cent profit margin. Fares could be reviewed after an application was made by the relevant taxi organisations (Gaunt, 1996a).

Regulated standards for vehicles were imposed that required vehicles to have a current certificate of fitness, be less than 10 years old and carry a maximum of six passengers. Drivers had to be at least 20 years old, have held a drivers licence for two years and pass oral, written and practical tests relating to the driving of a taxi. Drivers had prescribed hours of rest and had to carry logbooks while driving a taxi and multiple hiring was limited to two people and only at specific pick up points (Gaunt, 1996a).

All taxi operators were required to belong to an approved booking organisation and these organisations were required to have rules concerning service to the public, disciplinary provisions and rostering of duties. An approved taxi organisation could suspend or revoke a persons approval to drive in its fleet (Dunlop, 1992).

#### Deregulated system

In 1989, the New Zealand Government passed the *Transport Services Licensing Act 1989* which effectively deregulated entry into the taxi industry and allowed approved taxi organisations to set fares.

Under the Act, people providing a taxi service must hold a Passenger Service Licence which is issued if the person is a 'fit and proper person'. Checks of the applicant's criminal and transport history are made as well as investigations into the general character of the applicant. Licence holders (or at least persons in control of the transport service operated under the licence) must hold a Certificate of Knowledge of Law and Practice (LTSA 1999). Licence holders may operate any number of vehicles under their licence, must maintain a register of complaints and must belong to an approved taxi organisation which provides a 24 hour/7 day a week service, possess a telephone and communication system (Gaunt, 1996a) and serve the entire regional area (Morrison, 1997). Since 1992, approved taxi organisations have been held accountable for their members and drivers. In this regard, taxi organisations are required to ensure that their members possess the required certificates, can communicate in English and maintain an adequate knowledge of the organisation's current operating area (LTSA, 1995).

Vehicles operated by a Passenger Service Licence holder must possess a Certificate of Fitness for the vehicle which is issued by an approved testing station. The vehicles must display a unique number as well as the name and address of the licence holder, have a rooftop sign that indicates it is a taxi and a sign indicating whether it is available for hire. The taxi must also have signs indicating how a complaint may be made and a fare schedule both inside and outside of the taxi. All taxis must have taximeters which must be tested, sealed and certified every six months (Gaunt, 1996a).

Taxi drivers are also required to be licensed and are subject to annual checks of their criminal history and driving record and their medical fitness. Drivers are also required to pass a map reading test and must hold a first aid certificate. Drivers are required to carry and display a sealed photo identification card issued by the Government (Gaunt, 1996a). Driver quality standards were increased in 1993 with the introduction of a requirement for drivers to obtain an Area Knowledge Certificate for each Local Authority District in which they will be operating. Obtaining the certificate requires the driver to sit a knowledge test for the operating area (LTSA, 1995).

## **Published assessments of deregulation**

### **Taxi numbers**

An overall increase in the number of taxis and the number of taxi companies has been cited as the most visible effect of deregulation of the taxi industry in New Zealand.

Of all the effects of deregulation of the taxi industry, the increase in the number of operators has been the most apparent and easily measured. The effect of removing the upper limit on the number of Passenger Service Licences and licences to run a taxi organisation, has been to increase the number of each (Morrison, 1997).

Knight (1993) indicates a 50 per cent increase in the number of taxi organisations and a 25 per cent increase in the number of taxi vehicles four years after deregulation. Other commentators have indicated significant increases in the four major centres (Gaunt, 1996b; Morrison, 1997). A summary is provided in table 14.1.

**Table 14.1 Reported increases in taxi numbers in New Zealand**

<i>Author</i>	<i>Reported increase</i>
Morrison (1997)	Number of taxi companies in the Wellington regional market increased from 9 to 21 while the number of vehicles increased from 454 in October 1989 to 932 in November 1994.
Gaunt (1996b)	Number of taxis in New Zealand increased from 2762 in 1989 to 4079 in 1994. Total number of taxi organisations increased from 107 in October 1989 to 156 in December 1993, with 42 of the 49 additional organisations established inside the four largest cities.  Number of taxis in Auckland increased from 947 in 1989 to 1525 in 1994.

The magnitude of increase has not been consistent across the country, however. Gaunt (1996b) investigated the impacts of deregulation on small urban areas. He noted that prior to deregulation most centres with less than 100,000 people were serviced by one taxi organisation. After deregulation, most centres saw the introduction of additional taxi organisations, reducing the industry concentration in those areas. However, in centres with less than 20,000, the total number of taxi organisations fell marginally with some towns losing a taxi service altogether. Gaunt (1996b) reports that, of the 111 towns with a population less than 20,000 that were examined in his survey, 51 (46 per cent) had at least one taxi service in 1989. After four years of deregulation, seven towns lost a service and one town gained a service, leaving 45 towns with at least one taxi service (40 per cent).

The effect on the overall number of taxis is mixed with Gaunt (1996b) reporting significant increases (of more than 100 per cent) in one town (70,000+) while another town with a population of just over 40,000 had a reduction of total numbers. Towns with less than 20,000 people which had taxi services had a relatively stable number of taxis between 1989 and 1993.

## Fares

Cheaper fares was one of the primary selling points of a deregulated taxi industry in New Zealand. However, the impact on fares is more difficult to determine than the impact on numbers because higher fares could reflect higher quality taxis.

Taxi fares have increased very little since the start of the new taxi regime, and the difference in fares usually reflects the difference in quality of service (Knight, 1993).

Another problem with fares in New Zealand is that there is some evidence that fares can be readily negotiated.

Don't be afraid to haggle. We found it works. In six cases our researchers asked for a quote at a cab rank and then bargained for a lower price. In all cases they were acceptable, although the negotiations were sometimes protracted and involved more than one driver.

Haggling reduced one fare from a \$15-\$18 quote to \$14, and secured a \$29 fare for a ride that would have cost \$34 at the meter price. (The Consumer's Institute, 1993).

Discounts for regular travellers are reported to be a common occurrence.

A number of companies ... indicated that they provided a discount card to regular customers which offered discounts of 10-20 per cent (Gaunt, 1996b).

Both Gaunt (1996b) and Morrison (1997) provide some analysis of changes in maximum fare schedules since deregulation. Morrison noted that real fares declined slightly between 1990 and 1994 based on an analysis of two companies operating in Wellington. Reductions in real fares were between 0.08 per cent and 4.49 per cent depending on the length, time and origin of the trip being considered. The Review Committee notes that the analysis of reductions in real fares undertaken by Morrison selected the two companies with the lowest fares reported in his paper. Examining all of the fare structures reported indicates that the bulk of the fare reduction is largely a result of the removal of the nighttime flagfall (although night distance rates seem to be usually higher). Taking the median fares for all six companies, the fare for an 8 km nighttime trip fell approximately 8.8 per cent in real terms while the reported 10 km airport trip and the 5 km daytime trip increased in real terms by 11.3 per cent and 6.8 per cent respectively.

Gaunt (1996b) reports 'significant' reductions in maximum fares in the largest four cities and only modest falls in medium-sized cities. The smallest towns experienced modest increases in fares. He notes, then, that:

if anything, it appears that the impact of deregulation on fares is in some way related to the size of the urban area in which it occurs.

## Standards

Most commentators on the New Zealand experience note that there were reductions in driver standards in the wake of deregulation. The Consumer's Institute (1993), for example, reported that:

when we took 45 taxi rides in Auckland, Wellington and Christchurch we discovered that all too often (taxis) were unreliable - mainly because drivers did not know where they were going.

We struck two Christchurch drivers with very little English. In our view this limits their capacity to do the job properly.

These concerns were also reflected in a survey undertaken on behalf of the Wellington Regional Council.

Generally the level of service experienced by the surveyed consumers ranged from satisfactory to excellent. People were impressed by the overall improvement in the taxi service since deregulation.

On the down side of the scale, there was also widespread comment that drivers' topography and communication skills required attention. Many of the people surveyed had experienced problems in this area (Dunlop, 1992).

Complaints about driver standards led to the reintroduction of topographical, or route finding, tests and the move to hold approved taxi organisations responsible for affiliated drivers and operators (Morrison, 1997). Low standards have also led to airports and, more recently, the Wellington City Council (WCC, 2000), reintroducing licensing for taxi vehicles using ranks owned by airports and the city.

Morrison (1997) reports that deregulation led to greater product differentiation in the taxi market.

By November 1994, in addition to the number of new companies offering standard taxi operations, a number of specialised taxi-type services had also started up and several downstream enterprises had also entered the market. Taxi vans were added to fleets, as were executive cabs (with drivers in uniforms); the range and flexibility of company accounts were increased, new taxi charge credit systems were introduced together with advertising on cabs.

### **The review committee's investigations**

The review committee examined the New Zealand taxi system in some detail and travelled to Auckland and Wellington to determine, first hand, the impacts of deregulation on taxi services. One finding of this investigation was that taxi services in New Zealand prior to deregulation were reportedly of a low standard. In some areas, taxi drivers took an hour long lunch breach every day during which time the vehicles were unavailable for hire. Very few vehicles were available at night although companies did use a roster system. Drivers worked until they earned their target amount for the shift and then returned home.

#### *Taxi availability*

Since deregulation, the number of taxis in New Zealand has increased significantly. To take Auckland as an example, it is estimated that licence numbers have increased by up to 200 per cent in the city. Over 3000 taxis now ply for hire in the city. Unlike in Queensland, however, there are no requirements for these vehicles to operate 24 hours a day and many taxis only operate during peak or high return periods.

One result of the increased number of taxis plying in Auckland and other cities in New Zealand has been an improvement in taxi availability. A significant improvement was noted in taxi availability at ranks in the city centre. However, this also had a down side with some taxi companies now having to buy or negotiate space from Councils or businesses to stand their vehicles because of competition for limited rank space from taxis which only operated in the rank and hail market and which offered no means of pre-booking.

Despite the increased number of vehicles, even the major taxi company in Auckland (Auckland Cooperative with other 700 vehicles) reported that they still had difficulty in meeting demand at some times of the day and that waits of over 30 minutes were not uncommon in the Greater Auckland area. Furthermore, companies reported that they still experienced difficulties getting drivers to undertake the short, and less profitable, jobs.

Taxi availability at the airports had also improved. However, vehicle quality was of such concern to airport authorities that they introduced their own forms of regulation. Airports now sell rank space to taxi companies or individual vehicles which offer cars under 10 years of age and which guarantee an adequate standard of vehicle and driver. Some airports also operate a demerit points system under which drivers and companies which do not adhere to the airport

rules can be refused access. In Wellington, it was noted that there was on-going conflict between the airport and taxi industry body regarding these private enforced rules.

Vehicle availability in suburban areas is still subject to peak delays and dispatch companies reported difficulties getting vehicles to services in particular areas. One suburban taxi company with 71 vehicles reported that only 5 of these vehicles were available for work after midnight on week nights and that the operators of these vehicles were subsidised by the company to do so. The same company reported that waiting times frequently exceeded 15 minutes in off-peak periods although waiting times generally averaged 10 minutes.

In some rural centres, taxi numbers have actually declined. Again, few statistics are available as records on vehicle numbers are not maintained. However, it was noted that in a small number of areas, vehicle numbers had decreased and industry turnover (the number of people entering and exiting the industry) increased as more people entered the industry but quit after a few months because of lower than expected returns.

### *Wheelchair Access*

Queensland has a significantly higher ratio of wheelchair accessible taxis than New Zealand. As licences are not specifically issued based on need, there is no means for the Government to ensure that appropriate numbers of wheelchair accessible vehicles are operated as taxis.

Grants are provided by the government to operators choosing to operate wheelchair accessible taxis but despite this, there are only 5 wheelchair accessible taxis operating in an area with over 2000 vehicles. When asked about the availability of wheelchair accessible taxis, taxi companies advised that they inform customers to book at least a week ahead of their scheduled trip time.

### *Fares*

Taxi fares were generally higher than taxi fares in Queensland. The New Zealand Department of Transport claimed that, in real terms, fares had declined. However, it was also pointed out by an industry representative that there was a substantial fare increase just prior to deregulation of the industry which would suggest that the real decline in fares has not been as significant as might otherwise have been the case.

Taxi fares vary from company to company and may be changed at any time provided the Department of Transport is notified and the fares listed in the vehicle. It was interesting to note that even within a single company, different fares were applied to particular hirings. Hirings from the airport, for example, attracted a substantial surcharge. Most taxis operating in the larger companies offered credit card payment facilities however none offered EFTPOS facilities.

### *Industry Structure*

In New Zealand, taxis are required to be affiliated with an authorised taxi company. Many people met by the review committee representatives, however, stated that the New Zealand Department of Transport had insufficient enforcement resources to adequately monitor taxi booking companies. As a result, there were numerous reports of groups of five or six independent operators submitting an application for approval to operate as a taxi booking company and using one of the members home phone numbers as the booking company

telephone number. Following approval, the individual members would separate and ply for hire with no visible connection with the others. The phone number would never be advertised and, as a consequence, the individual taxis would never operate in the phone booked market. These taxis were generally referred to as 'city-cabs' and were known for their poor standard of driver and vehicle. One further outcome of this trend is that competition in the phone booked market is limited. In fact, Auckland Cooperative claimed that it faced no substantial competition in the phone-booked taxi market, in a city with more than 3000 taxis

Taxi companies were primarily responsible for training drivers in their fleets and, outside the few major companies in larger centres, driver standards were considered to be significantly lower than in Queensland. Only a very small number of companies provided fully computerised computer despatch systems (three at the time of the visit). Only one company offered global positioning technology to assist in the despatch task. In Queensland, 20 companies offer fully computerised despatch with more than half of those operating global positioning systems.

Taxi companies sell shares in their service to allow people to operate under the company banner. These shares vary from \$5,000 to \$75,000 a share. The trade in company shares has created concerns about 'investors' in shares.

### *Vehicle Standards*

A number of the larger and better companies did impose minimum entry ages on the vehicles operating in their fleets. This was generally between 5 and 10 years old. These companies made efforts to ensure vehicles were maintained in a good condition and from the evidence obtained they generally succeeded. Overall, however, the impression gained by the review committee representatives visiting New Zealand was the taxi vehicle standards were generally poor.

It was reported that the bulk of taxis are purchased second hand and there is a large market in second hand cars imported from Japan to service the taxi industry. Vehicles are not inspected by the Department of Transport and may be substituted at any time as they are not plated specifically as taxis.

### *Driver Standards and Conditions*

With the exceptions of criminal and traffic history checks, taxi companies are responsible for selecting and training of drivers. Taxi companies reported problems getting drivers of a sufficient standards and poor English language skills was noted as an issue of particular concern.

Driver training provision was under review at the time of the review committee's investigations and it was anticipated that the recommendations of the review would include that the New Zealand Department of Transport take a larger role in driver training in order to improve driver standards.

Taxi drivers generally had a poor public image and, over the Christmas period, the police advised the public through an advertising campaign not to travel with taxi companies that they did not know and always notify a friend of which company they were using.

Driver hours are regulated and log books must be maintained. There are also minimum wage regulations which include provision for holiday pay. Anecdotal evidence, however, is that the award is rarely observed and most drivers talked to by the review were unaware that an award even existed. Driver earnings are generally low and there were reports of taxis being towed off ranks because the owners were unable to make repayments.

### *Alternative services*

There are few alternative vehicles offered as taxis. Only a small number of wheelchair accessible taxis are available. Some companies offer a small number of vans and only one company offers only luxury taxi services. It was noted that these luxury taxis would not be classified as a luxury vehicle under the Queensland legislation.

## **14.3 Sweden**

The Review Committee notes that Sweden is one of only two countries that have instituted deregulation of their taxi industry across the nation.<sup>18</sup> On this basis, the Review Committee attempted to examine the outcomes of the deregulation in that country but was able to find only a few reviews of outcomes.

The Swedish taxi industry was deregulated by the *Transport Policy Act 1989* with deregulation itself commencing in July 1991 in five steps:

First, the barriers controlling entry were removed ... At the same time, control of applicant's suitability became more rigorous and encompassed trade skills as well as personal and economic suitability. Second, fare controls were removed. Taxi-cab companies were thus free to set fares but were required to inform customers about the fare prior to trips ... Third, the requirement for all taxi-cabs to belong to a radio dispatch service was abandoned. Fourth, geographically restricted operating areas were eliminated. Fifth and finally, the strictly regulated operating hours were removed (Garling, Laitila, Marell and Westin, 1995).

Garling et al. (1995) assessed the outcomes of the deregulation undertaken in Sweden against the expectations outlined in the deregulating Act. The analysis was undertaken on the basis of information obtained immediately before and immediately after deregulation and as such is very much an analysis of the short term effects of the deregulation. The assessment found that the supply of taxis (both in terms of numbers of taxis and hours of taxi service supplied) increased after deregulation, as expected. However, they also found that fares generally increased in real terms (with the exception of services provided under contract to municipalities in medium sized towns). No increase in demand for taxis was found and no new types of service had emerged after deregulation. Vehicle productivity, defined as the utilised number of vehicle kilometres divided by the total number of vehicle kilometres, declined for all town sizes.

Garling et al. (1995) noted that the situation in Sweden was probably not stable 8 months after deregulation. Choong-Ho (1998) notes that after initial real fare increases in large cities immediately after deregulation in Sweden, in more recent years, real fares in larger cities fell significantly, primarily as a result of:

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<sup>18</sup> The Review Committee has noted that other countries have indicated that they will be undertaking national reform of their taxi industries but are yet to do so or have yet to complete the reforms (see for example, Ministry of Transport, Public Works and Water Management, 1997). As a result, analysis of the outcomes of the reforms are not available.

cut throat competition with considerable reduction in returns to the operators as well as drivers (Choong-Ho, 1998).

## 14.4 United Kingdom

Taxi services in the United Kingdom are regulated by district councils which, under the *Transport Act 1985*, are required to license taxis or to be satisfied that there was no significant unmet demand for taxis before refusing applications for further licences (Fairhead, 1990). Fairhead (1990) reports that in 1989, all except one of the 364 districts licensed taxis and 323 of them chose to license private hire cars (limousines) with more district councils planning to do so during 1989.

### *Extent of deregulation*

Toner (1996) reports that the percentage of district councils licensing taxicabs increased in the 1980s from 82.4 per cent of councils licensing taxicabs in 1980 to 100 per cent of councils licensing taxicabs in 1991. However, it is noted not all councils restricted entry or regulated fares through their licensing requirements (see Table 14.2).

Table 14.2 **Growth in nature and scope of taxi and hire car licensing.**

	1980		1985		1988		1991	
	No.	%	No.	%	No.	%	No.	%
Taxi licensing	305	82.4	312	84.6	316	99.1	292	100
Hire car licensing	221	59.9	259	70.2	274	86.4	280	95.9
Entry restrictions	249	67.5	274	74.3	179	57.2	157	54.0
Fare regulation	278	75.3	290	78.6	281	88.9	273	93.5
Districts in sample	369		369		320		292	

Source: Toner (1996)

It is clear from Table 14.2 that the number of districts regulating fares have increased over time, while the number that regulate entry have declined from about two-thirds in 1980 to just over half in 1991. To some extent, however, this figure may be somewhat misleading as councils are considered to restrict entry in the table if they have any numerical limits on entry. Fairhead (1990) reports that in 1989, some 161 councils retained fixed numerical limits on entry while 42 others restricted the number of taxis less rigidly. These less rigid restrictions included the imposition of a variable limit policy under which each application for a taxi licence was considered on its merit and 'controlled deregulation' under which the cost of entry into the licensed taxi industry was raised through the imposition of quality standards.

### *Numbers of taxis*

The 1985 Transport Act did not allow the regulation of entry or fares of hire cars and, in districts where entry into the taxi industry was regulated, there was a significant increase in the number of hire cars competing with the taxi industry. Where entry was less regulated or where entry was deregulated, the number of taxis and hire cars increased in the years immediately after the 1985 Act. However, hire cars tended to increase less than in districts that regulated entry. The result was that the total combined fleet exhibited broadly similar

increases in size, but the mix between taxis and hire cars differed (see Table 14.3) (Toner, 1996).

Table 14.3 **Changes in fleet size and composition.**

	No issue since Act	Some issue but still restricted	Deregulated since Act	Deregulated before Act
% change in taxis	0	41.1	111.1	114.1
% change in hire cars	133.0	47.9	3.0	29.2
% change in total fleet	75.7	44.7	41.9	63.6

Source: Toner (1996)

## Fares

Almost all councils regulate fares. Toner (1996) analysed taxi fares to determine the impact of deregulation of entry on the regulated fare. They noted that they would expect to find higher fares in areas where there were more taxis per head of population to compensate drivers for reduced occupancy rates. The analysis indicates that:

districts which had deregulated since the Transport Act were more likely (than districts which had not issued licences since the Act) to have had a fares increase in the preceding twelve months, as were districts which had issued some taxi plates but maintained a policy of restricting entry. The effects are not strong, though, and this evidence is therefore inconclusive (Toner, 1996).

Toner (1996) does note that mean fares in the districts analysed are all broadly similar, with the exception of night fares in those areas that deregulated since the 1985 Act commenced.

## Standards

Legislation provides for limited minimum quality standards for taxis across England. Some districts impose higher standards, however, the scope of some of these standards is also limited. For example, a district may impose a maximum age limit as a guideline but if an operator presents an older vehicle in good condition, it must be allowed to operate as a taxi (Toner, 1996). In examining the impacts of the 1985 Act, Toner (1996) suggests that 'vehicle quality may be slightly worse in deregulated districts'.

Toner (1996) also examined the enforcement policies of districts, finding that:

many more districts which restrict entry have a strong enforcement policy, while a number of deregulated districts have no policy at all. It seems from this that there may be insufficient enforcement in deregulated districts ...

Some 17 per cent of deregulated authorities employ no checks at all, compared with less than 2 per cent of restricted districts. Further deregulation may lead to greater pressure on the trade to cut quality. If quality is important to regulators, more resources will need to be devoted to enforcement.

These findings reflect earlier work on the UK taxi industry by Coe and Jackson (1983) who found that strict control of taxi numbers was found to result in the operation of higher value vehicles.

## 14.5 United States

A number<sup>19</sup> of cities in the United States deregulated their taxi industry between the 1960s and the 1980s and there are several reviews of the US experience. In general, reviews that examine deregulated cities on a broad scale seem to be less positive about the benefits of deregulation. Teal and Berglund (1987), for example, note that while entry into the taxi industry increased by at least 18 per cent in every case, most new entrants have been individual owner-operators or small companies. They also note that:

even modest requirements can have a substantial deterrent effect on new entry. Portland had only one new entrant under rules requiring a minimum fleet (initially 10 and later 15 taxis) and service for 24 hours a day, including radio dispatching. Service standards (but not minimum fleets) have apparently held down new entry in Kansas City, which has the lowest open entry rate of any open entry city.

Entry did not seem to lead to improved service (in terms of lower wait times), however.

Service improvements do not inevitably follow new entry, as some analysts have argued. Unless new entry occurs in the telephone order market, response times will be only marginally affected.

Unfortunately, empirical evidence is very limited. The only industry-wide comparison of response times before and after deregulation was made in San Diego, and showed a decrease in average response time from 10 minutes to 8 minutes. On the other hand, trip refusal/taxi no-show rates have generally increased since deregulation. In San Diego, the refusal/no-show rate increased from 5 per cent to 18 per cent between 1976 and 1979, and in Seattle, a refusal/no-show rate of 35 per cent was documented after deregulation (Teal and Berglund, 1987).

Deregulation produced in most cases an immediate, large increase in the number of taxis. Because new entrants tended to congregate at already well-served locations, this large increase in supply did not produce corresponding improvements in customer service. (Price Waterhouse, 1993).

### Fares

Fares were reported as being higher in real terms after deregulation.

The three analyses of rates indicate that deregulation has not produced appreciably lower rates in most telephone booking order markets, and that it appears to be associated with somewhat higher fares. Price competition under deregulation has proved to be the exception rather than the rule, in spite of expectations (Teal and Berglund, 1987).

(P)rices rose following taxi deregulation in every documented case. The short-term changes in price were quite dramatic. In the long-run, however, prices in deregulated cities have performed similar to the industry as a whole (Price Waterhouse, 1993).

Price competition was reported as occurring in only two of the cities analysed by Teal and Berglund (1987) – San Diego and Seattle. No price competition occurred in Tucson, Kansas City, Tacoma or Sacramento. Fares increased more in the rank market than in the telephone market, particularly at airport ranks. It seems that independent operators also charged more

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<sup>19</sup> But certainly not all, as most cities continue to have a regulated taxi industry in the United States. Boroski and Mildner (1998), for example, compare 20 major cities that have not deregulated entry with just seven that had in 1994.

and changed fares more often than operators associated with booking or dispatch companies. Gelb (1981) noted that in San Diego, where taxi operators were required to register fares with the regulatory authority, independent operators filed more fare changes with the regulatory authority than fleet operators and independents had both the highest and the lowest rates. Similarly, in Seattle, 22 per cent of independent operators were reported as charging significantly more than the most frequently charged fare (Gelb, 1981).

## Re-regulation

Price Waterhouse's analysis examined 21 cities which had some level of deregulated industry at some point in time. Of the cities examined,

(1) six cities that were previously open entry have re-regulated all taxi services; (2) two cities that were previously open entry have regulated airport-based services, while retaining an open entry approach for non-airport services; (3) three cities had deregulated fares only, and have continued this practice while retaining entry controls; (4) six cities retained a minimum standards approach; and (5) four cities retained the fully deregulated approach, combining open entry with industry set fares. Of the thirteen cities that had originally opted for open entry, only four continue this practice today.

The four cities which have retained a fully-deregulated system are among the smallest of the cities that had initially implemented full deregulation.

Seattle was one of those cities that re-regulated. However, this did not address the problems associated with taxis in that city. The Seattle experience indicates the importance of ensuring appropriate regulation is in place whether entry and price are regulated or deregulated (see Box 14.1).

Not everyone supports regulation, of course, and many commentators continue to advocate deregulation of the taxi industry in United States cities to encourage lower prices and better service levels. The Canadian Consumer Policy Institute (1997) noted, for example, that US regulations on the taxi industry cost consumers nearly US\$800 million each year and that when Indianapolis deregulated its taxi industry:

fares fell by nearly 7 per cent and waiting times have fallen dramatically ... (A)n industry that was legendary for its poor service and large volume of customer complaints has not had a single customer complaint registered since deregulation.

**Box 14.1: Review of Taxi Regulation in Seattle**

Seattle opened entry to its taxi industry in 1979 and there was a significant increase in the number of taxi operators providing services in the city. The increase, however, was primarily by single taxi operators who did not join booking companies. The result was an extremely fragmented industry. In 1984, Seattle re-regulated entry and legislated for a predetermined ceiling on licence numbers.

By 1995, Seattle had 637 cabs and 217 taxi companies. 210 of these operators were 'independents' with only one taxi. Only two companies had more than 100 cabs.

In 1995, Seattle reviewed its taxi industry finding that:

1. taxis provided poor service in certain areas and that there were slow response times;
2. drivers were unable to find common destinations and landmarks, were rude to customers, had low language skills and discriminated against black customers;
3. fares were inconsistent between trips and between operators and that there were excessively high waiting time charges;
4. vehicles were in poor condition;
5. vehicles and drivers presented a poor image to business and tourists; and
6. enforcement was inadequate.

The review suggested that many of these problems were the result of inappropriate regulation, both under the deregulated and the regulated phases of Seattle's taxi industry history. The atomised nature of the industry was seen as being an enforcement nightmare requiring significant enforcement levels. Seattle, however, had just one enforcement officer. The atomised industry structure was also seen as leading to competition working in a negative way with the large number of independents having little incentive to reinvest profits and to grow businesses. The competitive incentive was to minimise investment and cut costs leading to reduced vehicle quality and training and reduced driver supervision.

The atomised nature of the industry also led to a proliferation of fares which made it extremely difficult for customers to shop around. The review also noted that the fares were 'on the high end and out of line with the poor service'.

## 15 Key findings and lessons

### 15.1 Introduction

The previous two chapters outlined the theoretical arguments for and against regulation and deregulation of the taxi industry and reviewed the outcomes of deregulation overseas. Clearly, there is a divergence of opinion, both theoretically and empirically, as to whether deregulation of the taxi industry will lead to improvements in, firstly, the efficient allocation of resources and, secondly, in transport outcomes.

Making sense of the diverging opinions is a crucial part in determining the impacts of any regulatory options on the government's overall transport objectives as well as determining the advantages and disadvantages of the existing regulation. As noted by the Centre for International Economics (CIE, 1999), identifying the advantages and disadvantages of the existing regulation is an important step in determining whether the costs of the regulation are outweighed by the benefits.

This chapter outlines the review committee's findings about some of the key theoretical outcomes and lessons from overseas and outlines the advantages and disadvantages of the existing regulation based on these findings.

### 15.2 Key findings from theory

As noted earlier, there is a wide divergence of views regarding the benefits of regulation of the taxi industry. Because of the divergence of views, forming an opinion based on the theoretical rationales and empirical evidence of deregulation overseas is an extremely difficult task. Nevertheless, the review committee makes the following observations.

#### **Perfect competition does not exist in the taxi market ...**

Under perfect competition, the interplay of demand and supply, in the long run, works to ensure the price received by suppliers is just sufficient to recover all costs and that the scale of operations is just large enough to achieve minimum average cost. Over time, suppliers cannot sustain prices below average cost, since they would make losses.

Usually, apart from short periods of excess demand, it is not possible, under perfect competition, for prices above average cost to be sustained. Doing so would result in the loss of virtually all market share as consumers are able to purchase the particular product or service elsewhere at a lower price.

There are, however, certain characteristics of the taxi market that may allow taxis to provide services, at least in some segments of the market, under conditions of monopolistic competition. Specifically, the spatial nature of the taxi market means that consumers have to search for taxis in most cases. It is rare that a taxi is exactly where the consumer is at any particular time. Under these conditions, consumers must search for taxis and this can provide taxi drivers and operators with some level of spatial monopoly where the customer is prepared to pay more than the competitive market price in order to avoid incurring the costs associated with finding another taxi.

The spatial monopoly applies most strongly in the hail and rank markets. Mobile phones may reduce the monopoly power of drivers with respect to consumers. However, even in the phone booked market, there are some search costs and these will rise as the number of organisations taking bookings for taxis increase. And, as noted by Stiglitz (1989), even small search costs can have significant effects on efficiency outcomes.

Because there are search costs, it is impossible for an equilibrium price to be determined. Any number of price and output combinations could occur within a free market. This leads to commentators suggesting the price needs to be regulated and the possibility that it may be optimal to also limit the number of vehicles (see Chapter 2).

### **Limiting entry does impose costs...**

If entry is limited, it is clear that the number of taxis will be less than would occur in a market with open entry. The experience overseas is that a significant amount of entry can occur and that this entry can impact positively on consumers' waiting times and therefore on the total cost of travel. The question is whether these costs are outweighed by the costs of excess capacity suggested by some commentators and whether the costs of excess capacity can be dealt with in other ways.

Limiting entry also leads to the creation of rents in the form of licence values and this can increase the average cost of operating the taxi. Whether this impacts on the fare or whether it impacts on driver income is open to question. However, it is clear that licences impose costs on the community as a whole. Again, the question is whether those costs are outweighed by any benefits that might result from capacity regulation.

### **Licence values as bonds ...**

One of the potential benefits of high licence values is the effect it has as a bond to ensure compliance with rules and to prevent shirking. Arguments for and against licences as bonds were canvassed in Chapter 2. The review committee is of the opinion that licences that have a high value seem to lead to higher utilisation of vehicles in order to achieve a desired level of financial return. In effect, the licence value may have at least increased the times that taxis are available for hire if not the overall number of taxis on the road at any particular time. This was raised by some participants in the review:

It is in the government and the community's interest that taxi service licence prices stay high because when the leases, costs, repayments are high owners, leasees and drivers will continue to work very long hours to cover them (Sub. No. 14)

It is less certain that licences act directly as a bonding device which encourages compliance with regulation because of the threat of the government withdrawing licences. Even if this were the case, the same result could be obtained by requiring a bond to be paid into a trust account without the need to restrict entry.

### **Driver and vehicle standards**

Bonds are more commonly discussed in terms of driver and vehicle standards. Cairns and Liston-Heyes (1996) consider a bond is better than merely suspending drivers because, if drivers receive low wages, suspension represents a relatively small penalty. In Queensland, of

course, many drivers do not directly own the licence and thus suspension or cancellation of the licence will not have an impact as a bonding device.

Nevertheless, the review committee is of the view that standards regulation is required for the taxi industry. The review committee is not convinced by arguments that a deregulated market would set standards that would be appropriate or socially optimal. Both theoretical considerations and the experience overseas indicate that appropriate regulation of standards is warranted.

### **The analysis of the taxi industry is an empirical question**

Several commentators made the point that the analysis of the outcomes of regulation or deregulation is an empirical matter that could not be decided *a priori* from first principles.<sup>20</sup> In effect, the outcomes of deregulation depend on the starting point. It is important, then, to understand the differences between where the Queensland industry is now and where the industry in deregulated countries and cities was prior to regulation if comparisons are to be made. It is also important to understand the state of the Queensland industry today to understand the potential outcomes of regulatory reform.

## **15.3 Key lessons from the overseas experience**

The review of the overseas experience with deregulation of the taxi industry can provide key lessons for determining the appropriate regulatory framework for taxis in Queensland. In drawing out these key lessons, the review committee does recognise that the interpretation of the effects of deregulation is difficult because of the scope for the numerous spatial monopoly problems for taxis and market power issues for booking companies as well as the specifics of different regulatory reforms. This was highlighted by the Transportation Research Board (1986) in a general review of taxi reforms in the United States:

A common thread running through these six presentations is an emphasis on the complexity of the impacts of paratransit regulatory reforms. The impacts will vary according to the local market structure and supply and demand factors as well as the specifics of the reforms. Analyses of these impacts must therefore take care neither to oversimplify nor to make inappropriate generalisations.

Despite the complexities, the review committee is of the opinion that the overseas experiences can provide some useful lessons. These are outlined below.

### **Industry structure is important**

Many commentators examining taxi issues considered by the review committee examined the provision of the taxi service without regard to the industry structure within which that provision took place. This is less the case in the empirical studies of the overseas experience. The US and the New Zealand experience, highlight the importance of the industry structure in relation to the transport outcomes achieved through deregulation and re-regulation.

One important structural issue arising from the overseas experience is that free entry into the taxi market by individual taxi providers can have significant adverse impacts on the provision of the taxi service overall. It is clear that where entry of individual taxi operators who have no obligation to be part of a booking company has been allowed, reduced waiting times in the rank

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<sup>20</sup> See for instance, Toner (1992) and Cairns and Liston-Heyes (1996).

and hail market have been the main outcome. It is also clear that there can be a significant reduction in overall standard of vehicles, drivers and service. The Seattle experience illustrates the dangers of entry without booking facilities, especially where telephone bookings constitute a large part of the taxi market. The review committee notes that the restructuring of the taxi industry away from an atomised industry structure to one in which taxis were organised in companies, associations or cooperatives was one of the recommendations made by the peer review group examining the Seattle taxi industry (Avants, Gilbert and Lupro, 1996). The review committee also notes that other cities in the United States are moving away from atomistic industry structures in which taxi operators are free to enter the industry as a sole operator. Boston, for example, recently required approximately 550 unaffiliated taxi operators to join one of six radio associations operating within Boston (ITLA, 1999a).

## Enforcement

The review committee noted that New Zealand also took the view that atomistic taxi operations would not result in a desirable transport outcome and consequently, that country required taxi operators to be affiliated with an approved taxi organisation. However, the committee's investigations in New Zealand indicated that a requirement to be a member of an approved booking organisation was not sufficient to ensure the benefits associated with centralised booking services controlling taxis were realised. In the New Zealand case, enforcement of requirements for booking organisations to actually take bookings and control taxis was found to be virtually non-existent in some areas. The result being that taxi operators simply paid a fee to an 'approved taxi organisation' which did not take bookings. In effect, the lack of enforcement effort in New Zealand has led to the taxi fleet being, in part, centrally controlled through booking organisations and, in part, atomistic and operating only in the cruising and rank markets.

The need for adequate enforcement also was identified by Avants et al. (1996) in relation to Seattle. They found that:

Enforcement is currently woefully inadequate for an industry of 217 companies and hundreds of vehicles and drivers. In addition to too few staff, enforcement is further weakened by the split responsibilities between the City and the County.

One strategy they recommended would see a significant increase in enforcement effort.

This strategy would entail dedicating a fulltime staff of from 5 to 15 employees under one agency, establishing rigorous vehicle standards and inspections, developing a progressive discipline system and internal adjudication process for drivers and owners, investigating complaints and taking remedial action, and consistently deploying field enforcement around the clock.

The City of San Diego took this course of action beginning in 1990, in part to remedy the negative impact of its laissez faire approach begun in the late 1970s. Modest enforcement efforts began in 1984 had been insufficient (Avants et al. 1996).

The committee noted that enforcement effort is lower in districts in England which have deregulated entry. It also notes, however, the view of Toner (1998) that the low levels of enforcement and the lack of an enforcement policy itself may indicate insufficient enforcement effort.

Overall, the committee is of the view that adequate enforcement effort is an important part of any regulatory regime and needs to be explicitly accounted for in any analysis undertaken.

## Standards

Enforcement is, of course, necessary only when there is regulation of outcomes that would not occur without the regulation. From the experiences overseas, it is clear to the review committee that one outcome that would not occur without regulation is the maintenance of appropriate vehicle and driver standards.

New Zealand instituted higher standards for its drivers in 1993 as a result of complaints about drivers not knowing common destinations or being able to speak English. The New Zealand Consumer's Institute (1993) noted that the inability to speak English limits the capacity of taxi drivers to do their job properly.

Driver and vehicle standards in deregulated areas were noted as being lower than in regulated areas in England (Toner, 1996), while in deregulated cities in the United States:

Customer-oriented service improvements expected to occur with the large increase in supply were observed to be marginal.

The effect of deregulation on vehicle condition can be assessed by changes in vehicle age and inspection results. In San Diego, vehicles owned by new market entrants - generally independents and small fleet owners - were observed to be 7.1 years old on average, versus 2.9 years for the large service company that held most of the taxi licences prior to deregulation. Two years following deregulation, all fleets operated with yet older vehicles. In Seattle, the median vehicle age increased to 6 years old following deregulation from 4 years old prior to deregulation. Further vehicle inspection failures increased to 35 per cent two years following deregulation from 20 per cent the year prior to deregulation. Both cases suggest that a large influx of new entrants causes all operators to defer investment until market conditions allow a greater return on investment (Price Waterhouse, 1993).

The evidence from overseas makes it clear that vehicle standards and driver standards are lower after deregulation than under regulated regimes. The review committee is of the strong opinion that reductions in quality of both vehicles and drivers would result if both entry and price were deregulated without either minimum standards regulation or some other form of regulation that would ensure minimum standards were adopted. The impact of deregulation on standards should be recognised in any analysis undertaken in relation to the taxi industry.

## Fares

Overseas jurisdictions have had a mixed experience with fares. Fares in New Zealand are reported to have fallen in real terms (Gaunt, 1996b; Morrison, 1997) while fares in the United States are reported to have increased (Teal and Berglund, 1987; Price Waterhouse, 1993). Fares in the United Kingdom are generally regulated by district councils and information on fare differential between regulated and non-regulated districts is 'inconclusive' (Toner, 1996).

The different outcomes for fares may depend on the initial conditions existing in each of the areas deregulated. If fares were high, for example, it may be the case that deregulation of fares and entry would lead to a reduction in real fares. Alternatively, low regulated fares may have led to a jump in real fares to properly reflect the economic cost of providing taxi services.

It is clear, however, that where fare reductions have occurred, they have not been of the magnitude suggested by proponents of deregulation. Teal and Berglund (1987) suggest possible reasons for this in relation to the United States including:

- (1) “monopoly” profits under regulation were less than might have been expected, (2) the change to deregulation has not generated a competitive industry structure in the telephone order market, and (3) there is no apparent cost basis to substantiate price reductions in the taxi industry. Several demand factors militate against lower taxi fares; (1) demand for taxicabs is apparently characterised by imperfect information and strong name recognition, (2) the demand for taxi service may be inelastic, (3) per capita demand for taxis is either stable or in a long term decline, and (4) leasing partially insulates taxi firms from the ultimate taxi market.

Each of these factors could have a significant impact on prices depending on the initial conditions facing the industry at the time of any regulatory change and each may apply to the Queensland taxi industry. It is important, therefore, that each of these factors be examined when determining the potential outcomes of regulatory structures considered in any analysis undertaken. It should be noted, however, that in relation to the first of these possible factors, the estimated size of the rents as a proportion of the operating costs of taxis in the United States was reported to be significantly lower than seems to be the case in Queensland.

### **Airport problems**

Airport problems featured in reviews of deregulated regimes in both New Zealand and the United States. Several authors have noted that deregulation of taxis at airports has not lowered price, or improved services (see, for example, Doxsey, 1986; Teal, 1986; Teal and Berglund, 1987; La Croix, Mak and Miklius, 1988). Several authors have noted price surcharges for airport trips (see Morrison, 1997) or price gouging. At worst, airports in the United States have reported violence amongst drivers who often wait long hours in airport ranks. The experience at Dallas Fort Worth airport illustrates the situation that can occur at airports:

A “wide open” policy means hundreds of waiting drivers in a staging area, creating trash and litter and the need for restroom facilities. Drivers fight over passengers, and often become irate if someone requests a short trip or refuses one cab in favour of another. (ITLA, 1998)

Direct regulation of taxis by the airport authorities seems to be a common response to the poor image and low levels of service provided by taxis, particularly where entry to the industry is otherwise deregulated. Alternative arrangements include priority rank space at airports allocated through tendering arrangements (for example, Wellington (Dunlop, 1992)) or the requirement for taxis servicing the airport to have permits indicating that the taxis meet minimum standards (for example, Ronald Reagan Airport, Washington DC) (ITLA, 1999b).

Apart from specific problems at airports, the review committee also notes that the Price Waterhouse (1993) study of deregulation in the United States suggested that cities with a relatively large population, low cost entry and *a high level of airport activity* tended to have a negative experience with deregulation.

It is clear to the committee that the experience overseas indicates that any change to the regulatory regime for taxis needs to explicitly address any airport issues that may arise from the changed regulatory structure.

## **Impact on small areas**

Gaunt (1996b) examined the impact of deregulation on taxi services in small towns in New Zealand. While this is the only study found by the review committee examining the impact of deregulation on small towns, the committee is concerned that deregulation of taxis led to a reduction (and in some cases, a complete disappearance) of taxi services in small towns together with an increase in taxi fares.

The concern is particularly important given that Gaunt (1996b) found that the main negative effects of deregulation occurred in towns with a population less than 20,000. Of the 120 taxi service areas in Queensland, only 15 have a population greater than 20,000 and only eight of these have a population greater than 50,000. It is clear, then, that many taxi services are provided in small towns in Queensland. The potential impact of any changed regulatory arrangements needs to be assessed in the cost-benefit analysis.

## **Market power issues**

Effective competition between suppliers requires an absence of market power. However, for taxi booking services, it is not clear that such an absence of market power exists. Barriers to entry in the form of economies of scale are likely to be present in the market for booking services because a large geographic area and a large number of aligned taxis are required to form an effective booking service. Additional economies of scale arise from the fact that the more taxis affiliated with a booking service, the shorter the average response time to a telephone booking for a taxi and the 'cheaper' the overall service becomes for the consumer. As noted by Frankena and Paulter (1986):

In a small city under a system of open entry, it might be possible to have only two or three optimally sized radio dispatch companies. They might be able to exercise market power. The gains from fare ceilings in radio dispatch market in small cities do not justify fare ceilings in other markets, however. It is important to think carefully about the size of the segment, the size of the city, and so forth.

Another source of market power comes from the sunk cost of many of the investments needed to be made in order to provide an effective taxi booking service. The proprietor of Darwin Tropical Taxis noted that the main barrier to effective competition was the need to ensure that the Tropical Taxis telephone number was known amongst potential passengers (pers. comm, Darwin Tropical Taxis). The marketing of telephone numbers may be a substantial sunk cost where there is a large population within the targeted taxi area.

## **Wheelchair accessible taxis**

Another area of concern is that wheelchair accessible vehicles seem to be underprovided in New Zealand and in Darwin where entry into the taxi industry has been significantly freed up. Members of the review committee visited Darwin and New Zealand and noted the small number of wheelchair accessible taxis being operated in both places, despite financial incentives for taxi operators and drivers to provide such services. This is in contrast to the existing policy in Queensland where wheelchair accessible taxis should comprise at least 10 per cent of the fleet in each taxi service area and taxi companies are required to ensure that wheelchair accessible taxis meet the same response times as conventional taxis for phone bookings.

While the taxi industry is subject to State and Commonwealth Discrimination Acts and are therefore required to provide wheelchair accessible vehicles, the review committee is of the opinion that any reduction in the number of wheelchair accessible taxi vehicles provided by the taxi industry would be unlikely to advance the Government's objectives in relation to the social justice objectives outlined in the Act. This issue needs to be carefully considered when assessing alternative regulatory arrangements.

## 15.4 Other areas of concern

There are other issues that have not been reflected in either the theoretical treatments of the taxi industry or in the empirical studies of the overseas experience but which may have important implications for the assessment of the costs and benefits of the existing, and any changed, regulatory arrangements. These are outlined in this section.

### Leasing of licences

The leasing of licences has been raised with the review committee as a major problem in the taxi industry under current regulatory arrangements. The impacts of leasing of licences have been raised with the taxi industry by participants in the review:

An area of concern would have to (be) that of investors in the industry in consultation with the industry and government to see if a cap on lease payments is possible. This is because the way small investors are forcing the monthly lease payments up. These are operators who come into the industry, stay for a 1 or 2 year term, then are forced out because the costs have beaten them. (Sub. No. 23).

Leasing has also been a matter of concern to governments. The South Australian Passenger Transport Board discussion paper noted that:

There has been a dramatic rise in the price of licences since the restrictions on leasing were first eased. There may be a number of other factors which have encouraged this, but evidence from Victoria and Tasmania point to the importance of leasing as a causal factor (Radbone, 1998).

Leasing has created a situation in which it has become unrealistic for the average full time driver to aspire to own a licence and if current trends persist we may well find that the taxi owner-driver will become a figure of the past (Radbone, 1998).

Industry commentators have also raised problems with leasing:

leasing has had a far more pernicious effect on driver incomes and working conditions - and service to the public - than has the medallion system. In reshaping the relationship between owners and drivers, leasing dramatically improved owners' financial position and worsened that of drivers (Schaller and Gilbert, 1996).

High licence values and low driver incomes are the two most common complaints about leasing. Both are areas of concern if the efficiency and effectiveness of the taxi industry are to be pursued. Higher licence values increase the overall cost of putting a taxi on the road and at least some of this cost is passed on to drivers and lessees in the industry who have a lower income than might otherwise be the case. Driver incomes have, in other jurisdictions, been linked to performance and service quality. Drivers who make more money are more likely to stay in the industry longer and the longer they stay in the industry, the better level of service they tend to provide (see, for example, Schaller and Gilbert, 1995a).

Leasing is clearly only a problem where licences are required to enter the taxi industry and, more importantly, when the number of licences is limited in some way. Nevertheless, the existing regulatory regime may be the most appropriate means of achieving the government's objectives for the taxi industry in Queensland. In this regard, the costs and benefits of leasing within the existing regulatory regime and within any alternative regulatory regime under consideration need to be explicitly addressed within the analysis.

### **Driver remuneration**

Taxi driver remuneration was raised by a number of review participants. Most of those raising the issue of driver remuneration suggested that drivers were underpaid. The review committee notes that deregulation of entry into the taxi industry would have separate and opposite effects. Firstly, many more drivers would be more able to enter the industry as an operator of a taxi rather than simply as a driver. As an operator, a former driver would not be subject to pay-ins or revenue splits currently practised in the industry. At the same time, however, there would be many more taxis on the road at any one time, making it more difficult to make a living from taxi driving. Certainly evidence from New Zealand is that taxi driver incomes fell after deregulation as demand for taxis increased at a slower rate than supply.

The review committee is of the opinion that the impact of additional taxis on income is likely to swamp the cost reductions available to drivers who might enter the market as taxi operators and, as a result, net driver income would be likely to fall, rather than increase, as a result of complete deregulation of entry.

## **15.5 Advantages and disadvantages of existing restrictions**

As noted in the introduction of this chapter, the identification of the advantages and disadvantages is an important part of weighing the costs and benefits of the existing regulatory framework. The following pages set out the committee's views on the advantages and disadvantages of the existing regulatory framework based on its findings from the theoretical debate, the observation of overseas taxi outcomes and submissions to the committee.

**Table 15.1:** Advantages and disadvantages of the existing regulation***Entry restrictions (licensing of taxis)****Advantages*

- **Common carrier requirements**

Entry restrictions allow taxis to fund the common carrier requirements required as part of the social justice obligations imposed on taxis. The common carrier obligations require that taxi operators provide all trips requested irrespective of the cost of providing the trip for a specified fare.

- **Optimise entry**

In the event that price is regulated, the level of entry is unlikely to be the optimal level. Restricting entry may allow a second best outcome.

- **Bonds**

Positive licence values may have a bonding effect on taxi operators by providing a built-in incentive not to breach safety and other rules applying to the taxi industry in order to ensure that the licence is not suspended or cancelled. In addition, high licence values will create an incentive for operators to maximise the utilisation of the taxi leading to more taxis on the road for more hours of the day for the total number of taxis operating in the market.

- **Increased vehicle quality**

Restrictions on entry are correlated with increases in vehicle quality, in terms of age and standard of comfort and overall condition.

- **Government revenue**

The Queensland Government sells licences by tender with the proceeds of the licence sales going towards consolidated revenue.

*Disadvantages*

- **Smaller number of taxis**

Entry restrictions reduce the number of taxis that would otherwise ply for hire (particularly within larger centres) and will have an impact on waiting times and may lead to consumer shift to less preferred alternatives.

- **Increased costs**

Licensing raises the average cost of providing a taxi through the requirement to fund the licence price. This will necessarily lead to (a) higher than optimal price, or (b) lower driver income that would otherwise occur or (c) a combination of both (a) and (b).

- **Quality impacts**

To the extent that increased costs lead to reductions in driver income, entry restrictions will lead to a reduction in the length drivers stay in the industry and this may lead to reduced driver quality.

- **Enforcement costs**

Compliance effort is necessary to enforce entry restrictions.

**Table 15.1:** Advantages and disadvantages of the existing regulation (cont.)

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***Price controls (maximum fare for standard taxi)***

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***Advantages*****• Common carrier requirements**

Maximum fares for standard taxis contribute to the common carrier requirements as part of the social justice obligations imposed on taxis. Maximum fares allow consumers of taxis to be assured of a reasonable fare irrespective of the actual cost of the taxi providing the trip.

**• Consumer protection**

Because of search costs associated with taxi use and the spatial monopoly that taxis may have in certain circumstances, a maximum fare restricts the ability of operators and drivers to take advantage of consumers, particularly those who are unlikely to be aware of an appropriate fare for a particular trip.

**• Reduced search costs**

Searching for a taxi with an appropriate fare may be costly. A maximum fare for a standard taxi reduces the cost of search by reducing the ability of taxis to provide high cost services. However, it does allow those who have low search costs to continue to search through negotiation with taxi operators, drivers or companies, particularly in relation to non-standard taxis (for example, luxury taxis and high occupancy taxis).

***Disadvantages*****• Reduced incentive to innovate**

Requiring a maximum fare for a standard taxi does reduce the incentive for taxi operators to innovate and, in conjunction with standards regulation, reduces the incentive for taxi operators to provide different fare/quality combinations which may better suit some consumers. This is, in some ways, mitigated by the ‘maximum fare for a standard taxi’ rules which allow higher quality or vehicles with specific qualities (for example, high occupancy vehicles) to be hired at a negotiated fare.

**• Enforcement and administration costs**

Compliance effort and administration are required to enforce and administer the maximum fare regime. This is mitigated somewhat by the current rules-based approach to implementing changes to the maximum fare.

**• Increased rent seeking**

Resources are diverted into seeking increases in the maximum fare and in responding to requests for increases in the maximum fare. This may be mitigated to some extent by having rules-based or long term agreements on fare increases.

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**Table 15.1:** Advantages and disadvantages of the existing regulation (cont.)

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***Standards regulation***

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***Advantages***

- **Asymmetric information**

Minimum safety, public health and comfort standards can reduce the level of information asymmetry existing between consumers and producers or taxi services thereby reducing consumer costs through the reduction in risk borne by consumers.

- **Reducing externalities**

The appearance and operation of taxis may have external impacts that are not taken into account by the operator of the taxi, particularly where the taxi operator is in significant tourist markets. The imposition of appearance and comfort standards serves to reduce the externalities associated with poorly presented taxis.

***Disadvantages***

- **Increased costs**

Imposing standards will raise the costs of operating taxis and therefore, have an impact on fares and driver income. To some extent, this will impact on the number of taxis entering the industry and may reduce the number to below the optimal number.

- **Enforcement and administration costs**

The imposition of standards increases the government's enforcement and administration costs and some portion of these is passed on to the taxi industry and to consumers in the form of higher fares.

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**Table 15.1:** Advantages and disadvantages of the existing regulation (cont.)

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***Regulation of booking companies (minimum service levels)***

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***Advantages***

- **Enhanced incentive compatibility**

The imposition of maximum waiting time and geographic service provision performance standards aligns the incentives faced by taxi booking companies with the government's objectives for the taxi industry to provide services to all people within an area in a way that is consistent with the common carrier requirements imposed by government. The end result is that taxi companies have an incentive to ensure that they have sufficient taxis to meet the requirements of the service contract and will seek additional licences from government rather than government seeking to issue licences in opposition to the taxi companies.

- **Enhanced information for regulators**

The reporting requirements associated with the minimum service levels allow the government to more easily assess the need for additional taxis within a taxi service area. Failure to meet the waiting time performance standards, for example, is an indicator that additional taxis are needed in an area. Reporting requirements allow for the reporting of different types of taxi service so regulators can assess the need for wheelchair accessible vehicles as well as conventional vehicles.

***Disadvantages***

- **Restricts entry into the booking market**

The imposition of requirements on booking companies will reduce the ability of some companies to enter the booking market. To some extent, entry is restricted anyway through the economies of scale that flow from the fact that, the more taxis affiliated with a booking company, the lower average waiting times that booking company can provide. However, the size of the taxi service area covered and the waiting time requirements do impose standards on booking companies that mean they have to be of a certain size and this, in itself, restricts entry into the market.

- **May lead to increased licence costs**

Because there are economies of scale that impact on waiting time, where there is more than one booking company in an area there may arise a market in the leasing of taxi plates for the purposes of ensuring that a particular taxi company has sufficient taxis to allow for the minimum service levels to be met. This can have impacts on the value of licences and increase costs for all operators.

- **Enforcement and administration costs**

Minimum service levels have to be monitored and administered.

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**Table 15.1:** Advantages and disadvantages of the existing regulation (cont.)

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***Regulation of operators and drivers (requirements to affiliate)***

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***Advantages***

- **Allows control over factors of production**

The requirement to affiliate with a taxi booking company and to adhere to any reasonable request made by the company to ensure its service contract conditions are met recognises that booking companies are the primary source of price and quality competition within the taxi industry and gives them greater control over the factors of production used to provide taxi services – that is, labour (drivers) and capital (vehicles). This allows the more productive use of the factors of production and allows them to be used in a way that is aligned with the requirements of the service contracts which, in turn, reflect the government’s objectives for the taxi industry.

- **Reduced compliance and enforcement costs for government**

Because taxi booking companies have the power and the incentive to enforce their own standards, the government is less involved in the day-to-day monitoring and enforcement of taxi industry standards.

***Disadvantages***

- **Increased market power possessed by taxi booking companies**

Because operators and drivers must affiliate with a booking company and only one or a small number of booking companies usually exist within a taxi service area (see above), booking companies may be able to exercise some market power over operators by increasing costs of entry into the booking company (through higher than optimal fees or by entry fees).

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## 16 Costs and benefits of existing restrictions

### 16.1 Introduction

Clause 5 of the Competition Principles requires that the costs of any restriction be outweighed by the benefits of the restriction. This chapter outlines the committee's views on the costs and benefits of the existing restrictions in comparison to an option that would see the removal of all entry and pricing restrictions. The option and the key outcomes of the option are outlined below.

### 16.2 Potential scenarios

#### Regulatory provisions

As outlined in the previous chapters, different jurisdictions have had vastly different experiences with the deregulation of taxis. One reason for these different experiences has been the different regulatory regimes that existed both before and after deregulation. In the worst cases, a poor level of taxi service prior to deregulation coupled with no requirement to affiliate with a booking company after deregulation led to outcomes that had significant adverse effects on both the industry and consumers. On the basis of these outcomes, the review committee is of the view that complete deregulation of entry, price and quality in the taxi industry will not achieve the government's objectives for the industry.

The committee has taken the view that, at a minimum, some restriction on entry is needed and that the New Zealand model provides an adequate basis for the comparison of the costs and benefits of the restrictions that currently exist in Queensland. As outlined earlier, the key features of the New Zealand model are:

- entry is open to any person who meets certain minimum requirements in terms of driving and criminal history and who has an appropriate vehicle;
- all taxi operators must belong to an approved taxi booking organisation;
- fares are set by the booking organisation and are required to be posted both inside and outside the taxi.

Based on the outcomes of deregulation in New Zealand, it can be expected that, in larger centres at least, both the number of taxis and the number of booking organisations would increase. In medium sized centres, the number of taxis operating can be expected to increase, but not by the same proportion as larger centres. In smaller centres it can be expected that there will be little increase in the number of taxis, while some taxi services will disappear altogether.

Real fares in larger centres are likely to fall over time more through inflationary impacts than by reductions in the nominal price. Real fares in medium sized centres are likely to stay the same, while in smaller centres real fares are more likely to rise than fall. In both large and medium sized centres, fares are likely to vary with company quality levels.

Operators would continue to be required to carry all passengers wishing to travel by taxi and able to pay the required fare. However, it could be expected that, like in New Zealand, a proportion of taxi operators will avoid areas which have low returns or increase the fares to

those areas if allowed to do so. Similarly, it could be expected that some operators will operate only in the rank market and, by doing so, reduce their operating costs to compete with higher quality vehicles.

## 16.3 Costs and benefits of entry and price restrictions

### Price impacts on the community

One of the main impacts of existing regulation is that it increases operating costs. As a result of these higher operating costs, fares are often supposed to be higher than would occur under an open entry regime. The review committee notes, however, that this analysis holds only where there is a perfect market. As noted previously, the review committee does not believe that the taxi industry would operate within a perfectly competitive market in the event of open entry. In addition, it is possible that some of the licence value is manifested through lower driver wages rather than higher prices. The review committee has, nevertheless, estimated the likely costs and benefits of removing the existing regulation.

Different scenarios have been estimated and the results on a whole of Queensland basis are provided in table 16.1.

**Table 16.1: Estimated price impacts of regulation on a whole of Queensland basis on Net Present Value basis**

<i>Scenario</i>	<i>Transfer payments</i>	<i>Social impacts</i>
Price elasticity of demand equals -1 and immediate across the board reduction in fares	\$362.0 million	\$44.4 million
Price elasticity of demand equals -0.36 for Brisbane and -0.5 for other centres with immediate across the board reduction in fares	\$354.0 million	\$16.9 million
Price elasticity of demand equals -0.36 for Brisbane and -0.5 for other centres with real fares declining over time	\$178.6 million	\$5.8 million
Price elasticity of demand equals -0.36 for Brisbane and -0.5 for other centres across the board reduction in fares but with requirement for taxi operators to pay a franchise fee to a taxi booking company.	\$281.1 million	\$16.8 million

The scenario closest to the New Zealand experience is where real fares decline over time rather than having a one-off reduction in fares immediately after deregulation. This scenario has the lowest net present value of any of the options because the largest reductions in fares are in the future while only relatively small reductions occur in the first years after deregulation. The review committee is not in a position to make any judgement about the likely

path of fare reductions in the event of deregulation of the taxi industry in Queensland. The committee notes, however, that some taxi companies and taxi drivers have stated that they would increase fares in the event of fares deregulation. This is most likely to occur in smaller areas (as occurred in New Zealand) and for trips where there is inelastic demand. The differential impact of fare changes is considered in the next section.

The prime example of where fares have increased when demand was inelastic is found in New Zealand and other countries where fares to airports typically attract a surcharge. Airport trips are not the only trips, however, where demand is likely to be highly inelastic. People without driver's licences, people with disabilities and older people tend to have fewer transport choices and are over-represented as taxi users. In surveys undertaken by Queensland Transport, for example, just 16 per cent of the population stated that they did not have a driver's licence but this group comprised 35 per cent of people who use taxis at least once per day and 37 per cent of those who used taxis more than once per week. Similar usage patterns occur for older people and people with disabilities. Because some people will be in all three groups, it is difficult to make any estimation about the total number of people who are dependent, in some way, on taxis for their transportation. It is clear, however, that *at least* 30 per cent of all taxi trips by Queensland residents are made by people in at least one of these groups. It can be expected that for these groups, for at least some of their trips, they would have few choices other than to travel by taxi. For these trips, it can be expected that demand is extremely inelastic.

Other trips may also face a potentially higher fare under deregulated entry and fare setting. Currently taxi drivers provide unprofitable fares which are paid for through the higher fares able to be charged to other users. This aspect of the taxi services was noted by participants in the review:

From the social justice perspective, the government saw the need to not just provide a service to the community but make the taxi service access to those who are disadvantaged by location, age, income and disability (Sub. No. 15).

At 3.30pm, a Buddhist follower arrived in Eudlo which is 30kms away. He phoned for a taxi and wanted to be taken to a temple another 7kms inland. Unfortunately, my driver was sent from the Nambour rank to go and pick up the customer. We tried unreservedly to find a driver close to the customers but they were all out on jobs at the time. That driver travelled 34kms and was paid \$8.80 for the fare. That person (the Buddhist follower) was entitled to a taxi and be serviced. We are obliged to deliver a taxi service and we can. (Hearings, pp. 103-4).

While taxi companies generally supported universal provision of taxi services, the same level of support was not found amongst some individual taxi drivers. Taxi drivers questioned whether, under a deregulated regime, they would still have to do work that is not profitable and complained that taxi companies were fining drivers who tried to avoid such work.

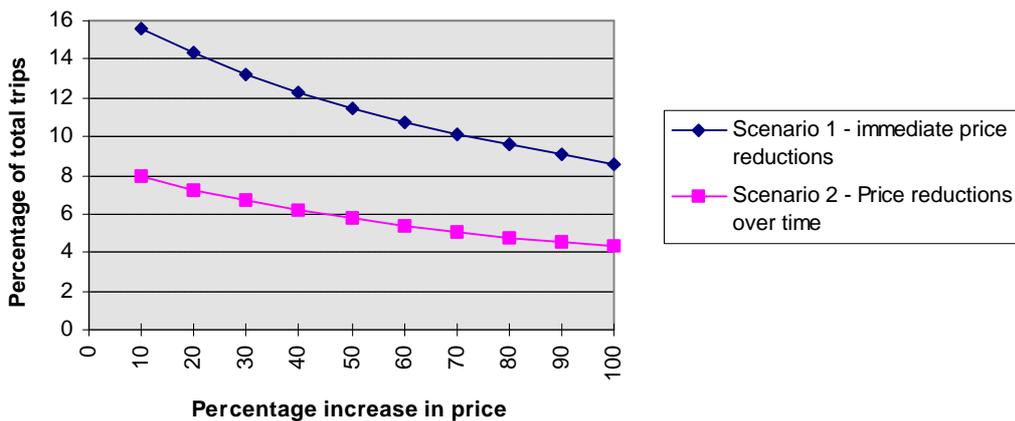
The review committee is not in a position to state whether existing consumers of these unprofitable trips would receive the same level of service at the same fare under a different regime.<sup>21</sup> Nor does the committee have the necessary information to assess the likely number of trips undertaken where demand is inelastic. To address these problems, the review committee has assessed the proportion of trips that would have to increase in price and the amount that they would have to increase if the costs of regulation (the overall increase in fares because of increased costs of licensing) were to be outweighed by the benefits of regulation

(the fares that are lower under a regulated regime because of cross subsidy or the constraints on operators to price fares higher when demand is inelastic).

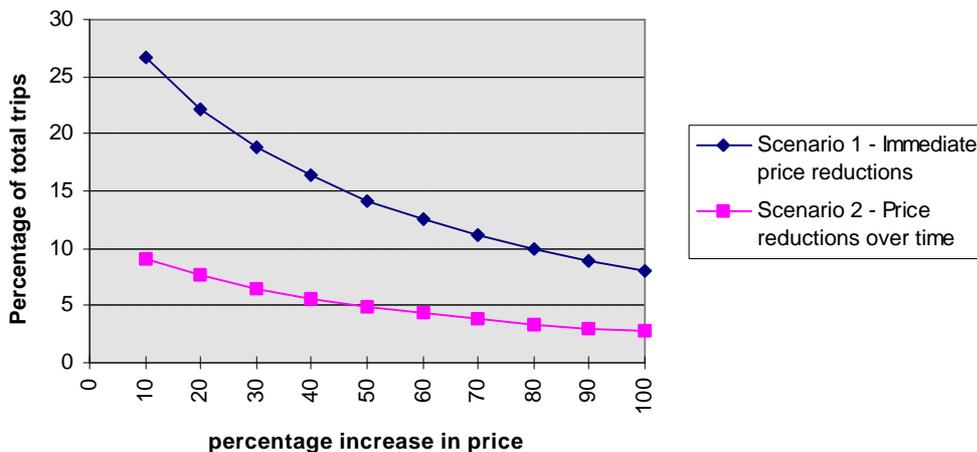
Figures 16.1 and 16.2 show the estimated proportion of trips, and the associated increase in the fare for those trips, that would have to take place under the two deregulation scenarios in Table 16.1 if the price raising effects of licences are to be outweighed by the price dampening effect of price control and existing conditions about universal provision of fares. The first scenario compared is where there is an immediate reduction in fares after deregulation. The second scenario is where real prices decline over time. Both scenarios use the price elasticities of demand of -0.36 for trips in Brisbane and -0.5 for trips outside of Brisbane. Figure 16.1 relates to the transfer payments and figure 16.2 relates to the social cost (that is, the deadweight loss) associated with licensing and higher fares.

Figures 16.1 and 16.2

**Proportion of trips required to increase in price after deregulation to equal price raising effect of licences**



**Proportion of trips required to increase in price after deregulation to equal the social cost of licensing under regulation**



It can be seen from the two graphs that only a relatively small percentage of trips are required to increase in price by a small amount if fares decline over time. Less than 8 per cent of trips are required to increase in price by just 10 per cent if fares decline over time. If, however, fares fall immediately after deregulation, then a significantly higher percentage of trips (more than 25 per cent) have to increase in price by 10 per cent if the community as a whole is to benefit.

In the opinion of the review committee, it is unlikely that a sufficient proportion of trips would increase in price after deregulation to outweigh the benefits brought through lower fares for the majority of taxi users if fares were to fall immediately. However, the committee notes that the experience in New Zealand was that fares fell over time and this is considered a more likely scenario in the Queensland context. Consequently, the committee is of the view that the costs of the existing licensing and pricing system insofar as the system increases most fares but reduces some fares probably benefits the community as a whole.

### **Impact on a class of consumers and social welfare and equity considerations**

#### *Transport-disadvantaged groups*

Of more importance is the impact on parts of the community. As noted above, many taxi users have little other choice but to use taxis for a significant proportion of their travel. Approximately 11.2 million taxi trips are made each year by people without driver's licences. This equates to 32 per cent of the estimated total number of trips made by Queensland residents. 10.2 million taxi trips a year are made by people who are considered to be transport-disadvantaged. People with disabilities, older people, people without a driver's licence and people who are retired, on a pension or unemployed are over-represented as frequent taxi users (see Table 16.2).

Table 16.2: **Frequency of taxi use by market segment**

<i>Segment</i>	<i>population</i>	<i>Proportion of</i>	<i>Every</i>	<i>More than</i>	<i>Once Once</i>
		<i>day</i>	<i>week</i>	<i>once per</i>	<i>per per</i>
				<i>week</i>	<i>month</i>
<b><i>By attribute</i></b>					
People with disabilities	6%	17%	16%	6%	4%
Older people	5%	11%	11%	8%	3%
People without a driver's licence	16%	35%	37%	28%	22%
<b><i>By socioeconomic segment</i></b>					
Upper white collar	11%	23%	13%	13%	27%
Lower white collar	24%	11%	20%	19%	28%
Upper blue collar	20%	23%	15%	19%	20%
Lower blue collar	10%	11%	8%	12%	9%
Student or home duties	16%	10%	13%	14%	20%
Retired/pensioner or	18%	21%	30%	24%	10%

unemployed

*Source:* AC Nielsen (1998e)

These users will benefit from lower fares in the same way as any other users of taxis in the event that licence values were removed and fares fell. This is certainly the view of the Queensland Council of Social Services:

The costs of using a taxi, for example, even using the taxi subsidy vouchers is beyond the means of a person on a fixed income ... The vast majority of people who are aged or have a disability are excluded from using buses due to such things as the route structure/times, health, can't climb the stairs into the bus. For these people, their only option is taxis and repeated use is too expensive (Sub. No. 21).

However, these people also have fewer choices in the event that some of their taxi fares rise and are likely to have the most inelastic demand for taxi services. The review committee is not in a position to determine whether these groups are likely to suffer a net cost or benefit from the existing system.

*Regional impacts*

As noted in section 5.2, fares in New Zealand fell significantly in larger cities, fell modestly in medium sized cities and increased modestly in smaller towns. If such outcomes were repeated in Queensland, it could be that consumers in the smaller regional towns and centres would face higher costs for unscheduled travel as a result of deregulation of the taxi industry.

It is estimated that there may be around 2.7 million trips each year currently provided by 194 taxis in small towns in Queensland. A small town is defined as one with fewer than 10 taxis. As a comparison, Warwick has a population of just greater than 10,000 and has six taxis currently operating.

A modest increase in these fares can have significant implications for the transfers between consumers and producers and the social costs for consumers in smaller towns as a class. The net present value of the costs that could be borne by consumers in smaller towns are outlined in Table 16.3.

**Table 16.3: Impact of higher taxi fares in small towns after deregulation**

<i>Percentage increase in fare</i>	<i>Transfers payments</i>	<i>Social cost</i>
5 per cent increase	\$108.0 million	\$5.6 million
10 per cent increase	\$113.2 million	\$6.2 million

It is clear that a considerable proportion of the benefits of deregulation outlined in Table 16.1 will be eroded if fares in the smaller areas of Queensland increase. This is particularly true if fares increase soon after deregulation in smaller areas, but real fares decline over time (as occurred in New Zealand). In this instance, the costs borne by taxi users in small towns could outweigh the social benefits enjoyed by users in larger towns, although it would not outweigh the transfers currently being paid by consumers to producers.

## Waiting time impacts on the community

In addition to the impact on prices, restrictions on entry typically reduce the number of taxis to below that which would prevail under open entry and, as a consequence, have the potential to increase the overall cost of using taxis to consumers through increased waiting times. The value of waiting time also has important implications for assessing the ‘correct’ number of taxis for an area.

### *Estimating the value of time*

Estimating the impact of reductions in waiting time is a difficult task. One difficulty is the actual estimation of people’s time. An important consideration in making such estimations is that people will value time differently under different circumstances:

Small (1982) demonstrated one minute lost or saved could be valued minimally or very highly depending on the trip length. Time is typically worth less on longer journeys. Similarly, the amount of time lost affects its value - the first minute lost may be of lower value than the 30th minute lost. (Ferguson et al., 1999)

This seems to be true of people waiting for taxis. Surveys of taxi users recalling the time they spent waiting for a taxi after one had been booked suggest that value of waiting time is positively correlated with the actual waiting time (AGB McNair, 1995). Even this relationship is not perfectly linear, however, with waiting times having to be more than 15 minutes before people begin to value their time at higher levels. This is to be expected as taxi users will expect some waiting time between when a taxi is ordered and when it arrives, simply because of the nature of the taxi service. This time is essentially a sunk cost and may not be taken further into account by the passenger when calculating the total cost of his or her trip or may have only nominal value.<sup>22</sup>

People’s value of waiting time will also depend on the purpose of the trip, perceived reliability of taxis, the level time dependency (that is, the degree to which a passenger must be on time). People taking taxis for leisure purposes, for example, are more likely to have lower waiting time values than people who are taking taxis for business purposes (see Table 16.4).

Table 16.4: **Average stated reasonable waiting time by use of taxi (in minutes)**

<i>Time</i>	<i>Business</i>	<i>Entertainment</i>	<i>Shopping</i>	<i>Personal</i>
5am-5pm	10.66	11.94	10.65	10.88
5pm-10pm (except Friday)	12.33	13.47	12.64	12.29
5pm-10pm (Friday)	16.81	18.48	15.96	16.41
10pm-5am	12.14	13.99	11.73	11.73

*Source:* AGB McNair (1995)

<sup>22</sup> Of course, reducing the sunk cost portion of the waiting time reduces the overall cost of waiting time itself even though it may not be highly valued by consumers.

In order to obtain some indication of waiting time values, the review committee undertook a survey of taxi users. Waiting time values were calculated for taxi users across age groups and are reported below (Table 16.5). The values calculated show that younger people value waiting time less than older people. This is to be expected given older people generally have higher incomes and are generally more likely to value their time relative to younger people, particularly when younger people are travelling for entertainment or in a larger group. It is also worthy of note that, for younger people (that is, 16-25 year olds), fare levels are of greater importance than waiting time (as a factor in their use of taxis) than it is for older people. This is consistent with younger people generally having lower incomes than older people.

Table 16.5: **Average value of waiting time**

<i>Age group</i>	<i>Value (per minute)</i>
16-24	\$0.53
25-35	\$0.72
35-45	\$1.40
45-60	\$0.78
60+	\$0.77

### *Likely waiting time reductions*

To estimate the impact of waiting time reductions it is necessary also to know how much waiting time will be reduced as a result of deregulated entry. It is clear that increases in the number of taxis will occur under deregulated entry. It is less clear that an increase in the number of taxis will automatically lead to a reduction in waiting times.

First, in larger cities, not all new taxis will be affiliated with booking companies that will actively seek bookings. These vehicles will simply operate in the rank and hail market which will reduce waiting times for people who use this market but will not impact on waiting times for the larger phone booked market. This occurred in the United States, where there were no affiliation requirements, and, to a lesser extent, in New Zealand, where affiliation and booking requirements have not been effectively enforced.

Second, the entry of new booking companies may reduce the average booking company fleet size below the level that allows them to service the existing service areas with lower response times. That is, too few cars within a fleet will increase the overall response time of the entire fleet. Entry of new booking companies was a notable feature of the New Zealand deregulation. This problem could, of course, be addressed by making service areas smaller. However, this means that users are inconvenienced by having to remember the phone number and operating areas of several taxi booking companies.

Third, as noted above, there will always be some portion of the time spent waiting for a taxi that reflects the time it takes for a taxi to be allocated a job and drive to the place the job is to begin. This is time that cannot be reduced.

It is noted by the review committee that the waiting time performance of the taxi industry in Queensland is already good. In surveys undertaken by Queensland Transport, only 2 per cent of infrequent taxi users said that the reason that they did not catch taxis more often is because

there were no taxis or they were too hard to catch. At the same time, 5 per cent of taxi users noted that the most important improvement to local taxi services would be quicker response times while 68 per cent rated response times as good or very good (AC Nielsen, 1998e). Perceived average response times varied across the time of the day and week with higher response times on Friday and Saturday nights (see Table 16.6). It should be remembered that these response times are likely to be overestimated by between 3.6 and 7.4 minutes with people who have had longer waiting times overestimating by more than people who have had lower waiting times.

These waiting times vary between areas. While in 1994 the average response time in Brisbane was 11.3 minutes, it was 7.1 minutes in Bundaberg, 6.4 minutes in Toowoomba and just 5.7 minutes in Rockhampton. The Gold Coast and Sunshine Coast had higher than average waiting times (AGB McNair, 1995). More recent data from Toowoomba suggests that average response times have fallen slightly to between 4 and 5 minutes.

Table 16.6: **Average perceived response times by time of day and week (in minutes) - Queensland as a whole**

<i>Time</i>	<i>1998</i>	<i>1996</i>	<i>1994</i>
<b>Monday to Thursday</b>			
5am to 12 noon	9.8	7.7	7.6
12 noon to 5pm	9.8	8.7	8.2
5pm to 10pm	8.4	10.4	9.7
10pm to 5am	8.5	6.6	6.9
<b>Friday</b>			
5am to 12 noon	8.7	7.7	8.5
12 noon to 5pm	12.6	11.0	9.3
5pm to 10pm	9.3	11.6	15.8
10pm to 5am	11.6	8.7	13.1
<b>Weekend</b>			
5am to 12 noon	10.9	8.8	10.0
12 noon to 5pm	9.0	10.8	10.8
5pm to 10pm	13.9	11.5	12.1
10pm to 5am	16.2	14.1	15.4

*Source:* AGB McNair (1995), AGB McNair (1996), AC Nielsen (1998e)

Waiting time data from contract operators also suggests significant variation in waiting time performance. By and large, regional towns perform well over the waiting time minimum service levels for conventional taxis, while in South East Queensland few booking companies are meeting their waiting time performance criteria in the 10-minute range (that is, 85 per cent of calls within 10 minutes) but are meeting in the 20-minute range (that is, 95 per cent of calls within 20 minutes). Neither group of booking companies is meeting the waiting time performance for wheelchair accessible taxis.

**Table 16.7: Average waiting time performance - South East Queensland vs. rest of Queensland**

<i>Region</i>	<i>% within 10 minutes</i>	<i>Standard Deviation</i>	<i>% within 20 minutes</i>	<i>Standard Deviation</i>
South East Queensland	69.1	19.9	96.0	2.6
Rest of Queensland	91.4	4.5	98.3	1.4

The review committee is of the opinion that, where there are existing low response times, there are limited opportunities for additional reductions in waiting time in the phone booked market as a result of increased taxi numbers. This is not to say that additional taxis will have no impact. Where overall waiting time is high or where there is a rank or hail market, additional taxis can impact on waiting times to the benefit of consumers.

The review committee notes that waiting times are currently monitored through the service contract regime and additional taxi service licences are issued in response to high waiting times. To some extent, then, the waiting time costs associated with the existing restrictions in the phone booked market depend on whether the waiting time performance standards in the service contracts accurately reflect the time that users and potential users are prepared to wait. If waiting time performance standards are too high, too few taxis will be available to meet demand. This was recognised by the Industry Commission:

(S)etting taxi licence numbers to performance based measures (such as response time - that is, the time taken for a taxi to arrive when called by phone) is bound to be arbitrary. It is difficult to determine the optimal level of performance and administration of the scheme could prove costly (IC, 1994).

The review committee notes that the setting of the response time performance criteria was based on responses to the biennial surveys undertaken by Queensland Transport in which consumers are asked what a reasonable response time would be. In this way, the committee feels that at least some of the concerns raised by the Industry Commission about the arbitrariness of the process have been addressed and the performance levels broadly reflect community expectations about appropriate response time levels.

Given these considerations, the review committee is of the opinion that there is little benefit to be gained in relation to non-peak waiting time in the phone booked market from removing restrictions on entry. This view, however, does not necessarily extend to peak demand periods or waiting time in the rank or hail markets where there seems to be some opportunity to reduce waiting time if there were more taxis available. Table 16.7 outlines the committee’s estimation of the net present value of potential waiting time savings in the phone booked and rank markets. The savings in the phone booked market are based on achieving a maximum response time of 10 minutes across all time periods (including peaks) while the rank market response time is based on data from surveys undertaken by the review committee to assess waiting time values. While the survey data was limited, it indicated that most people do not wait at ranks at all but there are some who wait long periods of time. An average waiting time was calculated for all rank users of 3.3 minutes. The waiting time values in Table 16.7 assume

that this waiting time reduces to zero and should, therefore, be considered a maximum possible benefit from the introduction of additional taxis.

**Table 16.8: Waiting time costs by market type**

<i>Market type</i>	<i>Transfer payments</i>	<i>Social costs</i>
Phone booked market (maximum response time of ten minutes)	\$253.8 million	\$9.9 million
Rank market (zero waiting time)	\$213.6 million	\$11.7 million

As is the case with fares, it is possible that some trips could experience longer waiting times under deregulation. The prime example is a trip that either commences or ends in an outlying part of an urban centre. These trips are likely to become more unpopular with taxi drivers who are more likely to gravitate to urban centres (that is, central business districts) and other high patronage generators (airports, major shopping centres) than to wait on suburban ranks. Without the chance of cross subsidising these unprofitable trips, there will be little incentive for taxi drivers to provide them and it can be expected that they will avoid them unless the requirement to provide these trips is rigorously enforced.

Assuming, then, that some proportion of trips will face a longer waiting time, the review committee has analysed how many trips would be required to increase waiting time to just equal the benefit obtained from an overall reduction in waiting times for the majority of trips in a post-deregulation environment (see Figure 16.3).

It can be seen from Figure 16.3 that the proportion of trips required to experience an increased waiting time if the overall waiting time benefit is to be reduced to zero is significantly higher than the proportion of trips required to increase in price outlined in Figures 16.1 and 16.2. More than half of all trips would have to have experienced a small increase in waiting times if there were to be overall benefits to the community. Given this, the review committee is of the opinion that the waiting time benefits from the current system of regulation are probably outweighed by the waiting time costs for the community as a whole. It should be noted, however, that this will only be the case if taxis are linked to a booking system that effectively covers a specific geographic area. Without such a system, phone booked taxi trips may experience an increase in waiting time as occurred in a number of US cities and towns.

### *Impact on a class of consumers*

While it is possible that the licensing system, as it currently operates, imposes waiting time costs on the community as a whole, the review committee notes that certain groups of users are more likely to experience increases in waiting times under a deregulated market than other groups of users.

People who live in outer suburbs of urban centres, for example, are more likely to have lower incomes or be unemployed than people living in inner and middle suburbs of urban centres (see, for example, SLC, 1995). As noted above, these groups of people are likely to have fewer transport choices and are over-represented as taxi users. As a result, the review committee notes it is possible that, while there may be an overall increase in social welfare

from reduced fares and waiting times, people on low incomes who live in outlying suburbs are most likely to shoulder a disproportionate amount of the costs associated with deregulation.

**Proportion of trips required to have an increased waiting time to reduce the overall waiting time benefit to zero in a deregulated environment**

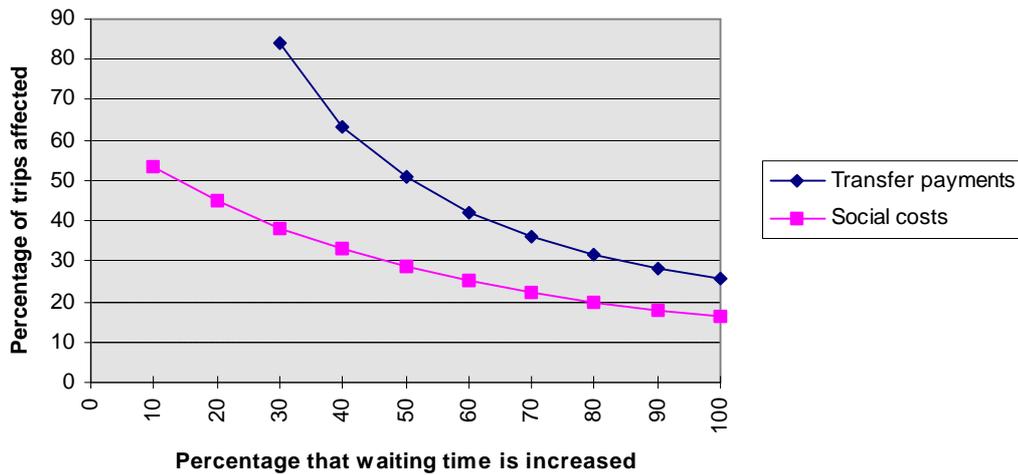


Figure 16.3

**Impact of pricing and entry restrictions on driver income and occupational health and safety**

The review committee did not receive any submissions specifically addressing the impact of pricing and entry restrictions on occupational health and safety. Participants, however, raised the low level of driver wages and driver conditions. These submissions typically noted that drivers were relatively low paid for the hours worked, drivers had no access to holiday pay, sick leave or long service provisions:

For a taxi driver to make a living he has to work 6 twelve hour shifts and would make 7 to 8 dollars per hour. For a taxi driver to work an 8 hour shift and a 5 day week fares would have to rise by four hundred per cent (Sub. No. 14).

Another participant, however, suggested that:

(t)he cost of a licence has no correlation with the income generated by hire drivers (Sub. No. 15).

The issue of whether driver incomes are lower than would be the case in the absence of licence values has two important implications for the costs and benefits of the existing regulatory regime. Firstly, if driver incomes are lower in the absence of licence values, it can be expected that some of the revenue transfer and deadweight losses reported in the previous section will be lower because fares will fall less than predicted by the model as driver wages increase. Secondly, evidence from the United States suggests that driver incomes are positively correlated with the length of time drivers stay in the industry and length of time in

the industry is itself positively correlated with driver quality measured in terms of accidents and regulatory infringements (Schaller and Gilbert, 1995b). Consequently it is clear that, to the extent that pricing and entry restrictions reduce driver wages, there will be an impact on the occupational health and safety of taxi drivers.

At the same time, an almost universal complaint from taxi drivers in deregulated markets is that they have suffered reduced income as a result of increased competition for a static or slowly growing customer base. It is clear that deregulation also has the potential to reduce driver incomes below a level that encourages long term drivers in the industry. The review committee is not in a position to quantify either of these competing effects.

### Efficient allocation of resources

A number of commentators have noted that restrictions on entry and price distort markets and impact on the efficient allocation of resources.<sup>23</sup> However, as noted in previous chapters, a taxi industry without any regulation is unlikely to achieve an efficient allocation of resources.

It is possible that setting maximum fares and regulating the intensity of use of taxis will have positive impacts for resource allocation because of the possibility of oversupply and under-utilisation of taxis. Ensuring taxis are used at optimal intensity before new taxi vehicles are introduced is, of course, a difficult regulatory exercise and Cairns and Liston-Heyes (1996) suggest that a second best solution may be to restrict the number of taxis to prevent oversupply.

Taxi vehicles seem to be more intensively used in Queensland than New Zealand. Investigations by the review committee in New Zealand indicated that many taxis in that country are single-shifted. This is in contrast to the situation in Queensland, where many taxis are double-shifted. The predominance of double-shifting means that taxis are on the road in Queensland more often than is the case in New Zealand. Table 16.7 shows effective taxi hours per person based on New Zealand driving hours legislation and estimates of numbers of taxis per head of population compared with Queensland taxis, a proportion of which are double-shifted.

Table 16.9: **Effective taxi hours in New Zealand and Queensland**

<i>Jurisdiction</i>	<i>Number of taxis</i>	<i>Effective taxi hours</i>	<i>Effective hours per taxi</i>
New Zealand	5,900	16,992,000	2880 hours
Queensland	3,062	13,227,840	4320 hours

*Source:* New Zealand Taxi Federation (1999b) and Queensland Transport

While Queensland has slightly more than half the estimated number of taxis in New Zealand (51.9 per cent), if just half of those taxis are double shifted,<sup>24</sup> the number of effective taxi hours per taxi in Queensland becomes significantly higher than the New Zealand level. The committee notes that the Taxi Council of Queensland believes that the incidence of

<sup>23</sup> See for example, Moore (1998).

<sup>24</sup> Double-shifted cabs were arbitrarily assumed to work 20 hours a day for six days of the week. The review committee recognises that some taxis will work continuously over certain periods of the week (that is, they will work for 24 hours a day).

double-shifting of taxis is considerably higher than the 50 per cent used to calculate the effective hours per taxi in Table 16.9. Their view is that double-shifting is likely to be closer to 75 to 85 per cent of taxis.

Participants suggested that seeking as high a utilisation rate as possible for each taxi vehicle was a natural consequence of the high costs associated with the existing licensing regime and with the leasing of licences:

the taxis in our fleet, out there working to maximum capacity, have to meet the enormous costs involved (Sub. No. 23).

There was also evidence presented to the review committee that taxi companies and businesses are working to reduce vehicle downtime:

We've reduced the time of doing running repairs on cars to achieve full fleet efficiency down to the level of two weeks. We have unproductive times early in the week outside peak holiday periods, and those are our cosmetic times. (Transcript, p. 106).

With regard to the available evidence, the review committee is of the opinion that there are benefits from the existing regulatory system in relation to efficient allocation of resources on the supply side of the taxi market. It is not, however, able to quantify the extent of the benefit.

Some judgement needs also to be made about the efficient allocation of resources on the demand side. Taxis that are too cheap in comparison with other goods are likely to be demanded more than is efficient. Similarly, taxis that are too dear are likely to be consumed less than is optimal. The impact of higher and lower fares and waiting times has already been discussed and the review committee notes that, on a partial equilibrium basis, some adjustment to the price and waiting time of taxis may move the demand for taxis toward a more efficient allocation of resources. This is particularly so as it would seem that the cost of catching a taxi is likely to be lower without restrictions on entry and pricing (because the price may fall and waiting times will be reduced). This would make taxis cheaper in relation to private motor vehicle and bus travel, neither of which are priced to recover the economic cost of their provision. It should be noted, however, that the review committee is not in a position to quantify the likely impacts on efficiency, nor is it in a position to comment on the magnitude of any likely move toward a more efficient allocation of resources on the supply side.

## **Employment impacts**

Deregulation of the taxi industry is likely to have positive employment impacts simply as a result of the expansion of the taxi fleet. In New Zealand, the number of taxis has increased from 2742 prior to the reforms to more than 5,900 at the beginning of 1999 (New Zealand Taxi Federation, 1999a). A similar increase in taxis in Queensland would see an additional 3,500 taxis operating throughout Queensland, each of which would require drivers. However, it should be noted that many of the taxis in New Zealand are single shifted and therefore, have fewer drivers per taxis than a Queensland taxi. If deregulation led to similar single shift work patterns, the number of additional drivers needed for the industry would be less than the overall increase in taxi vehicles.

At the same time, it is likely that driver and operator per taxi income would fall as more taxis would compete for a given level of demand. Reductions in driver income have been reported in New Zealand and similar (anecdotal) evidence was made available to the review committee in relation to the deregulation of taxis in Darwin.

## Social welfare and equity considerations

A major area of concern raised in chapter 15 was the impact that deregulation of the taxi industry has had on the provision of wheelchair accessible taxi services. The review committee's visits to the Northern Territory and to New Zealand indicated that the deregulated systems in those places led to the provision of only a very small number of wheelchair accessible vehicles. It is clear to the review committee that one of the significant costs to the community from deregulation is the reduction in the number of wheelchair accessible vehicles.

## 16.4 Summary

Based on the scenario outlined in section 16.2, the review committee has made the following observations on the costs and benefits of the existing system of taxi regulation.

- Prices are likely to fall over time and this will reduce the net present cost of the existing regulatory structure with respect to the price of taxis. It is likely that this cost will be outweighed by benefits flowing from a number of trips having lower fares under the existing regulatory regime than would be the case under deregulation. These trips include trips undertaken by consumers in smaller towns in Queensland where fares may need to rise only modestly for the benefits overall to outweigh the costs. In addition, less than 8 per cent of fares in the larger cities have to rise by 10 per cent before the costs of regulation are outweighed by the benefits.
- Waiting times are likely to fall under a deregulated taxi industry. Potential waiting time benefits are significant and it is unlikely that the number of trips that may have increased waiting times will be enough to outweigh the costs imposed by the existing regulatory system. The review committee notes, however, that in the phone booked market at least, the existing regulatory system allows for the issuing of additional licences when waiting times are not being met. It also notes that policy positions are being developed by Queensland Transport to address demand during peaks. It is possible, therefore, that the waiting time costs in the future may reduce as additional taxi licences are issued and peak demand problems are met.
- The committee is of the opinion that at least some of the licence value is recovered through lower incomes for drivers (which would not occur if no licence was required). This has the potential to reduce the length of time drivers stay in the taxi industry, which may increase the rate of accidents and regulatory infringements. Increased accident rates may impose significant costs on the community as well, having implications for the workplace health and safety of taxi drivers. At the same time, an almost universal outcome of taxi deregulation overseas has been a reduction in individual driver income as more drivers compete for a static or slowly growing customer base. It is possible that these two effects would cancel themselves out but the review committee is not in a position to quantify the relative effects on driver income.
- Economic efficiency is probably enhanced (on the supply side) by having some barriers to entry into the taxi industry that encourage taxi vehicles to be more intensively used than would be the case under conditions of open entry. In this

sense, the existing regulatory system enhances the efficient allocation of resources. On the demand side, however, the review committee notes that the distortions to pricing and waiting times increase the cost of taxis relative to cars and bus services (which are already underpriced). In this sense, the existing regulatory system reduces the efficiency of allocation. It is not possible to quantify these effects.

- Deregulation of the taxi industry would increase employment opportunities but probably by less than the increase in the number of taxis. The reason for this is that taxis are more likely to be single shifted under a deregulated regime than under a regime where there are barriers to entry. At the same time, driver and operator income is likely to fall as more taxis seek to service a level of demand that is unlikely to grow as fast as the growth in taxi numbers.

## 17 Compensation and adjustment assistance

### 17.1 Introduction

Implementation of a policy designed to remove licensing and price restrictions is not without cost. In particular, while the review committee understands that taxi licence holders would have no legal right to compensation from the government if it was decided to deregulate the industry, it is clear that compensation or some other form of adjustment assistance may need to be considered by the Government. This chapter outlines some of the arguments for and against compensation and considers the costs of some alternative compensation schemes.

### 17.2 Quantum of compensation

The quantum of compensation that would be required if all licence holders were to be paid the market value of their licences as at November 1999 is estimated at just over \$750 million. The bulk of this is made up of Brisbane licences at \$443 million with Gold Coast licences valued at just over \$92 million. Exempt taxi service licences were valued at just over \$3.5 million.

### 17.3 Arguments for and against compensation of licence holders

#### *Rationales for not compensating*

The economic efficiency standpoint contends that social arrangements which maximise overall benefits should be sought. A means to this end is said to be maximising economic productivity and efficiency. In making any decision about the payment of compensation, social arrangements that maximise net public benefit ought to be considered.

Several general arguments against the principle of paying compensation can be made on the grounds that these payments contribute to economic inefficiencies or constrain production. However, these arguments apply only when reform decisions are considered to be non-arbitrary; where decisions are arbitrary and largely unexpected, compensation claims on ethical grounds are strong.

It can be argued that a decision arising from the current review to deregulate the taxi industry ought to be regarded by taxi licence owners as a foreseeable possibility and therefore non-arbitrary. This view contends that the review of taxi licensing is part of a long-running review process – the general microeconomic reform process has been under way since 1983 and National Competition Policy agreements were signed by state and federal governments in 1994. In addition, the economic efficiency standpoint contends that persons adversely affected by reforms will also have benefited from the broad sweep of reforms, for example, in terms of lower prices, more variety of goods and services, and increased demand for their goods and services.

#### *Rationales for compensating*

It can be counter-argued that deregulation of the taxi industry would constitute an arbitrary decision by the government. Even if we allow that compensation should not be paid when the possibility of deregulation could be reasonably expected by taxi licence owners (that is, when

the decision is not arbitrary), this position cannot be upheld for those persons who purchased licences before the current processes of microeconomic reform.

A reduction of the value of taxi licences will adversely affect the investment made by licence holders. Investors in taxi licences, and society at large, have been given many assurances that the taxi industry will not be deregulated. Consequently, persons investing in taxi licences have had good grounds for not perceiving possible deregulation as a reasonable risk to their investments. And as a result, any decision to deregulate the industry may be reasonably viewed as an arbitrary government action and unexpected by investors in taxi licences.

## 17.4 Adjustment assistance schemes

As noted earlier, the review committee understands that there is no legal right to compensation in the event of deregulation of the taxi industry. However, there may be strong ethical and practical reasons for governments to give some consideration to providing adjustment assistance to licence holders in the event of deregulation of entry into the industry.

A number of adjustment schemes were considered by the review committee. These schemes fell into two broad groups. The first group is those schemes that provide for a phased approach of deregulation or other reform of the industry. The second group of schemes is those that provide immediate assistance to licence holders.

The Industry Commission proposed some of these schemes in its 1994 report into urban transport (IC 1994). These schemes range from notifying the industry of the government's intention to deregulate the industry at a point in time (say 10 years from the present date) to the issuing of a certain percentage of licences over a number of years and using the proceeds of the licences to pay the licence holders existing at a particular point in time.

The review committee does not support these schemes. Firstly, because they do not provide adequate opportunities for assistance to people in the industry, many of whom view their investment in their licences as their superannuation. Secondly, assistance or compensation schemes of this type can create incentives for under-investment in the industry as licence holders, aware that their licence has a limited life, defer investments in new vehicles and other technology. Thirdly, the long time frame provided for in these schemes allows the industry a significant time to lobby for change. These schemes also suffer from a number of practical objections. It is unlikely, for instance, that financing would be readily available for an asset that will have a declining value over time.

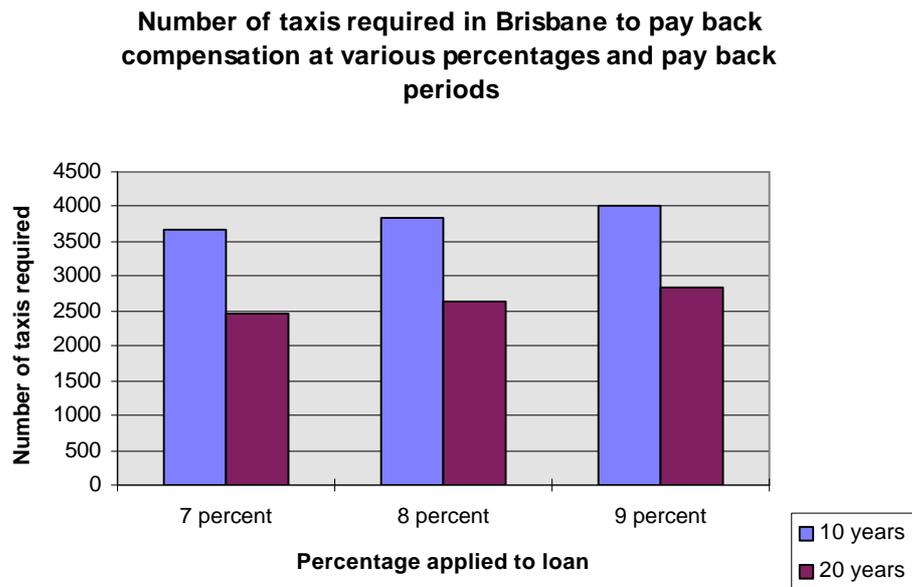
The second group of schemes is those that provide for a one-off payment to licence holders. Under these schemes, the government effectively buys back taxi service licences at the market price or at some other price. The main issue in these types of schemes is the funding required for the scheme.

The review committee is of the opinion that the most equitable means of funding compensation if a buy-back compensation scheme were being considered would be to adopt the Northern Territory approach. This requires participants in the taxi industry, after the reform process is undertaken, to pay an annual fee to be used to finance the debt burden resulting from the compensation. The size of the annual fee needs to reflect the licence value existing in each of the taxi service areas prior to any planned reform. Annual fees should also be the same or, preferably, less than the lease fee applying at the time of reform. On this basis, an annual fee of around \$16,000 might be applied to Brisbane taxi operators.

Unlike in the Northern Territory, it would not be possible for the Queensland Government to fund a buy back scheme from consolidated revenue because of the significant costs involved. A scheme would have to be financed by debt held by the government and this will increase the cost of any scheme because of the need to meet the debt servicing costs. This will also lead to the government carrying the risk of the payback period being extended because of slower than expected increases in the number of taxis operating throughout the State. The fact that the amount is significant (3/4 of a billion dollars) may also create a ‘crowding out’ effect and raise the price of capital in Queensland and reduce the level of investment in other more worthwhile projects. A compensation scheme of the sort introduced by the Northern Territory Government also delays the introduction of lower fares and reduces the overall impact that deregulation may have on price, at least for the period that the industry is paying fees under the scheme.

Figure 17.1 shows the number of taxis needed to operate in the Brisbane service area if the required compensation were to be paid back within a 10-year or 20-year period. It is clear from the graph that a significant period of time would be required to pay back all of the compensation, even with significant increases in the number of taxis operating within the Brisbane area.

Figure 17.1



## 18 Alternatives to the existing regulatory scheme

### 18.1 Introduction

Clause 5 of the Competition Principles Agreement requires that legislation that restricts competition passes two tests. The first is that the benefits of restrictive legislation outweigh the costs to the community as a whole. The second is that the objectives of the legislation can only be achieved by restricting competition. This chapter considers the second part of this test and sets out the alternative regulatory schemes considered by the review committee.

In this regard, the review committee, in the issues paper, stated that it would examine five options. One of these options was maintenance of the status quo. The costs and benefits of this option are outlined in the previous chapter. This option was assessed against the likely outcomes of allowing open entry but requiring operators to affiliate with a booking service (that is, the New Zealand model). Again, this option was discussed in some detail in the previous chapter.

The other three options were to:

- deregulate entry into the industry but to continue to regulate price;
- regulate entry through non-transferable licences and continue to regulate price; and
- deregulate entry and price.

The review committee has considered these options and is doubtful that deregulation of entry or deregulation of entry and price are options that will meet the government's objectives for the taxi industry. The reasons for these views are outlined in more detail below.

The review committee believes that there is little merit to the regulation of entry through the introduction of non-transferable licences as a regulatory scheme in itself. Having said that, the limited use of non-transferable licences which do not provide for a perpetual entitlement may lead to improved regulatory outcomes. The direct leasing of licences by government may be used to overcome some peak period problems or to allow the government to intervene in the private lease market. These issues are dealt with in more detail later in this chapter.

In addition to the options outlined in the issues paper, the review committee has examined another option that is less restrictive than the current regulatory scheme and which would be highly likely to achieve the government's objectives for the taxi industry. This option would build incrementally on the strengths of the current regulatory scheme, taking into account changes in technology, managerial expertise and industry culture. This option is also detailed more fully in this chapter.

### 18.2 Reasons for rejecting alternative options

#### *Deregulation of price and entry*

The review committee has considered deregulation of entry and price with no requirement to join a booking company in the light of the overseas experience of taxi services, particularly the United States, where the deregulation of price and entry led to a decline in service levels, and the United Kingdom, where there are few examples of deregulation of entry and price. The review committee also notes that New Zealand decided against complete deregulation of price

and entry after evidence from Roger Teal of the United States that such a regulatory scheme would lead to a decline in service levels.

Given the overseas experience, it is the review committee's strong view that deregulation of price and entry with no requirement to join a booking company will not achieve the government's objectives for the taxi industry.

### *Deregulation of entry but not price*

The evidence against deregulation of entry but not price is less conclusive. There is some evidence from the United Kingdom that areas that deregulated entry but regulated price had lower standards and higher fares than areas that regulated entry and price. Theoretically, that higher fares are found where there are more taxis is to be expected as drivers would need to be compensated for reduced occupancy rates.

A decline in standards and higher fares are balanced by more taxis on the road leading to reduced wait times for users. The review committee is concerned, however, that without a requirement to join a centralised booking company, entrants into the taxi market will choose to operate only in the rank and hail market, leading to a decline in service standards for users booking by phone.

Given these considerations, the review committee is of the opinion that the deregulation of entry with the continued regulation of price without the requirement to join a booking company will, at best, only partially achieve the government's objectives for the taxi industry and, at worst, has the potential for serious declines in service standards, particularly for users who book by phone.

### *Non-transferable licences*

The final option in the issues paper was to regulate entry through the introduction of non-transferable licences. Non-transferable licences would have no value and there would be no requirement to service the capital investment currently embodied in the licence. Such an outcome would lead to a decline in the cost of operating a taxi and allow prices to fall, in some cases by up to 20 per cent.<sup>25</sup>

The review committee is not convinced that prices would necessarily fall in the absence of the government fixing a maximum fare. There is no incentive for either the individual taxi driver or operator to reduce fares and, without any pressure from new entrants, there will be little outside pressure on fares. Retaining entry restrictions but removing licence values will simply allow drivers and operators to extract the rent that is currently devoted to servicing the licence value which the government extracted when initially issuing the licence.

Making licences non-transferable also imposes its own efficiency costs by restricting the ability to exit the industry. Currently, potential operators who can provide taxi services more efficiently can buy or lease licences from operators who are less efficient. Under a non-transferable licence regime, such movement in and out of the industry would not be possible.

The review committee suggests that the introduction of non-transferable licences without any other change to the regulatory scheme is not preferable to the existing situation whereby

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<sup>25</sup> The 20 per cent estimate is based on confidential information made available to the review committee.

licences can be transferred and the government retains the rents through the initial sale (by auction) of licences.

## 18.3 Building on the current regulatory scheme

### *Overview*

The taxi industry is currently regulated and structured in a way that reflects a time when individual drivers owned their taxis and made decisions about when and where to provide taxi services. These decisions are now shared between the government and three broad groupings within the taxi industry - drivers, operators of licences and booking companies. More and more, however, technological changes in the taxi industry are allowing booking companies to make production decisions about:

- which trips to accept - at least one taxi booking company in Brisbane allocates jobs through a global positioning system under which drivers are automatically allocated taxi jobs;
- where to provide their services - several taxi booking companies in Queensland have organised their operations so that certain taxis operate within one area and can be allocated jobs outside of designated areas only in certain circumstances; and
- pricing - booking companies set the price of luxury and high occupancy taxis and require the driver to charge the fare negotiated by the company with intending passengers. Some companies also offer discounts to certain groups.

The review committee notes that the existing regulatory regime in Queensland is designed to allow for this change in the locus of production decisions through the service contracts for booking services and, importantly, the requirement in legislation that affiliated taxi operators and drivers adhere to any reasonable request made by the booking company in order to fulfil its obligations under the service contract.

The service contract regime also recognises that the main source of competition in the taxi industry operates at the company level. While some operators do have informal networks and private clients, the primary source of service innovation and price competition in the industry comes at the booking company level. To some extent, however, competition between booking companies is limited by the limitation on the number of taxi service licences on issue in any particular taxi service area.

The review committee considers that this problem might be eliminated by replacing the existing focus on licensing of individual taxi vehicles with the licensing of taxi booking companies. Under this option, the regulatory scheme would migrate over time to a point where entry into the taxi industry would be at the booking company level with booking companies deciding how best to structure their business to allow them to provide services to performance levels that are specified in the booking company licence.

This is significantly different from either the New Zealand or Northern Territory models. Under both of those models, entry decisions are made by individual taxi operators who then affiliate with a booking company. Under these models, booking companies have little choice

about the operators who affiliate with them and individual taxi operators continue to make major production decisions.<sup>26</sup> One outcome of this is that there can be an oversupply of vehicles leading to upward pressures on fares. Under the option considered by the review committee, booking companies have a better knowledge of market conditions than individual operators and a greater incentive to ensure the number of taxi vehicles is set at an optimal level.

The review committee is of the opinion that this option represents an evolution of the existing regulatory structure in which booking companies are required to meet performance standards under service contracts. As more and more responsibility for meeting performance levels is given to booking companies, they will require more flexibility to address their individual circumstances. This option allows flexibility but requires that community needs are met. Evolving to this new regulatory structure should be done carefully, however, to ensure that benefits are realised. Significant management and cultural changes will have to occur in the taxi industry to ensure a successful transition to a regulatory structure with the booking company as the sole focus of attention.

### *Some specifics*

- Under the proposed model, taxi booking companies would be required to meet performance targets. Failure to meet performance targets could lead to fines or other penalties. Repeated failure to meet performance targets may result in a withdrawal of the licence.
- Taxi booking companies could have more freedom to increase the number of taxis operated within a fleet and how those taxis are operated. Minimum taxi numbers would, however, continue to be set in accordance with performance targets under the minimum service levels, but maximum taxi numbers might be set by the booking companies.
- Taxi companies might be able to set their own fares and be required to place fare information on the outside and inside of each taxi operating in their fleet.
- Taxi drivers would continue to be regulated through the existing driver authorisation scheme which provides for minimum safety and driving standards to be met.

### **Benefits and costs of the model**

Building on, and extending, the existing regulatory scheme has advantages over the status quo. Most notably, it could allow companies the ability to more quickly respond to increases in waiting times and more flexibility in how the taxi fleet as a whole is utilised.

Importantly, building on the existing regulation allows an evolution of the regulatory structure rather than a 'big bang' approach to reform. Taking such an approach will almost certainly defer the benefits that might flow from an ultimate regulatory regime but will allow each step of any reform process to be carefully evaluated and assessed to ensure that benefits are actually being achieved. Some of these benefits are outlined below.

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<sup>26</sup>Most notably the decision to enter the market itself.

### *Waiting time*

Waiting time could be expected to fall below existing levels as additional taxis are brought into service as booking companies try to meet specified performance standards. Companies would be free to introduce new types of vehicles to cater for specific demands. For example, companies could change the mix of taxi vehicles over the course of a day or week. Taxi companies would make decisions about dealing with peak demands on the basis of each option's overall cost impacts and potential profitability.

Waiting time performance standards set out in improved service contracts between the booking companies and the government would ensure that booking companies were focused on meeting the demand for taxi services. Even with waiting time performance standards, however, it is likely that waiting times at ranks, in particular, will be higher than would be the case under complete deregulation. De Vany (1994) showed that where companies set the number of taxis, the economically efficient outcome is a number of taxis below that which would prevail under open entry. It is possible that this would also occur under the proposed model.<sup>27</sup>

It is clear, however, that there is likely to be some increase in the number of taxis and that this will have an impact on waiting times overall. One major benefit in this regard is that the speed with which additional taxi vehicles could be introduced would be much faster than under the current system where licences are periodically tendered and total numbers are set through government analysis of waiting time and other performance requirements. Under this option, licences could be leased by the government to companies or to individuals.

### *Flexibility*

Added flexibility would not only apply in relation to setting the number of taxis. Current requirements about service areas could potentially be replaced solely with service contract areas which would require a level of service within a specified area. Under this approach, taxis could be free to pick up in another area so long as the service contract performance requirements were being met. Companies operating in several areas could also transfer vehicles between areas to cope with peak demands at different times.

### *Market power*

A significant concern with the proposed model is that taxi booking companies will be able to exert a significant amount of market power over operators of taxis (that is, the people who are currently licensees or lessees). Booking companies may exhibit economies of scale because of the network effects that allow those with a large number of vehicles to respond to bookings quicker, leading to more bookings, which, in turn leads to more vehicles.

Concerns about the ability of taxi booking companies to exert market power and raise prices are something to be taken seriously. However, the review committee believes that, while most taxi areas are likely to have only one taxi booking company, the increased flexibility that taxi companies might have under this option would facilitate entry and exert some pressure on incumbent companies through the threat of competition. Such threats become more plausible as technology allows the booking companies to provide booking services in one or more areas

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<sup>27</sup> Although De Vany's analysis assumed centrally controlled fares and did not include operations under performance based licensing.

from a centralised call centre. Such centres already exist with taxis in Warwick, Hervey Bay and Maryborough being dispatched from Toowoomba and the Gold Coast.

Where companies exploit their market power against individuals, then the provisions of the Trade Practices Act present a remedy.

### *Monitoring and enforcement*

Previous chapters have noted the review committee's concerns about the lack of enforcement in New Zealand leading to booking companies as fronts for individual taxi operators. Lack of enforcement was also a problem identified in several United States cities. It is likely that more, but different, enforcement and monitoring would be required under the proposed model. On-road enforcement would be replaced by increased monitoring of performance by taxi booking companies regarding waiting times and a range of other performance indicators. These may include phone answering performance, vehicle maintenance performance and customer satisfaction.

### *Booking company incentives*

One important aspect of this option would be that booking companies have a greater incentive to grow the market. This is a particular issue in smaller areas where a single operator may own one or two licences. Under current legislation, there is little incentive for this operator to develop a market for taxi services beyond that which can be supplied by the existing number of licences. To do so would lead to Queensland Transport issuing an additional licence by tender which may be won by someone else. According to the taxi industry, this penalises the original operator who has worked to develop the market only to have the growth denied to him by the licence issuing process. Under the proposed model, the existing operator would be free to introduce a second or third taxi without the need for Queensland Transport approval.

At the same time, small taxi companies and large taxi companies alike will face the threat of competition. This threat of competition can create a strong incentive for taxi companies to provide high levels of service to deter potential entrants.

### *Summary of costs and benefits*

The review committee believes that the proposed model for the taxi industry may result in the following outcomes:

- Lower waiting time and lower real prices over time for consumers;
- Greater flexibility for companies to meet demand than under the current regulatory system;
- A need for additional resources to be devoted to enforcement and monitoring of taxi companies and fewer resources devoted to on-road enforcement of taxi drivers and vehicles; and
- A potential for companies to develop and exploit market power. Some of this market power would be tempered by the increased ability for new companies to enter markets but increased monitoring of taxi companies may be required, perhaps by the ACCC.

## 18.4 Implementation

How it will be implemented is an important consideration in the introduction of any regulatory change in the taxi industry. The review committee has considered the implementation of this model and is of the opinion that a careful evolution of the regulatory structure has advantages over a more rapid 'big bang' approach.

An evolutionary approach, in which small changes are made and evaluated, will allow the government the opportunity to ensure that the benefits of change are realised and are not overshadowed by costs (including the social, environmental and economic costs). Taking such an approach also allows the development of trials in specific areas which can be carefully evaluated and assessed before expanding the reform being considered to other areas of the State. The ability to evaluate and assess reforms before their general introduction, and the ability to ensure that the costs of individual aspects of a reform agenda are outweighed by the benefits, both point to taking an evolutionary approach to any change.

More specifically for the model under consideration, the review committee also suggests that the evolution of reform is necessary to ensure that the culture and management practices of the taxi industry support the proposed reforms. Queensland Transport would also be required to refocus its efforts at regulating the taxi industry away from on-road enforcement and towards the development and monitoring of effective performance measures.

### *Specific implementation issues*

An evolutionary approach toward implementing the proposed model should be undertaken within the standard policy development processes of the government of the day. There are, however, issues that will need to be addressed if the successful introduction of the proposed model is to be achieved in the long term.

The first of these is that the regulatory structure should allow greater flexibility for booking companies to address actual or perceived deficiencies in the provision of taxi services without the need to demonstrate the need for additional licences and go through the licence tendering process currently provided in the *Transport Operations (Passenger Transport) Act 1994*.

There has already been significant movement in allowing the taxi industry greater flexibility in the operation of their business over the last 5 years with government involvement in advertising on taxis, notices required in taxis, dress codes and the approval of leasing and the sale of licences being removed.

Some initial areas of policy that might be investigated as part of this evolutionary process are outlined below.

- Consider allowing booking companies the ability to introduce additional licences, over and above a minimum number of licences based on minimum service levels specified in the service contracts;
- Consider whether the existing boundaries and the existing contiguous area policy (which allows taxis from one taxi service area to pick up passengers in another taxi service area under limited conditions) be examined and, if necessary, amended. In particular, the review committee notes that there is limited use of the

existing contiguous area policy.

- Consider whether all or some future licences should be leased to individual operators or companies. Revenue from leased licences could be used by the government to fund initiatives that would move the taxi industry further toward the preferred model.
- Consider changes to allow companies to set maximum fares, perhaps initially under limited circumstances, to ensure consumers are protected. One possible example of how fares could be set by companies, with some protection for consumers, would be linking fares with taxi numbers. Higher fares could be used as an indicator of the need for more taxis.

These suggestions are not recommendations but are illustrative of the kinds of policy positions that will move the taxi industry and the government toward the preferred model.

### *Trial areas*

It may be the case that some taxi companies are in a better position to be given more responsibility and more flexibility sooner than others. These areas may provide a useful means of evaluating the benefits and costs of the proposed model and the potential pitfalls of the policy within a contained area. Trial areas may also provide a means of demonstrating the benefits of the proposed model to other areas.

If trial areas are to be adopted, they should be set up with the agreement of the taxi company in an area and preferably with all or most of the taxi licence holders in that area. As a result, it is likely that smaller, rather than larger, areas will be likely trial areas. Very small areas, where there is only one taxi operator providing services in an area, are most likely to be candidates for trial area status, particularly as trial area status may allow these operators to increase the number of taxis they operate without having to purchase a licence through a tender process.

Some consideration will need to be given to how trials will be developed and evaluated and to how to ensure licensees and other stakeholders in the taxi industry are not disadvantaged as a result of the trial. While recognising that these issues will need to be addressed, the review committee is not in a position to discuss the specific issues that might arise in the case of trials of specific reforms. As each reform may raise different implementation and compensation issues, it may be necessary for these to be agreed with the trial participants on a case-by-case basis.

Trial areas have been used extensively in Britain in the taxi and the bus industry. In Britain, local authorities (which controlled bus provision and taxi regulation) indicated a desire to become a trial area. Trial areas were closely monitored. Such monitoring is an important element of the trial area process. Monitoring of trial areas needs to be carefully designed and funded if they are to be worthwhile.

## **18.5 Options based on existing industry relationships**

A number of the possible policy directions outlined above may be appropriate even if a decision is made not to progress to the full model in which taxi companies take on a more central role in the provision of taxi services than is currently the case. Some other potential policy areas for further consideration are outlined below.

- The review committee is of the opinion that licence issue should be linked to industry performance rather than through population ratios or an annual quota of licences (for example, 5 per cent a year). The review committee has particular concerns about the use of population ratios as a means of determining taxi service licence numbers. Population ratios do not take into account differing usage rates amongst different sections of the population, nor do they take into account the different impacts that tourism may have on taxi usage. Population ratios also do not take into account that taxi usage rates may change over time.
- If licences are to continue to be linked to industry performance, it is probably necessary to devote more resources to the monitoring of performance, particularly in the rank and hail market. It may also be necessary to widen the performance measures used to include things such as telephone answering times and percentage of calls not answered.
- Consideration should be given to how licences are issued and whether the leasing of licences (rather than the issuing of licences by tender) is an appropriate means of licence issue. Direct leasing of licences may allow the government greater control over licence values but, in doing so, it is likely the government would face higher compliance costs (through the requirement to obtain lease payments) and a reduced income, particularly if licences are leased at below market value to reduce licence values overall.
- Deregulation of the maximum fare should only be considered in the context of broader reforms to the industry. However, companies may be encouraged to provide discounts if there were a requirement for the maximum company-set fare (as opposed to the maximum government-set fare) to be displayed prominently both inside and outside of the taxi. Consideration might be given to deregulating part of the fare, such as occurred in Indianapolis's reform of the taxi industry (Moore, 1998), where the flagfall was effectively deregulated but the distance and waiting time rates were not.
- More work needs to be done to examine the impact of regulation on driver remuneration levels and the impact that low remuneration levels have on driver quality and customer service levels.

## 18.6 Summary

In summary, the review committee is of the view the costs of the existing regulatory system are outweighed by the benefits but that improvements may be achieved by giving companies more autonomy and more responsibility for the effective provision of taxi services throughout the State. Moving towards a system where companies are given greater autonomy and responsibility needs to be carefully trialled to ensure that benefits are achieved and any costs ameliorated.

Whether or not changes are made to give booking companies more autonomy and more responsibility for the services they provide, it is recommended that the government consider whether future licences should be leased rather than sold by tender. It is further recommended that government undertake a study of driver remuneration and the factors that affect remuneration, the impact of levels of remuneration on quality of service and any remedies that

may be available to government to address any issues associated with driver remuneration levels.

## **19 Limousines**

### **19.1 Introduction**

Limousine operators must hold a licence from Queensland Transport (a limousine service licence) which allows them to provide a public passenger service which is pre-booked and provided in a luxury motor vehicle. Luxury motor vehicles are listed in a schedule to the regulation. There is no price restriction on limousine services with the exception of a rank at the Brisbane International Airport.

### **19.2 Objectives of limousine regulation**

The Act states that the objective of limousine service licences is to ensure that the communities served under the licences receive luxury quality, unscheduled public passenger services.<sup>28</sup> The review committee notes, however, that the licensing regime acts against the provision of luxury quality, unscheduled public passenger services in some communities because the marginal nature of the business in many smaller areas does not generate sufficient revenue to cover even the cost of the licence.

Apart from the safety-related aspects of limousine licensing, the review committee is of the opinion that the general objective of limousine regulation is to allow limousine operations within the more general context of taxi industry regulation. In this context, limousine licensing plays two roles. The first is to allow limousines to operate as an exception to the general prohibition against the provision of unscheduled passenger transport in passenger cars. The second is to prevent limousines from competing with taxis, at least in the rank and hail markets.

The objectives of price restrictions at the Brisbane International Airport rank are similar. Firstly, the fare is set above the taxi fare with the express purpose of protecting the taxi industry from low-cost limousine operators poaching fares. Secondly, fares are set to ensure that tourists and other potential users of limousines are not subject to fare gouging.

### **19.3 Costs and benefits of licensing**

The current licensing system imposes a once-off licence fee on limousine operators that is generally significantly less than the licence fee paid by taxi operators. More importantly, however, is that, until a moratorium on the consideration of licence applications, licences could effectively be purchased 'over the counter' from Queensland Transport offices across the State. This has reduced any upward trend in licence values since 1994.

At the same time, requirements to have a new vehicle on a licence purchased from Queensland Transport have effectively reduced the value of these licences in relation to a licence purchased on the open market. As a result, licence prices have remained relatively constant over the past 5-year period.

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<sup>28</sup> Section 81, Transport Operations (Passenger Transport) Act 1994.

Like taxi service licences, the capital cost of licences imposes costs. Some 422 licences have an average value of around \$50,000, leading to an annualised capital cost of approximately \$4,000 per licence or just over \$1.6 million in total.

Unlike the impact of licensing in the taxi industry, the review committee is of the opinion that the licensing cost is most likely to be incurred by the limousine licensee rather than the consumer. This occurs because most limousine operators charge a premium above the taxi fare for their personalised form of service and the quality of the vehicle that they provide. While this is not always the case, the review committee is convinced that it is the general practice rather than the exception. The review committee is of the view that the fee charged by limousine operators, if the licence fee were removed, would be similar to the one charged today. A logical outcome of this is that licence costs are incurred by the licensee.

To the extent that licence costs are incurred by the licensee, there will be some supply of limousines at the margins that are not provided because of the licence cost. That is, the social cost of limousine licensing comes in the form of reduced choice of limousines rather than increased fares for consumers. The review committee is aware of several examples of people wishing to enter the limousine industry who have chosen not to do so because the style of business they are contemplating, or the location of the business they are considering, would not result in sufficient revenue to cater for the licence fee. One group of these potential entrants is those with a specialty or novelty vehicle which they are seeking to provide on an occasional basis for weddings or other similar work.

The review committee notes that these types of vehicles are highly unlikely to be competitors with the taxi industry. It is unlikely, therefore, that the existing licensing restrictions, insofar as they prevent the entry of services using these types of vehicles into the broader limousine market, contribute towards the achievement of the legislative objectives.

With this in mind, the review committee is of the view that specialty or novelty vehicles and vehicles such as high quality vehicles or stretched versions of vehicles that are unlikely to be significant competitors with the taxi industry,<sup>29</sup> should not be subject to a licensing regime other than those that apply generally to all public passenger transport.

The review committee also notes that, at least outside of South East Queensland, a significant proportion of work undertaken by limousines is tour work. That is, limousines provide guided tours in the vehicles licensed as limousines. Under the Transport Operations (Passenger Transport) Regulation, only taxis and limousines can undertake tours in passenger cars. This regulation protects both the taxi and the limousine industry from competition in the tour market and cannot be justified on the basis of the objectives of either the limousine or taxi industries. The review committee is of the opinion, therefore, that the restriction on providing tours in passenger cars be removed.

The situation regarding the remainder of the limousine industry is more complex. Assuming that taxi licensing is to continue, there are probably benefits from restricting entry into the limousine market because of its interaction with the taxi industry. It should be noted that this restriction does not restrict numbers of limousines, but simply imposes an up-front fee to be paid by the licensee. It also does not provide a complete separation between the two sectors. The potential for some overlap can provide effective competitive pressures to improve service levels in the taxi and the limousine industries.

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<sup>29</sup> Assuming, that is, that taxi regulation is to continue as recommended.

## 19.4 Costs and benefits of vehicle, age and operational restrictions

While licences may provide a net benefit to the community (with the exception of licensing for specialty vehicles), the conditions of the licence for limousines can impact significantly on the operational viability of services and have the same impact as the up-front licence fee for marginal limousine operators.

### Age limits

Vehicle types and ages were raised by a number of participants in the review. The age restrictions of stretch vehicles, in particular, was raised and it was noted that there is a decline in the number of stretch vehicles operating in Queensland.

Age limits act as a proxy for quality and safety standards in the industry. In this regard, safety standards should not be affected by age because of the requirement for all limousines to be subject to 6-monthly machinery inspections. Arguments that age limits should be retained to ensure quality standards are more convincing as potential clients may not examine the vehicle prior to its booking in some cases. While this is likely to be a small percentage of customers,<sup>30</sup> receiving a poor quality vehicle can impose significant costs at certain times (such as weddings, in particular). It is possible, however, that quality requirements could be enforced other than through age limits on vehicles, notably through the application of the *Transport Operations (Passenger Transport) Standards* proposed cosmetic and safety standards. The effective application of these standards, however, may require some increase in resources devoted to enforcement and monitoring.

The review committee is of the opinion that the government should remove the current age limits for stretch vehicles and other high quality vehicles while examining the desirability of removing age limits for those vehicles at the middle to lower end of the limousine quality range (that is, Mercedes-Benz, Fairlane, LTD).

### Operating restrictions

Restrictions on where limousines can operate are being progressively removed under current policies on the amalgamation of limousine service areas. The review committee supports the continued removal of limousine service area boundaries.

Other operating restrictions are designed to restrict limousine services from replicating taxi services in the hail and rank market. To the extent that taxi restrictions are retained, the review committee is of the opinion that the costs of these restrictions are outweighed by the benefits.

## 19.5 Options

A potentially less restrictive option was considered by the review committee to remove licensing requirements for all limousine services and retain only the requirement to provide services in a minimum standard of vehicle. This is essentially the situation in South Australia where hire cars (limousines in Queensland) compete with taxis in the phone booked market.

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<sup>30</sup> One participant to the review noted that regular clients were approximately 90 per cent of his work (Transcript, pp. 77-8).

Clement et al., (1999) report that the South Australian Government chose to open entry into Adelaide's hire car market in 1991. At that stage, only 50 vehicles were providing a limousine service, each carrying a licence value of around \$30,000. No compensation was offered but it is reported that the removal of the licensing restrictions was welcomed by some operators whose operations were being hampered by the entry restrictions. Estimates of the number of hire cars regularly competing with taxis each working day range from 70 to 200, accounting for between 5 and 13 per cent of the estimated total combined taxi and limousine bookings. This reflects the reported decline in phone bookings for taxis between 1996 and 1998 of 13.8 per cent.

Under the South Australian system, the number of limousines is not restricted and there is only a minimal annual licence fee and an annual \$1,000 fee per vehicle. Vehicles must be of a 'higher quality', have six cylinders or more and have a wheel base of 2.8 metres. Applicants for accreditation to provide limousine services also had to provide a business plan to the Passenger Transport Board for its approval. Importantly, limousines in South Australia must charge at least \$20 a trip (Clement et al., 1999).

When compared with the regulatory system in Queensland, the main differences appear to be that, in Queensland, a one-off licence fee is payable to enter the industry but there is no restriction on pricing (with the exception of the rank at the Brisbane International Airport) while, in Adelaide, there is no restriction on entry but there are pricing restrictions. The review committee notes that both entry and pricing restrictions distort markets and one form of restriction cannot be said *a priori* to be better than the other. The committee is not, therefore, in a position to determine whether one or the other restrictions better meets the requirements of clause 5 of the Competition Principles Agreement.

### **Deregulation of price and entry**

In the opinion of the review committee, the deregulation of price and entry would be appropriate only if the taxi industry were also to be deregulated. Deregulation of price and entry in the limousine sector would effectively represent a deregulation of the phone booked taxi market as well. As mentioned in previous chapters, the review committee is of the opinion that there are benefits from the regulation of the taxi industry, most notably in relation to the provision of unprofitable services and the provision of lower cost services, particularly in rural and regional areas. Unless reform of the taxi industry is considered desirable, there seems to be little justification for the deregulation of price and entry into the limousine industry.

## **19.6 Recommendations**

The review committee has noted that the continued regulation of the limousine industry is justified only if the government continues to regulate the taxi industry. On this basis, however, there are certain segments of the limousine industry which do not compete with the taxi industry, notably specialty, stretch and high quality vehicles. The review committee recommends that the government consider removing the licensing, age limit and other licensing requirements for these vehicles.

In addition, the review committee recommends that the current restriction on providing tourist services in passenger cars be removed by amending schedule 7 of the Transport Operations (Passenger Transport) Regulation.

Limousine licences should continue to be required for vehicles at the middle to lower end of the luxury vehicle range. Queensland Transport should examine the feasibility of leasing limousine licences and compare the costs and benefits of doing so with the costs and benefits of selling licences.

The review committee could not find any justification of the continuation of limousine service areas and recommends that Queensland Transport amalgamate existing service areas as soon as possible to allow more freedom for limousine operators to relocate.

### **Implementation issues**

Removing the requirement for licences for specialty, stretch and other vehicles and removing the requirement for tourist operators to have a limousine licence may have a negative impact on the value of licences held by operators. As a result, some consideration must be given to implementation of any changes that are adopted. Several options exist for moving from the existing regulatory structure to the recommended structure.

One option is to buy back all limousine service licences and then resell or lease new licences to those operators who wish to operate services in competition with the taxi industry. The buy-back would cost around \$21 million and could be funded by the sale of taxi service licences in areas where there is an identified shortfall in licence numbers. Another option is to buy back only those licences that are no longer needed. Buy-backs might be effected at one time or over time as funds became available. Yet another option might be to convert limousine licences that were no longer required to taxi service licences that are required upon payment of the difference in value between the two licences. The payment of an amount less than the total difference might provide an inducement to convert licences.

If licences are bought back, new licences could be leased rather than sold, allowing more flexibility to deal with changing technology and changing regulatory structures in the future. Having the ability to lease licences would also allow the government to effect greater control over the industry conduct and potentially reduce compliance and enforcement costs.

## 20 Overview of aviation regulation in Queensland

### 20.1 Introduction

The provision of regular passenger air services to the communities of Western Queensland and Far North Queensland is an important step in ensuring that these communities have reasonable access to quality transport services. The Queensland Government regulates and subsidises services in these areas due to market failure and because the provision of such services for transport-disadvantaged communities is in the public interest.

This chapter outlines the restrictions that apply to the provision of regular passenger air services within Queensland and the objectives of those restrictions. These restrictions form the without change state against which other options will be considered in subsequent sections of the report.

### 20.2 Objectives of regulation

The *Transport Operations (Passenger Transport) Act 1994* states that the overarching objective of the legislation is the provision of the best possible public passenger transport at a reasonable cost to the community and the government, keeping government regulation to a minimum.

The Act goes on to state the overall objectives of the legislation, including that public passenger transport be responsive to community needs, offers an attractive alternative to private transport, addresses the challenges of future growth, provides a high level of accountability and provides passenger services at a reasonable cost to the community and government. Additionally, public transport is to provide the community with reasonable access and mobility, which supports the Government's social justice objectives. The Act also provides the framework for coordinating the different forms of transport to form a comprehensive, integrated and efficient transport system.

### 20.3 History of aviation regulation

Intrastate aviation in Queensland, until the mid 1980s, operated under a licence system. This system was governed by the State Transport Act, which authorised the Commissioner for Transport to issue licences taking into account the public interest and to set conditions relating to fares, routes, timetables and the number of aircraft used. The conditions imposed on operators by the 1960 legislation were the mechanism for ensuring they met appropriate community standards.

In January 1986, the Queensland Government commenced deregulating intrastate aviation, ending in the adoption of an 'open skies' policy on 11 May 1987. The open skies policy adopted by the Government effectively deregulated aviation within the State except for the Cairns–Horn Island, Cairns–Weipa and Western Queensland routes.

### 20.4 Current regulatory regime of aviation

In 1994 the *State Transport Act 1960* was repealed and replaced by the *Transport Operations (Passenger Transport) Act 1994*. The overarching objective of the 1994

legislation, as set out in section 2(1), is the provision of the best possible public passenger transport at reasonable cost to the community and government, keeping government regulation to a minimum. To ensure that communities in Western Queensland and Far North Queensland have adequate access to quality transport services, as stipulated under the Government's social justice objectives, and because there is a market failure problem in that quality passenger air services would not ordinarily be provided, it was necessary to enter into performance based exclusive commercial service contracts with passenger air service providers.

### **Service contracts**

The *Transport Operations (Passenger Transport) Act 1994* allows the Government to enter into commercial service contracts in the provision of passenger transport services throughout the State. Section 37 of the Act states that the primary purpose of the service contracts is to hold accredited operators accountable for minimum performance levels and to ensure that communities receive, at a reasonable cost, quality and innovative public passenger services.

Under section 40(2) of the Act, minimum service levels must specify:

- (a) the periods when the public passenger service is to be provided; and
- (b) the nature, frequency and extent of the public passenger service during the periods or particular parts of the periods.

Minimum service levels, as stipulated within the service contract, must have regard to the needs of the community for whose benefit the service is being provided, service levels in comparable communities within Australia and other countries and the cost of service provision.

Furthermore, service contracts may also establish performance outcomes regarding frequency, regularity, punctuality, accessibility, the provision of customer information and service, fare setting, the type of aircraft used and keeping of records and the provision of information as required by the government.

### **Exclusivity**

Holders of an air service contract have an exclusive right to operate in the route(s) for which the contract applies for a period of five years. The service contract regime is supported by section 36 of the Act, which permits market entry restrictions to be put in place for public passenger services on the grounds that it is in the public interest.

Schedule 1 of the Regulation lists those routes to which service contracts may apply. However, before contracts for individual routes can be entered into, they must first be declared by public notice as requiring a need for a service contract. This is in keeping with section 42 of the Act. Having declared a requirement for a service contract for the provision of defined services, exclusivity may then be bestowed on an operator by the awarding of only one contract to operate on the declared route for the provision of such services. Exclusivity is therefore intended to guarantee market share and may also allow operators to commit to higher standards of service than would otherwise be the case in a deregulated market environment.

In some circumstances the exclusive right to operate over a route allows for increased service standards to be funded entirely from the revenue collected through fares. This is the case for the two routes in Far North Queensland; Cairns – Horn Island and Cairns – Weipa. In the case of the Western Air Routes Air Service Contract (which covers eight routes in Western Queensland) a combination of fare revenue and government subsidy funds the increased performance standards prescribed within the contract. The provision of exclusivity in the Western Air Routes Air Service Contract allows the government to subsidise these services at a lower level than would otherwise be the case if the routes were tendered individually.

Passenger air service providers that are granted an exclusive commercial service contract are granted the right to provide passenger air services for a period of only 5 years. At the end of the contract term the chief executive must invite offers from the public for the provision of passenger air services for a subsequent 5-year term. Section 59 of the Act sets out the matters to be considered by the chief executive when deciding whether an offer is acceptable or not.

### **Ensuring competitive outcomes through the contract system**

There are two methods of ensuring competitive market outcomes, competition *in* the market and competition *for* the market. Competition in the market is the preferred option of governments world-wide for ensuring that market outcomes prevail in the provision of passenger air services. However, in circumstances of market failure competition for the market can also be used with great effect. This is the preferred option of the Queensland Government in determining which operator to award an air service contract and is reflected in the 1994 legislation.

The three service contracts for the provision of regular passenger services to remote communities in Far North and Western Queensland are competitively tendered every 5 years in accordance with section 44(1) of the Act. As the Cairns–Horn Island and Cairns–Weipa service contracts do not attract a direct government subsidy, the tender process considers service factors such as the number of flights per week, quality of aircraft and flight connections. The Western Air Routes Air Service Contract does attract a government subsidy and therefore air service providers bid for the contract on the level of subsidy as well as service factors, such as those mentioned above.

## **20.5 Size and location of regulated services**

### **Transport disadvantaged communities**

The Government supports air services under contractual arrangements with airlines in the provision of reasonable access for transport-disadvantaged communities. Services are provided on the basis of periodic tendering and performance agreements with private operators, in accordance with the Act.

To meet its social justice objectives in providing high quality transport services to remote communities, the State Government has identified criteria by which transport-disadvantaged communities can be identified. They are as follows:

Remoteness and access to essential services;

Quality and reliability of road, rail and marine access;

Economic cycles affecting travel demand and the ability of the market to carry services during depressed economic periods; and

The impact of intervention on commercial competitors, including competing modes of transport.

In the event that a standard air service cannot be provided on a regular basis to communities in remote areas that have been identified as being transport-disadvantaged, subsidisation (the provision of financial assistance to operators) and/or regulation (restriction of operators) of specific routes may be considered. These options are dependent upon meeting the following criteria:

Relative effectiveness of providing passenger air services over alternative modes of transport in meeting community travel needs;

Reliability of access to passenger air services provided under market conditions, including access afforded by competing modes of transport; and

Availability of, and distance to, essential services in the nearest regional centre.

## **Routes regulated**

Table 20.1 outlines the routes and communities for which commercial service contracts for the provision of passenger air services have been entered.

### *Far North Queensland service contracts*

The two exclusive commercial service contracts servicing communities in Far North Queensland are for the Cairns – Horn Island and Cairns – Weipa routes. The State Government does not subsidise the operators of either of these routes, rather the provision of exclusivity over these routes is the means by which the Government enables operators to meet expected service levels.

#### *Cairns - Horn Island service contract*

The service contract for the provision of regular passenger air services on the Cairns-Horn Island route is currently held by Sunstate Airlines and was commenced on 1 November 1996. This is an exclusive service contract, under the provisions of the Act, which grants Sunstate Airlines the sole right to provide passenger air services for 5 years.

Sunstate Airlines currently provides 15 return journeys from both Cairns and Horn Island per week. In 1998 an additional 53 supplementary flights were provided to satisfy additional ad hoc demand (Sub. No. 31). Fares are set by agreement between Sunstate Airlines and the Queensland Government and are comparable to fares charged for routes of similar distance elsewhere in Australia. Upon taking over the Cairns-Horn Island route in 1996 Sunstate Airlines cut existing fares by 5 per cent and since that time fares have not been increased (Sub. No. 31).

#### *Cairns - Weipa service contract*

The service contract for the provision of regular passenger air services on the Cairns-Weipa route is currently held by Ansett Australia. This is an exclusive performance based contract of 5 years duration and was commenced on 1 November 1996.

Ansett Airlines operates a daily return service between Cairns and Weipa using a 73-seat BAE 146-200 aircraft (Sub. No. 19). As is the case for Cairns-Horn Island service contract, fares are set by agreement between Ansett Australia and the State Government.

**Table 20.1: Commercial Service Contract Holders for the Provision of Regular Passenger Air Services in Queensland and their Designated Routes**

<i>Service contract route</i>	<i>Contract holder</i>	<i>Contract type</i>	<i>Contract commencement date</i>
<b>Cairns - Horn Island</b>	<b>Sunstate Airlines</b>	Unsubsidised exclusive commercial service contract	1.11.96
<b>Cairns - Weipa</b>	<b>Ansett Australia</b>	Unsubsidised exclusive commercial service contract	1.11.96
<b>Western Air Routes</b> Brisbane – Toowoomba – St George – Cunnamulla – Thargomindah Brisbane – Charleville – Quilpie – Windorah – Birdsville – Bedourie – Boulia – Mt Isa Brisbane – Roma – Charleville Brisbane – Blackwall/Barcaldine – Longreach Townsville – Winton – Longreach Townsville – Hughenden – Richmond – Julia Creek – Cloncurry – Mt Isa	<b>Flight West Airlines</b>	Subsidised exclusive commercial service contract	9.2.97

### *Western Queensland service contracts*

The service contract for the provision of regular passenger air services to communities in Western Queensland is currently held by Flight West Airlines and was commenced on 9 February 1997. The contract with Flight West is an exclusive performance based contract with a subsidy attached. The level of subsidy presently applying to the Western Air Route Air Service Contract was market determined through a public tender process.

As with the Cairns-Horn Island and Cairns – Weipa contracts fares are set by agreement with the government.

### **Subsidies**

Passenger air services received a total of \$3.8 million in subsidy payments in 1998/99. The subsidy paid for the provision of passenger air services is a 'top-up' payment to cover the costs of operation in excess of revenues received from fares. In other words, the amount of subsidy paid by the government is not to subsidise the cost of air services to the consumer, rather, it is to cover operating costs.

## **21 Cost and benefits of existing restrictions on competition**

### **21.1 Introduction**

Clause 5(1)(a) of the Competition Principles Agreement requires that the benefits of a restriction must outweigh the costs to the community as a whole. This chapter attempts to outline the committee's views on the extent to which the existing restrictions on competition meet this test.

For the purpose of this chapter, the previous chapter "Overview of aviation regulation in Queensland" outlines the non-change state with which the benefits and costs can be measured and compared.

### **21.2 Scenario development**

Both the Queensland Government's guidelines (Queensland Treasury, 1999) and the NCC guidelines (CIE, 1999) require the analysis of the costs and benefits of restrictions against the state of the market that would have existed in the absence any restrictions on competition. The review committee has approached this task by developing a broad brush scenario from which the direction and incidence of the costs and benefits of existing restrictions can be ascertained.

### **21.3 Broad scenario development**

#### **Removal of restrictions without subsidy**

Under this scenario, entry into the passenger air services industry would not be restricted and there would be no control over fares. This scenario is currently in operation for the passenger air services industry in the rest of Queensland. Furthermore, subsidising passenger air service operators would not occur and there would be no requirement for operators to cross-subsidise unprofitable services from the profits of profitable services.

The review committee is of the opinion that this scenario would not meet the Government's social justice objectives of ensuring that communities in Western and Far Northern Queensland have adequate access to quality transport services. The committee notes that passenger air services currently provided for under a commercial service contract are in place because there exists a market failure problem. Market failure occurs because quality passenger air service provision would not ordinarily be provided without either subsidisation (as is the case with the Western Air Routes Air Service Contract) or the provision of an exclusive right (as is the case with the two North Queensland air service contracts). Removing either the direct subsidy or the exclusive contract arrangement would mean that air service providers would not cross subsidise unprofitable routes or services and would lead to services being withdrawn, to the detriment of the communities involved. For this reason, the committee does not propose to consider a scenario without some form of subsidisation for non-profitable services.

## **Removal of restrictions with subsidy**

The alternative scenario is one in which entry and pricing restrictions are removed and operators are free to provide passenger air services on a commercial basis. Air service providers would still be required to meet air safety regulations, as is the case when flying within the rest of the State or elsewhere in Australia. This would ensure that air service operators meet the minimum level of air safety standards for the provision of passenger services.

Routes that the government wanted to be provided, but which would not be provided commercially, could be tendered out by the government. The level of subsidisation for these services would be determined on the basis of the level of competition between operators for tendered routes.

Under this scenario, the government would be responsible for determining the route structure of either the entire service area or for non-commercial routes only.

It is expected that the government would still specify minimum requirements in terms of the size of the aircraft to be used, frequency with which flights will occur and the level of on-ground support.

This scenario develops the rationale of the B2 option outlined in the Issues Paper. It allows passenger air service providers to enter into non-exclusive performance based contracts for the provision of selected air services with no right of first offer at the end of each contract. This would allow as many operators into the market as the market could bear. The only restriction on trade would be that each participant would be required to meet minimum service levels, as stipulated by the government, to ensure that community service obligations were adequately met.

## **21.4 Expected impact of deregulation**

### **Competition impacts**

#### *Competition in the market*

It would be expected that freeing up the market by allowing other air service operators to provide services would benefit the end consumer with lower prices and higher levels of service. However, this may not necessarily be the case. Freeing up aviation within Australia has not led to a significant increase in competition nationally or regionally. Only the densely travelled city-pair routes are able to successfully sustain more than one operator at any one time. This problem is further compounded by the structure of Australia's aviation industry, which is dominated by the duopoly of Ansett and Qantas. In Queensland there is third major operator, Flight West Airlines.

It is the view of the review committee that allowing the free entry of operators into the market, provided they met the minimum service levels, would not lead to significant benefits for the community or the government; in fact, there is a possibility that open entry might lead to a diminution of the service levels currently provided.

### *Competition for the market*

Competition for the market is undertaken through a process of competitive tendering. The process of going to public tender is an essential instrument in the allocation of exclusive franchise rights and service contracts. The central idea behind the use of the tender process is that the true value of a service contract or franchise is unknown by the government agency and, by using a competitive tendering system or auction, a better measure of the true value for the service contract may emerge, while greater emphasis is placed on the quality and efficiency of service provision. The tender process is designed to ensure that the contract will be awarded to the tenderor who places the highest value on the service contract. (Van de Velde and Sleuwaegen, 1997)

Competitive tendering processes are designed to ensure that public, and not private, interests are met. As a result, governments retain control and oversight of such areas as service design and service specification, particularly in relation to the quality of the service being provided.

An open and accountable process of competitive tendering allows for maximum participation by all interested parties. Furthermore, if the tendering process is to be truly competitive it must not only attract those parties that are interested, it must also attract operators which are able to fulfill all the requirements and obligations under the service contract. The second condition is important because it ensures that the tender process will provide outcomes that are as close as possible to the outcomes that would prevail under normal market conditions.

In the case of the Cairns-Horn Island and Cairns-Weipa contracts, operators compete on the range and level of service as well as fare levels and on-ground services that will be provided to these communities. In the case of the Western Air Routes Air Service Contract, competition is for a level of subsidy for a given level and quality of service.

Experience has shown that competition for the market has produced many benefits for communities in Far North Queensland and Western Queensland. These have included more services with greater reliability, investment into on-ground infrastructure, local booking agencies and the development of better link services in major centres.

The committee is of the opinion that, given the higher quality and greater frequency and reliability of service provided as a result of the exclusive nature of the air service contract and given that air operators have to bid for the exclusive right to operate, this method should continue to ensure service levels and quality are maintained.

### **Economic impacts**

The review committee is of the opinion that allowing more than one operator to fly services on those routes currently restricted by a requirement to have a service contract will impact on the economic viability of existing operators and reduce the overall level of service provided. It is recognised, however, that services to specific routes or sections of routes (that is, Cairns – Weipa, Cairns – Horn Island and Brisbane – Longreach) might be maintained at existing levels with limited competition.

### *Reduction in cross subsidy*

Freeing up entry could result in increased competition on profitable routes or sections of routes. This would affect the overall profitability of operators and reduce their ability to cross subsidise the losses made on unprofitable routes or sections of routes with the profits from profitable routes. Sunstate Airlines note in their submission (Sub. No. 31) that:

Sunstate offers fares on this route which meet the needs of the market while maintaining commercial viability - the basis for service consistency and reliability. The wide range of promotional fares offered, as a means to meet need and stimulate demand, provides discounts ranging from 16 to 50 per cent, including a special Torres Strait residents fare (45 per cent discount). Approximately 75 per cent of passengers travelling between Cairns and Horn Island use discounted fares.

Sunstate Airlines go on to state that:

The markets in question, from our experience, are not large enough or have the growth potential to sustain any reliable pattern of competitive services at a profit.

In the first year of operation Sunstate Airlines increased patronage by 31.5 per cent and in the second year a further 26.8 per cent.

In responding to the review committee regarding the removal of entry restrictions, Flight West Airlines note in their submission (Sub. No. 27) that:

Aviation by its nature is a capital intensive business in relation to aircraft, engineering and compliance with relevant regulators. It has to be acknowledged that the Government through its present arrangements receives a guaranteed service and equipment level, in the interest of the communities serviced.

To lift the exclusive nature of the arrangement will allow dissipation of the traffic on these routes, allowing operators entry onto these routes with lower level equipment (less capital intensive operation), this will eventually decrease the stability of the government's contracted services.

This situation will require the contracted operator to cut either service or equipment levels to maintain viability, to the Government to increase subsidy contributions to maintain its contracted service integrity.

Likewise, Ansett in their submission (Sub. No. 19) state:

If the air service contracts were made non-exclusive, as proposed in option B2 of the discussion paper, and another airline entered the route, Ansett would be forced to reduce its current service levels or withdraw from the route completely.

It is the review committee's opinion that, while some routes might sustain more than one operator, the level of service provided by two or more operators would not meet, let alone exceed, existing levels of service. Moreover, in the case of the Western Air Routes Air Service Contract, allowing more than one operator to provide services may well jeopardise service provision to some of the small isolated communities identified in Table 20.1, (for example, Boulia, Bedourie, Windorah).

### *Impact of new entrants into the market*

An increase in competition with the entry of new air service providers would have an impact on the level and quality of service, innovation and investment.

### *Service levels and innovation*

As noted above, allowing the possibility for other operators to enter the market would adversely impact upon the level and quality of service provided. In the case of the two Far North Queensland air service contracts, the number of flights and the price of those flights would be affected significantly with operators having to fully recover the cost of providing the service.

In addition to the number of flights provided, existing operators provide on ground services such as baggage handling and airline booking services within regional centres. With the entry of competition, airlines will be forced to scale back these additional on ground services to cut costs and maintain profit levels.

The review committee does recognise that there are regional operators within Queensland who might wish to provide services within the contract areas at reduced cost. It is also possible that a percentage of people living within these areas would fly on a “no frills” service at a reduced cost. However, the benefit to the community as a whole resulting from reduced fares would not outweigh the costs in terms of fewer, more infrequent flights, where the level of on ground support does not exist, or exists in only a very limited way. Moreover, there would be little incentive for operators to be innovative in providing discounted fares, more flights, local booking agencies and connections to other major destinations. The committee therefore believes that allowing additional operators into the market would not benefit the community as a whole, with the overall level of service provision and innovation being reduced as a result of competitive pressures.

### *Investment*

Business will invest into capital equipment and infrastructure only if they can see that they will earn a fair rate of return (economic profit) for that investment. If there is any uncertainty regarding the market and the potential for making at least economic profit over the life of an investment, managers will factor that in and demand a higher rate of return to compensate for the higher level of risk associated with the venture. The lower the risk the more likely it will be that only normal economic profit will be made, that is, prices will be lower.

Opening up the market to competition could have the effect of increasing the level of risk, not only for existing operators but also for new entrants. This would result in managers having to factor in a risk premium on fares to ensure that they made a fair rate of return on their investment outlay. To force operators to meet the same service obligations would mean that operators would have to charge consumers and, in the case of the Western Air Routes Air Service Contract, government more for the service provided. Conversely, if operators reduced their level of investment in capital equipment and on ground infrastructure to ensure that fares remained the same, the overall level of service to consumers would be significantly diminished. This would mean that the Government’s objective of having reasonable access to quality transport services could not be met.

## **Social impacts**

### *Impact on transport disadvantaged*

Chapter 20 notes the Government’s policy regarding transport disadvantaged communities. To meet its social justice objectives of providing “high quality transport services” the Government

identified criteria to ensure that this policy is adequately met. These criteria include the relative effectiveness of air transport over other modes of transport, the reliability of access to passenger air services, and the availability of, and distance to, essential services in the nearest regional centre.

It is the committee's opinion that both existing operators or new entrants would be unable to meet these objectives if the market were opened up to competition. The increased risks involved in providing services could reduce the overall effectiveness, reliability and availability of service provision and therefore diminish the value that the Government places on social justice and equity for all Queenslanders.

## **Employment impacts**

### *North Queensland*

Allowing new entrants into either of the Far North Queensland air service contracts is likely to have a small negative impact on employment. It is likely that the incumbent operators would reduce current levels of investment into infrastructure and other on ground services. However, new entrants are likely to invest in infrastructure and on ground services, thus minimising the negative impact of reduced investment from the incumbent operators.

### *Western Queensland*

Allowing new operators to fly all or some of the routes currently covered by the Western Air Routes Air Services Contract is likely to have a negative impact on employment. It is unlikely that new operators would be willing to fly into the smaller regional centres which are unprofitable. If the incumbent operator were to lose market share on profitable routes to new entrants it is likely that they would reduce the level of service and/or investment into unprofitable centres. At worst, the level of service and investment would be reduced to zero. This would have a direct impact on employment in both the regional centres affected and the incumbent operator. The benefits of competition on employment for communities in Western Queensland would therefore be negative.

Table 21.1: **Summary of impacts resulting from open entry and maintaining minimum service levels**

<i>Element</i>	<i>Estimated magnitude</i>	<i>Estimated direction</i>
<b>Patronage levels</b>		
North Queensland	Small	Patronage declines
Western Queensland	Medium/large	Patronage declines
<b>Competition impacts</b>		
North Queensland	Medium	Dilution of service levels and reduction in revenue
Western Queensland	Medium/Large	Dilution of service levels and reduction in revenue
<b>Subsidy costs</b>		
North Queensland	Nil	No direct cost to government
Western Queensland	Medium	Increase in subsidy cost as operator's ability to cross subsidise services is removed
<b>Fare levels</b>		
North Queensland and Western Queensland	Nil/small	Possible increase in fares in both North and Western Queensland.
<b>Service standards</b>		
North Queensland	Small/medium	Decline in service standards
Western Queensland	Large	Decline in service standards
<b>Employment impacts</b>		
North Queensland and Western Queensland	Small/medium	Decline in employment levels

## Appendix A – Review Participants

### Submissions

Organisation	Submission No.
Ansett Australia	19
Australian Rail, Tram and Bus Union, Bus and Tram Division	32
Australian International College of Language	6
Burr, G.	14
CityBus Toowoomba	8
Dept. of Families, Youth and Community Care	2
Emerald Taxis (B. Hooper)	22
Emerald Taxis (C. Hooper)	18
Five Star Taxi Management	23
Flight West Airlines	27
Gillies, P.	5
Hermit Park Bus Service Pty Ltd	10
Hollis, B.	13
Liquor Licensing Division, Department of Tourism, Sport and Racing	7
Lye, B.	4
Logan City Council	33*
Mackay City Heart Association Inc.	25
Oliver, B. Tamborine/Canungra Yellow Cabs	29
Park Avenue Limousines	17
Public Transport Alliance	11
Queensland Council of Social Services Inc	21
Regents Taxis	3
Richards, G.	16
Sheridan, J.	12
Standard White Cabs Ltd	15
Suncoast Cabs	26
Sunshine Coast Environmental Council	1
Sunstate Airlines	31
Taxi Council of Queensland	30
Vishnu Boutique	24
Wiljoy Pty Ltd (T. Gist)	20
Weston, I. City Taxi Base	28
Youngs Coaches	9

\* Late submission

### Industry visits

Organisation	Date Visited
Rail, Bus and Tram Union, David Matters	18 January 1999
Flight West Airlines	9 March 1999
Limousine Association of Queensland	16 February 1999
Qantas	16 March 1999
Queensland Bus Industry Council	24 February 1999
Regents Taxis	31 March 1999
Surfside Bus Lines	31 March 1999
Taxi Council of Queensland	17 February 1999
Garden City Cabs	3 June 1999
CityBus Toowoomba	3 June 1999

### Participants at public hearings

#### Participant

Barker, P.  
 Burr, G.  
 Cadillac Corporate Services, Mr J. Busst  
 Emerald Taxi Service, Mr B. Hooper  
 Five Star Taxi Management, Mr T. Coco  
 Harvey, G.  
 Hermit Park Bus Service, Mr R. Jones and Mr R. Piper  
 Limousine Association of Queensland, Mr J. Quane  
 Lye, B.  
 Ollson, I.  
 Rajendra, N.  
 Ross, S.  
 Sharp, V.  
 Straddie Flyer, Mr J. and Mrs B. Groom  
 Suncoast Cabs, Mr M. Weir  
 Suncoast Pacific, Mr J. Wadmore  
 West, G.

## Appendix B - Summary of public submissions

### Taxis

#### Taxi Council of Queensland

##### The industry

The Taxi Council of Queensland was established in 1948 to give taxi licence owners a representative voice in the development of public policy that impacts on the taxi industry.

The Council's submission indicates that there are currently 2661 taxi service licences in Queensland. This includes the spectrum from single licence operations in regional areas to fleets in capital cities and it is noted that the formation of despatch companies has emerged to "enhance service delivery" in most areas.

The Council estimates that investment in taxi licences exceeds \$520 million and, with investment in vehicles, operational infrastructure and technology, total investment into the current taxi industry is estimated at \$750 million. It is estimated the taxi industry employs 15,000 people. Through taxi licence ownership or other investment, many Queensland families rely on the taxi industry for an income and to provide for their retirement.

The Council submits that the taxi industry caters for 42.5 million passengers annually (substantially more than urban bus or rail systems). This includes the provision of wheelchair accessible services and catering to the tourism industry.

##### Generally

In support of continuing the current system of regulation of the taxi industry, the Taxi Council of Queensland provided a detailed submission including case studies from other countries where the effects of deregulation have been researched.

In particular, they submit that an unregulated industry would result in substantial fare increases with a corresponding decrease in service quality despite an initial influx of additional vehicles. They submit that the authorities suggest driver and vehicle standards would fall to 'the lowest common denominator' as owners will be reluctant to invest while administrative costs either remain neutral or rise.

The Taxi Council notes that the current system of regulation ensures "broadly comparable" services are provided to all locations in Queensland regardless of demand (that is, in areas of low demand it may otherwise be uneconomic to provide the service).

The Council submits the current regulatory system protects the public interest through:

- providing a homogeneous, consistent and reliable level of service and charges throughout Queensland (as an integral component of the public transport system in Queensland),
- avoiding oversupply in high demand locations thus reducing traffic congestion and environmental impact,

- providing a service that is safe for the customer and driver,
- ensuring certainty and modesty of pricing and minimal transaction costs for hirers so that they are not exploited and not subject to “price gouging”,
- minimal conflict amongst and between drivers and prospective hirers,
- high levels of investment in vehicles and technology,
- supporting the tourism industry,
- providing a flexible service catering to particular customer needs, for example, wheelchair access.

The Taxi Council states the current system has resulted in “a secure, safe, ordered and predictable homogeneous product”.

## **Background information and issues**

### *The current taxi industry*

It is noted that in the post-war period the Queensland taxi industry was not regulated and this resulted in “appalling” conditions for operators, poor use of resources and “oversupply of capacity”, excessive fare charging, poor service quality and lack of public confidence in the taxi industry.

The change of legislation in 1994 (which changed the relationships between taxi companies and plate holders) is also seen as providing the opportunity for future changes to approaches to service delivery. However, the Council submits, these changes would require regulatory guidance.

It is also noted that overhead costs encourage smaller operations to liaise with despatch networks. Despatch network technology has also enabled monitoring of demands and this has been used to support the issue of new licences. The Council indicates that they are not opposed to (and have instigated) the issue of further licences where demand necessitates.

The requirement to affiliate with a contract service holder has led to improved driver and passenger safety through the use of technology such as global positioning, the driver log on process and the opportunity to identify bookings through caller ID. Safety initiatives adopted by the service contract holder flow to all licence holders (even if the licence holders have not individually supported the change).

The Taxi Council also supports the introduction of surveillance cameras inside vehicles as a safety measure. The Council submits that this program could be established by government with funding from a percentage of revenue from licence sales being set aside for industry development. While the industry has invested in safety and service improvements, further opportunities may be realised with access to a “development fund”.

The Council acknowledges that it is difficult to determine a model for setting taxi fares. While it is accepted the Queensland model “is not perfect”, the current system is beneficial in that it allows for the development of “special requirement” markets such as HOV fares and executive services. The Council’s research shows that deregulation results in increased fares “as a result of the perceived suppression of fares under a previously regulated regime”.

The Council submits that maximum fares are not always charged. For example, various companies offer discounts for senior card holders.

The Council also notes that the taxi industry is not subsidised by government funds and must recover costs through fares. They compare this to “government-run competitors” where fares are largely subsidised.

The Council submits that the current scheme of performance based contracts, requiring affiliation with a contract service holder, accreditation and authorisation regime and vehicle standards, is seen as essential for the “managed growth” of the industry.

Customer satisfaction surveys conducted in 1994 showed at least 80% public satisfaction with the taxi industry in areas of service, safety, cost, security and convenience.

### **Other public transport providers**

The taxi industry has been subject to increased competition from other transport services and it is submitted that an audit of available transport services should be undertaken in communities before funded or charitable services are allowed to be introduced. It is suggested that in some instances it may be more economical to fund an existing provider and innovation to the taxi industry is slowed by lack of direct financial support by government, while other transport services are cross-subsidised.

The increase in Fairlane standard vehicles in the limousine market has seen these vehicles operating in both the taxi and limousine markets. As the Council has submitted on previous occasions, they believe Fairlanes should be operating in the luxury end of the taxi market and paying the appropriate costs and meeting the appropriate performance standards.

The Taxi Council suggests government expenditure for urban bus and rail services could be reduced if the taxi industry was given appropriate recognition for their role as a public transport provider.

### **Other industries**

The Council notes the link between the taxi industry and the development of other industries. For example, the development of despatch technology has contributed to export growth in some technology companies and the motor vehicle industry has used the taxi industry to assess Australian vehicle designs.

The Council submits that the taxi industry is closely linked to the tourism industry and drivers are traditionally “sources of news, government policies, local laws and customs and current events” for tourists. They provided examples in New Zealand and United States where the interests of tourists were not served by deregulation.

### **Initiatives for the future**

Generally, the Taxi Council is concerned that deregulation will result in the destabilisation of the taxi industry and standards will fall below an acceptable level if they are not controlled.

The Council submits that the current regulatory scheme should remain so that initiatives for the future (including increasing use of available technology, involving the taxi industry in integrated ticketing and smart card developments, extending taxi transits and introducing part-time licences for peak periods) may be effectively developed.

## **Tony Coco of Five Star Taxi Management**

### **Background**

Mr Coco outlined 40 years of experience in the taxi industry and today (with his wife) he owns 3 licences and leases 30 licences. Through his business he employs more than 100 people including vehicle repairers and full- and part-time drivers. Mr Coco indicates the cost of running his business is “astronomical”.

Mr Coco supports many recent changes to the industry including computerisation of despatch services, GPS and some self-audit and self-regulation. However, he also indicates he has “no problem” with full government regulation of vehicle and driver standards.

### **Fares/earning capacity**

Mr Coco notes that fares are dependent on “the government of the day” and may not reflect cost increases such as vehicle registration. Mr Coco also suggests there is a tendency of some drivers to work to achieve only a certain amount of income with each shift.

Mr Coco has not witnessed collusion regarding fares (as the industry does not control the fares) and he submits that government control of the fares ensures stability.

The earning capacity in the Gold Coast area is seen as much higher than that of a taxi on Horn Island. However, he notes that the earning capacity between Gold Coast and Brisbane may depend on the time of the year (for example, January and February is a peak holiday time in the Gold Coast but is quiet in Brisbane).

Mr Coco submits that deregulation will result in increased fares. As an example he suggests a business man at the back of a rank “flashing dollars” will be taken “to the detriment of the woman standing at the head of the rank only wanting to go to the doctors on Wickham Terrace”.

### **Service**

As well as overcharging Mr Coco suggests deregulation could result in some areas (such as Logan City, Inala, Caboolture) not being serviced because they would be unprofitable.

Mr Coco suggests that if deregulation did result in lower fares this would mean a “drastic” reduction in vehicle quality, safety and appearance due to the fall in income. To support this stance he outlines his experience in the deregulated environment in Hawaii where vehicle age, facilities and driver conduct were an “absolute disgrace”.

Mr Coco further submits, based on the US experience, that deregulation will not improve services to disadvantaged groups (such as minorities) because any additional vehicles that result will focus on profitable areas such as airports and city hotels.

He recognises that the current industry has a generally high standard of vehicle appearance and quality and believes that Queensland has the best system for vehicle inspection. He sees that Brisbane currently leads Australia in the standard of driver appearance and training. Passenger and driver safety would be jeopardised in a deregulated system and customer payment options like EFTPOS would not be possible.

### **Investors/licences**

Mr Coco recognised that there are currently a variety of investors in the taxi industry ranging from widows of taxi owners who rely on income from leased licences, persons relying on licence leasing for retirement, licence owners who have never worked in the industry as well as overseas investors. He indicates that discussion about deregulation could reduce confidence in the industry resulting in a fall in licence values (as occurred in Western Australia and Northern Territory). This is a concern to him because of his age and having spent all his working years in this industry.

Mr Coco believes that the taxi industry in Brisbane is in “pretty good shape” with investment in technology and training at an all-time high.

Mr Coco submits that the current system of regulating the value and price of taxi licences ensures genuine entrants into the industry, not “fleas in for the short haul”.

### **Initiatives for the future**

Generally Mr Coco indicates that he does not support deregulation and would prefer increased enforcement to benefit the industry as a whole.

However, he would like to see a cap on lease payments applied (in consultation with industry and government). He suggests that leases should operate under a “head lease” with the taxi companies who then sublet to operators.

He finally suggests that the word “licence” should be replaced with words like “entry bond” to stop the impression that they are “a licence to print money as some sort of special privilege, a special protection and untouchable circumstance.”

## **E. Symonds of Standard White Cabs (Townsville)**

### **Taxi service licences**

This submission acknowledged that location, market demand and returns are the primary factors resulting in the variation of licence values. In relation to location, the more densely populated areas are considered more desirable due to increased turnover.

Confidence in business and consumer markets governs market demand. Licence prices change to reflect that level of confidence and turnover.

It is submitted that taxi ownership and obtaining a licence is “owning and managing a small business” involving a significant contribution of personal capital. It is noted that a significant

percentage of taxi licence buyers are in the 40-50 year age bracket where they have received lump sum redundancies or early retirement or have otherwise consolidated their financial situation. It is proposed that a Taxi Industry Development Fund could be introduced to provide “bridging finance” to encourage more youthful persons to join the industry.

However, the goals for all licence holders are profitable return on investment, income security, stable capital value and a form of superannuation.

It is recognised that fares are the only income for the business and these must be offset by expenditure including running and maintenance costs which vary across the State (and may vary within a district). While significant capital is used to acquire the use of vehicles (whether by purchasing or leasing), there is further expense in getting the vehicle suitable for on-road use especially if it is to be made wheelchair accessible. It is submitted that these factors all impact upon the fare structure rather than the value of the licence.

### **Despatch bases**

It is also noted that despatch bases are managed differently in provincial areas as compared to metropolitan areas. The “entry fee” system adopted in provincial areas appears to be successful as a “fair and equitable arrangement”. It is appreciated that a larger number of operators using a despatch facility can reduce the cost per despatch and it is suggested that a single “conglomerate” in a large city (if “independently and competently monitored”) could provide a superior service than “fragmented fleets in competition”.

### **Employment**

This submission acknowledges a variety of ownership structures ranging from owner/drivers to investors who lease their licences. These different approaches together provide employment to approximately 600 drivers in Townsville.

Individual driver income is influenced by experience, time of year and the shifts worked and the payment arrangements vary (for example, in Townsville drivers receive 45% of takings with no commitment towards vehicle maintenance and running expenses). There is a significant difference between night and day driver income and, without holiday and sick pay, it is submitted that this “leaves little for the support of a family”. There is concern that any reduction in drivers' income will increase dependence on the welfare system. It is also submitted that the cost of licences is not related to driver income.

### **Disabled access**

It is acknowledged that persons disadvantaged by age, disability, income or isolation may rely on the public transport industry. Special Purpose Licences (for example, Medi Cabs for wheelchair access) are designed to provide for these needs. However, there are additional costs in providing suitable vehicles and drivers for this type of service and the journey may involve empty travel which is not covered by the small additional charges allowed. As some drivers prefer to do “easy work” without regard to the special conditions of the licence this has led to dissatisfaction for all parties. While Townsville has adopted a process to ensure these special needs are met before Medi Cabs are permitted to do other work, it is noted that enforcement methods are required to ensure compliance.

### **Part time licences**

It is submitted that high occupancy vehicles and share-riding would be more effective at managing peak periods than part time licences (particularly in provincial areas). In particular, setting up and maintaining the vehicle and enforcement of part time conditions would be costly.

## **Deregulation**

In this submission reference is made to overseas studies into deregulation and the following pattern has been consistently observed:

- the number of new entrants initially increases,
- saturation of the industry occurs soon after deregulation,
- licence turnover and failure of taxi service operators is high,
- value of licences decreases significantly (by as much as half in most cases),
- income turnover for all drivers and owners is greatly reduced,
- social cost to the community from the excess of entrants is high,
- disadvantaged groups suffer lower standards of service.

It is noted that deregulation without compensation may mean current licence holders will be disadvantaged by profit margins reducing (potentially to the stage where debts cannot be repaid) and a corresponding failure of capital licence values to increase.

The environmental cost of congestion and pollution coupled with increased accident and injury rates due to excess vehicles on the road is also noted.

Under the current regulatory scheme, the cost of entry into the industry acts as an incentive to meet desirable servicing conditions and this will be jeopardised by deregulation. The taxi industry would benefit from continued regulation by the existing legislation, allowing market forces to determine the cost of taxi licences and monitoring of the need for specialist licences.

## **Taxi fares**

It is submitted that, historically, only urban and large provincial areas were serviced by metered taxis and this resulted in variations in fares charged. It is also noted that there are various advantages and disadvantages in terms of cost and timeliness for the different hiring options (hail, rank, booking). While fare negotiations are not common, it is seen that this is the result of “social conditioning”. In Townsville, for example, high volume customers, taxi “tours” and pre-purchased travel result in reduced fares being charged. It is also noted that government intervention has ensured taxi services are accessible to disadvantaged persons and the current metered approach allows security for both drivers and passengers.

It is submitted that various studies show the effect of deregulation of taxi fares would be:

- higher taxi fares,
- exploitation of the consumer (through preferred pick up points and destinations together with fare increases),
- discrimination by drivers regarding the selection of customers,
- price increases during peak times,
- trip refusals (no shows) much higher,
- fares vary,

- significant innovations in the industry would not occur.

Consequently it is recommended that the current regulated metered system be retained, although the process for reviewing fare changes should be refined to include submissions from the industry (so fares can reflect increased costs). It is also submitted that subsidy schemes should have a broader criteria with companies gaining the ability to fix rates (for example, from rank to rank).

### **Quality levels**

It is submitted that the current standards imposed by legislation (including training of drivers required in Townsville) have raised the status of taxi drivers and the industry.

It is also submitted that current taxi vehicle standards required (including vehicle condition and age and communication equipment) ensure consumers have a high degree of comfort, security, safety and cleanliness.

However, as these standards come at a cost, changes to the fare structure may result in lower quality. Consequently it is recommended that the existing quality standards and processes for monitoring operators, drivers and vehicles should be maintained.

### **Service contracts**

This submission indicates that service contracts “bind together all aspects of the taxi industry into minimum service level requirements”. While the contract stipulates the minimum service level, it is in the company’s interest to exceed this standard and government’s use of these contracts should be “aimed at protecting customer service improvements”.

It is acknowledged that a 24-hour booking service is costly, but the introduction of suitable technology has resulted in improved service regarding response times and meeting customers' special needs.

Consequently it is recommended that the current service contract scheme continue with periodic reviews. It is also suggested that companies be encouraged to show initiative in meeting customer needs (for example, applying for additional licences if required). Finally it is recommended that companies have the opportunity to negotiate the minimum service levels required with the expectation that new entrants be also required to meet or exceed those standards.

### **Conclusion**

The taxi industry currently provides a high quality service to customers while offering secure employment for drivers and a worthwhile opportunity for investors.

The deregulation of the taxi industry in other countries did not achieve the expected consumer benefits. Any changes to the current scheme would be detrimental to consumers and other stakeholders.

### **Brian Oliver of Tamborine/Canungra Yellow Cabs**

Mr Oliver submits that the Queensland taxi industry has been recognised for its high standards and “deregulation without proven benefit can only dismantle our existing efficient industry”.

The expectation of “metropolitan” services in rural areas creates strain on the industry and deregulation in these limited markets will “force all but the foolhardy out of the industry”. Mr Oliver submits this would be to the detriment of the current service standards.

It is impossible, due to increased costs and distance in rural areas, for a statewide standard of service to be achieved. This is demonstrated in the subsidies for the bus industry while the taxi industry does not enjoy the same benefit.

Mr Oliver submits that the current practice for inviting tenders does not take into account the special circumstances of rural areas. He suggests part time licences would result in “over-capitalisation” in rural areas and rural licences should be issued on a recall basis so that they may be returned if the need subsides.

It is further submitted that the current vehicle standards should continue to ensure high standards are maintained.

It is recognised that there can be inequities between the allowed age of the vehicle (for example, 6 years for maxi-taxi compared to 8 years for wheelchair accessible). It is suggested that the maxi-taxis could be better utilised to deal with peak times.

Mr Oliver suggests both government and companies should “embrace the issue of *fringe* area services” as a solution to peak time delays.

## **Garry Burr (taxi operator)**

Mr Burr’s family has been involved in the taxi industry since 1924, and Mr Burr personally has 30 years experience.

Mr Burr submits that the price of taxi licences/plates is determined by market forces (that is, whether or not it is a busy area) and not the fare structure. He notes that there are many reasons why people purchase taxi licences including:

- buying a job (older people after redundancy)
- professional gambler/punter (for taxation purposes)
- superannuation or retirement income
- investor (higher return/risk than real estate)
- other reasons.

Mr Burr submits that taxi fares are generally low and have been for years. He suggests that maximum fares are charged because the fares are set too low without sufficient input from the taxi industry as taxi drivers have to work long hours (6 x 12 hour shifts/week) to make a decent living. He suggests that taxi fares should rise but recognises that they cannot rise so high that no one would use these services. However, he believes that all public transport fares and licences should be regulated by the government to ensure stability in the industry.

Mr Burr suggests that taxis are already in competition with each other to give the best service to attract business. He also indicates that for the provision of a door-to-door service it is “still the cheapest form of transport”. Mr Burr further indicates that complaints about service

quality are due to unrealistic expectations as “a lot of people want champagne service for beer prices”.

Mr Burr indicates that in Brisbane there are too many taxis but not enough drivers, particularly from Sundays to Tuesdays. However, he notes that this allows the working drivers to earn some income.

Mr Burr submits that deregulation of the taxi industry would lead to “third world” standards where fares and services change daily. He believes the current scheme which keeps licence prices high ensures that the industry works hard to cover repayments which benefits the government and the community. He is concerned that some supporters of deregulation are ex-owners who want to re-enter the industry more cheaply.

Mr Burr believes that deregulation of the taxi industry would be a “disaster” and regulation is necessary to maintain standards.

### **Paul Gillies (taxi licence owner)**

Mr Gillies submitted that he fully supports the present regulation regarding the issue of taxi licences in Queensland.

He suggests that these regulations have resulted in improvements in taxi cleanliness, response times and service. He notes that restricting the number of licences has resulted in a competitive industry which still enables owners to earn a reasonable income.

Mr Gillies indicates that fares are not linked to the price of licences but that the maximum fare is charged so that operators are able to maximise their incomes. Charging the maximum fare is not the result of “collusion” as most drivers and operators merely follow the current regulatory standards.

It is suggested that deregulation would result in an “erosion” of customer service standards and reduced income for operators. He recognises that customer feedback and company records indicate high customer service standards.

Mr Gillies submits that the slightly higher fares resulting from the current scheme are outweighed by improved vehicle and customer service standards.

### **Tracey Gist of Wiljoy Pty Ltd**

It is submitted that there needs to be a change of thinking and direction to address issues relating to Queensland Transport and the taxi industry. It is noted that, historically, the Taxi Council was developed to represent owners; however, recent decisions seem to be for the benefit of companies in contradiction with the interests of owners and drivers.

It is suggested that the following issues should be addressed:

- Taxicare and Taxi Plus training should be facilitated by an outside body so that the standards are not lowered because it is seen as a “profit-making exercise”;
- Owners (rather than companies) should be given the flexibility to operate stand-in vehicles;

- As potential owners tend to discuss tender prices with company directors, companies should not be permitted to lodge tenders due to the conflict of interests;
- Price and service restrictions are “essential” to maintaining high service standards;
- Fines against owners for breaching company rules should not be allowed;
- Taxi administration and booking services should not be permitted to engage in non-transport service businesses;
- Queensland Transport should encourage a minimum of two companies in cities with a population of 80 000 or more;
- Queensland Transport should monitor whether company share packages accurately reflect assets.

This submission indicates that regulation is necessary to provide quality training and to monitor the integrity of companies to ensure a high level of service is delivered to the public.

### **John Sheridan (former taxi operator - Toowoomba)**

Mr Sheridan was involved with the taxi industry between 1990 and 1994. Originally, he purchased a licence at the age of 48 to provide himself with employment and he saw it as a good investment. Later Mr Sheridan leased another licence to meet the needs of disabled persons.

Mr Sheridan submits that during his involvement in the industry he introduced several initiatives but was “reprimanded, harassed and hounded” by the other operators, causing him severe financial hardship.

By referring to newspaper articles and comments by the Australian Competition Tribunal, Mr Sheridan concludes that there is conflict between the current legislation and provisions of the Trade Practices Act. Mr Sheridan further suggests that government restriction and regulation “eventually captures the industry” making it “monopolistic in its purpose”. This leads to anti-competitive behaviour by the industry, resulting in no competitive benefits for consumers.

Mr Sheridan submits that any potential loss in capital values of licences is the result of the industry’s role in setting the licence prices and is not subject to legislative control. The high price of licences results in high loan repayments requiring operators to work longer hours and this is influenced by interest rate rises which potentially lead to bankruptcy and subsequently a cost to the community.

Mr Sheridan recognises the essence of the taxi industry is availability of taxis to meet public demand. Additional technology is viewed by Mr Sheridan as expensive “window dressing”.

Mr Sheridan also notes that cooperatives may exert influence to ensure consumers are denied choice and competitive pricing. Mr Sheridan submits that removal of restrictive legislation should give opportunities to enterprising individuals instead of taxi cooperatives. In relation to taxi fares, Mr Sheridan suggests there is “an element” of collusion within the industry due to the consensus of cooperatives. As job allocation is usually by rotation, it is difficult for one driver to give a discount when the customer usually has a different cab allocated for the next journey. The exception may be provincial cities (like Toowoomba) where a small company is vying for a larger share of the market.

It is submitted that operator and vehicle quality and licence values should be subject to some controls, and that regulation over vehicle standards, response times, driver accreditation and

requiring a 24-hour booking service are beneficial. However, deregulation of entry (while providing assistance in increasing the number of smaller cooperatives) would mean increased competition and value for consumers in the market. Mr Sheridan supports deregulation of prices to stimulate competition and innovation between a larger number of cooperatives.

### **B. A. Hooper of Emerald Taxis**

Mr Hooper has been involved in the taxi industry for 16 years. During that time he believes the taxi industry has strived to maintain high standards (even during financially tough times) in the belief that there would be long term reward.

However, recently Mr Hooper has had to compete with limousines operating as taxis and the government has been unable to stop this. This has caused financial hardship through loss of revenue, loss of licence value and the costs of having to meet the standards required of a taxi service.

Mr Hooper is concerned that this review will result in legislation that requires taxis to be strictly regulated within an otherwise deregulated environment. Mr Hooper submits that this would cause financial loss and “the fair thing” would involve compensation for the industry.

It is submitted that the current taxi industry in Queensland is progressive and providing a good and economical service to the public. However, Mr Hooper recognises that future legislative changes will impact on the desirability of investment (as does the current problem with limousines).

### **Cecilia Hooper of Emerald Taxis**

Mrs Hooper’s husband and brother-in-law have been involved in the taxi industry since 1983 as operators of Emerald Taxis with three taxi licences and one wheelchair accessible licence.

However, it is submitted that since September 1997 their business has come under competition from the holder of limousine licences. Mrs Hooper submits that the current legislation is inadequate to enforce the distinction between taxi and limousine services and consequently the limousine service is undercutting the meter price.

It is suggested that a limousine service should have minimum price, booking fee, service standards (such as opening the door for passengers) and dress standards.

Mrs Hooper suggests that there is no future in the taxi industry unless it is protected by the government. If there is to be deregulation then compensation for the taxi industry should be considered.

### **B. Hollis**

It is submitted that the current taxi system does not adequately meet the needs of consumers. It is noted that licensees make profit without serving the public and he suggests that changing the current licence and leasing scheme could result in 30% lower fares without any loss of service.

It is submitted that the government's control of the industry has created an "inefficient monopoly" and the current system should be replaced with a yearly fee. It is also noted that while computerisation may improve service to consumers, the current approach in Cairns has resulted in delays with drivers and the company displaying inappropriate conduct.

It is submitted that improved competition will create efficiency and price reductions.

## Buses

### Peter Hagan of CityBus Toowoomba

Mr Hagan submits that deregulation and the National Competition Policy discriminates against low and medium population communities. As an example, increased competition in the banking industry resulted in services being focused on high population areas while non-profit areas were left “fighting for services”.

Mr Hagan submits that rural bus services require either regulation or government funding of the services.

It is recognised that the passenger transport industry is about transporting people. Customer concerns include telephone numbers, bus colours, familiarity of drivers with customer needs, continuity and reliability of service. Improving service also requires historical consideration of trends. If urban scheduled services are to be self funding then there needs to be security of tenure including a right of renewal in tenders.

Mr Hagan further submits that the current contract term of five years is inadequate because of the time it takes to change people’s behaviour, the financing and life span of vehicles and the need to plan services in advance. This also means that financial investments have to be costed over the five year period in case the contract is not renewed.

Mr Hagan notes that deregulation of the long distance coach industry resulted in reduced fares and increased service frequency. However, there was also an increase in accidents, vehicle safety issues and bankruptcies.

Essentially, Mr Hagan submits that the National Competition Policy will be effective only where there is a high density population, as the policy is concerned more with money than service. While he appreciates that large monopolies which may have grown complacent may benefit from the policy, the current regulated public transport system in Queensland effectively balances the costs and benefits for the community. There is already some degree of competition in the industry from other transport options (for example, taxis, community buses) and excessive competition would not be sustainable in this capital-intensive industry.

Mr Hagan encourages the continuation of the current system (which is still relatively new) to encourage confidence in the industry.

## **Philip Young of Young's Coaches (Rockhampton)**

Mr Young has approximately 50 years experience operating in provincial Queensland. Mr Young notes that the Rockhampton community in which his service operates has high unemployment and his business offers employment directly and indirectly through business profits and employees' earnings contributing to the local economy.

Mr Young submits that operating a bus service is a long term commitment due to the capital funding required.

Keeping up with technology and changes to regulations can mean services run at a loss. Deregulation would result in decreased operating standards in rural and provincial areas where the population is small and the market is limited. However, he notes that cross-subsidisation between charter and urban services could be effective.

Mr Young observes deregulation has been unsuccessful in the charter bus industry in Rockhampton, where, although the public receives cheaper travel, vehicle age has been increasing and this could result in accidents.

Mr Young also notes that deregulation of the express coach industry reduced the number of services available to customers while deregulation in the milk industry resulted in increased prices.

Mr Young submits that there are substantial benefits to the government and the community in restricting competition in the transport industry (such as setting service and safety standards). He also submits that most operators would currently have fares lower than the maximum fare. Mr Young believes that deregulation would result in unprofitable areas losing their services and the increased car usage would impact on the environment and road networks.

## **R. F. Jones of Hermit Park Bus Service Pty Ltd (Townsville)**

The Hermit Park Bus Service has been operating in Townsville for the last 40 years. Until 1994 the company operated regular passenger services (including nights and Saturdays) in Townsville and Thuringowa as well as school services.

This submission identifies that traffic congestion, car ownership levels and parking availability impact on public transport usage. In particular; it is noted that Townsville does not have factors that encourage public transport use.

It is noted that the service requirements expected in 1994 when tenders were called were not commercially viable (and a detailed costing was included with this submission). Despite Queensland Transport being advised of these problems, no variation of the guidelines was allowed. Consequently Hermit Park Bus Service sold their interest in the then current contract to a competitor who was subsequently awarded the contract.

Since that time this competitor did not comply with the guidelines and government subsidies have since been provided (despite statements by government representatives at the time of tendering that the contract must be strictly adhered to without subsidy).

Consequently, it is submitted, Hermit Park Bus Service was unfairly treated and the current regulation was unduly restrictive to competition in Townsville. It is recommended that new

tenders should be called for that licence (rather than allowing the current contractor to renew) with either “reappraisal of the guidelines or a stated policy of negotiation of the services proposed by tenderers”.

## **David Matters of Australian Rail, Tram and Bus Industry Union**

The Union submits that the bus industry has undergone significant reviews and changes including the change from the licence system to the contract system. It is noted that the current legislation is effectively in line with the National Competition Policy as it does not guarantee continuance of any operator, and operators must meet “rigorous standards of competitiveness within the industry”.

It is noted that relatively recent legislative changes were designed to increase the availability of services, particularly in regional areas, and this has largely been achieved.

The Union recognises that it is government’s intention to “have others share in the cost of these improvements”. Consequently, funding by the Brisbane City Council should not be disturbed. However, it is also noted that government allowing the Rockhampton City Council to stop providing public transport services possibly resulted in increased costs.

The Union is concerned that deregulation and subsequent competition will ultimately lead to “monopoly control” as occurred in Britain. The unrestrained competition in the “Bus Wars” resulted in service levels falling, resulting in private industry lobbying government for subsidies.

### **Road infrastructure**

The Union suggests that the provision of road infrastructure is integral to passenger transport services (including bus services). The need to build and maintain road surfaces and other infrastructure for expanding residential and industrial development using a car-based model (as opposed to increasing population density closer to city centres) impacts on Australia’s balance of payments. Consequently it is submitted that both levels of government should take this into account for economic planning.

### **Air quality**

Air quality may also deteriorate as a result of increased competition between operators. This may be due to increased patronage, discount fares leading to reduced vehicle maintenance and reduced research into vehicle improvements by both government and industry.

### **Social mobility**

The Union recognises the role of public transport systems in providing a link between people and their community, particularly if the person is disadvantaged in terms of income or location or age. It is submitted that deregulation will not immediately assist disadvantaged persons. Using Inala and Acacia Ridge as an example, government intervention significantly improved the bus services to these areas.

The Union suggests that public transport standards for young and aged passengers (that is, those people who do not have access to their own vehicle) would be compromised by

increased competition. It is also indicated that the current legislation ensures disabled passengers are catered for.

## **Employment**

The Union acknowledges that bus operators are themselves employers, as well as providing services to allow others to access their employment.

The Union suggests that providing full time work encourages social stability. The Union is concerned that deregulation would result in bus operators resorting to casual employment to meet the additional commercial costs that result from fare discounting. The consequent reduction in income impacts on the employee's ability to maintain and educate a family.

The Union also notes conflict between the high standards expected in the current regulations and reduced wages and recognises that economic pressures may lead to health problems in employees. International studies have identified bus driving as linked to some health risks. The current legislation requires medical assessments for drivers. The Union submits that it is in the public interest for this legislation to continue.

The Union submits that the major costs in the bus industry are vehicles and depots with labour, fuel and maintenance (for vehicles and depots) also significant. Deregulation would decrease the ability of some operators to “roll over their capital costs into the return of production” resulting in bankruptcy. Deregulation would also reduce investment into the industry and force operators to take the “cheapest” means of renewing their fleet. It is noted that under the current system, the need to return capital within the short period of the contract has resulted in a reduced vehicle quality in some instances. Further reductions in the ability of the company to plan capital returns will lead to further instability in the industry.

Instability in the industry directly impacts on the labour force and it is suggested that the current legislation be amended to enable continuity of employment for permanent workers and to address planned infrastructure development.

## **Conclusion**

The Union submits that the legislation currently provides a degree of competitiveness and has also enabled the progression of transport reforms. Rather than deregulation, the Union supports the removal of the competitive aspects of the current Act to address the social issues and ensure employment and industry stability.

## **Other interested parties**

### **Kathryn Elliot on behalf of Mackay City Heart Association Inc.**

The Mackay City Heart Association represents 400 business and property owners in the Mackay CBD and they recognise the importance of adequate and efficient transport services to maximise available parking and minimise traffic congestion. This was emphasised through community consultation.

## **Taxi service**

The current taxi service is well patronised by the community and is a valued service in the city although it is noted there have been some concerns with wheelchair access.

The Association's primary concern is after-hours crowd dispersal from the city centre. It is suggested that the expertise from capital cities could be used to ensure resources and administration can solve this problem. Particular concerns are:

- by 9.30 pm there is confusion between drivers and passengers regarding the Wood Street rank as to where the queue should begin;
- between midnight and 4.00 am there are sometimes unacceptable delays (which is a safety risk for passengers);
- it appears the taxis operating are for the peak requirements;
- it is recognised that it is difficult for nightclub patrons to pre-book taxis (although phone bookings have priority); and
- there is confusion between Mackay Taxis and Queensland Transport as to whether there is a contract requiring performance of certain service standards.

### **Urban bus transport**

The Association submits that the urban bus services in Mackay are negligible particularly during peak traffic periods. It is suggested this may be due to the subsidising of the taxi industry and poor returns on most bus runs with the exception of schools. It is suggested that a regular bus service would be beneficial.

### **Generally**

The Association also submits that taxi and bus shelters and timetables need to be improved to meet the standards expected by tourists.

### **Transit Centre**

The Association believes that the construction of an integrated Transit Centre would improve transportation in and around Mackay.

### **Anthony (Tony) Clerc of Vishnu Boutique (Mackay)**

Mr Clerc submits that the Transit Centre proposed by Mackay City Heart Association would ensure a safer environment for motorists and pedestrians by catering to the needs of business, tourists and residents.

### **Jennifer Leigh of Queensland Council of Social Services Inc.**

#### **Background**

The QCOSS has a long involvement in community transport and has been involved in the Transport Options Project (TOPS), which is trialling an indirect approach to addressing the unmet transport needs of Home and Community Care eligible residents in Brisbane's southern suburbs.

The QCOSS submits that the cost/benefit test for this review assesses current user's needs but neglects non-users or people who use services only in an emergency because the current system has disenfranchised them.

It is also noted that community transport users are frequently on low fixed incomes. When there is only one transport provider available it may further reduce a person's capacity to pay and, even with subsidy vouchers, taxi fares can be beyond the means of some people while access to bus transport can be restricted by health concerns.

### **The taxi industry**

The QCOSS has noted that the taxi industry views community transport as a "competitor for the business of people who are aged or have a disability". While the transport services provided by community transport are different, there is also a "niche" market that the taxi industry could fill if they took steps to meet customer needs.

QCOSS clients generally rely on maxi or stretch taxis. It is submitted that feedback regarding services is not generally encouraged in the taxi industry and this is particularly difficult for passengers who rely on taxis as their only form of transport.

Despite incentives (such as reduced licence costs and subsidy system) wheelchair access vehicles do not seem to give priority to wheelchair clients. It is also noted that school-aged wheelchair clients are given preference to other wheelchair clients, causing lengthy delays.

It is submitted that even when taxis are booked well in advance they still arrive well after the booked time. This is expensive (and inconvenient) for the wheelchair client who may also be responsible for the wages of support workers. Booking services do not accurately advise clients of the expected delay.

It is noted that there seems to be little willingness to negotiate fares below the legislated maximum. Fare competition is compromised by the current system because drivers are allocated jobs by the booking system (although some do negotiate directly with consumers). The ability to deal directly with the service provider encourages consumer feelings of safety and confidence. It is also noted that subsidy vouchers are not redeemable for charter bus journeys.

It is suggested that establishing, monitoring and improving public knowledge of service quality benchmarks and negotiating regular journeys directly with drivers may provide better service and the opportunity for fare negotiation.

It is submitted that, in view of the future requirements of accreditation and the opening up of community transport providers for profit, the taxi industry should no longer be subsidised.

### **Urban scheduled passenger transport**

The QCOSS acknowledges the different needs of mass travellers to and from the innercity compared to those people who require other inter- or intra-suburb services. It is felt that the current system is not flexible enough to cater to the diverse needs of consumers.

It is suggested that transparent Community Service Obligations in service contracts, allowing other operators to provide differing services or government funding for community or “flexi-routes”, would assist in meeting the needs of non-CBD passengers. The ability of operators to negotiate routes and bus stops according to consumer needs would also be an improvement on the current system.

The QCOSS submits that community transport service providers may also be viewed by bus companies as competitors. In view of future OA and DA requirements for community transport providers to “level the playing field”, legislation should allow these providers to be granted contracts to provide scheduled services (particularly in towns with a population less than 7,000) in addition to their HACC services.

Generally, the current bus services do not meet the needs of wheelchair and local community travellers.

## **Michael Yeats of Public Transport Alliance**

Mr Yeats raised concerns regarding the consultation process for this review and in particular he was concerned that it was a one-way process which did not involve rail services and that “commercial in confidence” documents reduced the credibility of the review.

Mr Yeats submits that the public transport “market place” should be reviewed in relation to use of bus stops, disabled access bus stops and taxi ranks and the integration of services. He also suggests provision of “user-useful” ticketing. He suggests a Public Transport Ombudsman could use community consultation to determine public transport needs and service conditions.

Mr Yeats suggests that a non-car transit system should be promoted with all services becoming more flexible to meet consumer demands. He submits “poorly complying or non-complying services and equipment” that are currently being funded “at substantial cost” throughout the State should be addressed.

Mr Yeats notes the current regime seems to favour bus and taxi transport.

## **Liquor Licensing Division, Department of Tourism, Sport and Racing)**

The Liquor Licensing Division is concerned with the regulation of the liquor industry including licensed premises in Queensland. They recognise that the ability of licensees to remove patrons as quickly as possible from, or near, premises is facilitated by access to public transport services.

It is submitted that the current legislation fails to recognise the excessive demand of peak times and seasons and it is recommended that:

- limousine ranking should be examined for high demand periods,
- the issue of part time, seasonal or after-hours taxi licences should be considered,
- owners be encouraged to purchase maxi-taxis to promote share-riding,
- night operation should be encouraged by addressing safety concerns through share-riding in appropriate vehicles,

- more stringent performance agreements and response times should be enforced,
- limousines should be allowed to compete at specific times or seasonal periods.

## **Department of Families, Youth and Community Care**

This Department is concerned with services to assist young people, people with a disability, older people, children and families. In particular, they support transport options where the social and economic benefits outweigh the costs for these target groups.

## **John Burrow of Sunshine Coast Environmental Council**

It is submitted that there is a need for Sunshine Coast residents to have access to an efficient and reliable public transport system to reduce the adverse environmental and health effects associated with car usage. This service should provide mobility for elderly, disadvantaged and other non-car owners.

The present bus services do not adequately service less profitable routes and in many areas (such as the hinterland) there is no service at all.

This submission supports the provision of government subsidy for the unprofitable routes and open competition on profitable routes if this would result in additional and improved services. It is also suggested that the charter bus industry should not be restricted in favour of the taxi industry.

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