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UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
BOSTON REGIONAL OFFICE

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COMMISSION AUTHORIZED

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July 15, 1988

Mr. Alfred Testa, Jr. Esquire
Legal Counsel
Department of Transportation
Division of Airports
Theodore Francis Green State Airport
Warwick, Rhode Island 02886

Dear Mr. Testa:

The staff of the Federal Trade Commission is pleased to respond to your invitation for comments concerning the advisability of authorizing additional taxicab service at Theodore Francis Green State Airport.[1] We understand that the total number of airline passengers at Green Airport has increased dramatically, from 737,000 in 1982 to more than 2 million passengers in 1987. To accommodate this increase in passengers, the Rhode Island Department of Transportation ("RIDOT") is currently formulating plans for significantly expanding airport facilities. Concurrent with this expansion, RIDOT proposes to increase the level of taxicab service at the airport, which is presently serviced by a single taxicab company pursuant to a concession agreement.

Permitting open entry into the airport market and allowing fares to fluctuate under a reasonable ceiling would likely benefit Rhode Island residents and visitors in two ways. First, limited deregulation of fares and open entry would introduce competition and likely lead to lower fares. We believe that even this limited fare competition may save consumers of airport taxicab services about $200,000 annually. Second, increasing the number of taxicabs servicing the airport should reduce the time that consumers wait for taxicabs.

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1 These comments are the views of the staff of the Boston Regional Office and of the Bureaus of Competition, Consumer Protection, and Economics of the Federal Trade Commission. They are not necessarily the views of the Commission or any individual Commissioner.

The Federal Trade Commission's Experience With Taxicab Regulation

The staff of the Federal Trade Commission, upon request by federal, state, and local governmental bodies, regularly analyzes regulatory proposals to identify provisions that may impede competition or increase costs without providing countervailing benefits to consumers. Comments on taxicab regulation have been submitted to the city governments of New York, Seattle, San Francisco, Cambridge (Massachusetts), and the District of Columbia, and to the Alaska and Colorado state legislatures.

Commission economists have analyzed taxicab regulation in numerous cities throughout the country and concluded that restrictions on the number of taxicabs, prohibitions on fare competition, and restrictions on shared ride, or "jitney" service, harm consumers by imposing substantial costs.[2] In particular, the authors found that these restrictions impose a disproportionate burden on low-income customers, including the elderly and handicapped, many of whom are more reliant on taxi service and expend a greater share of their income on taxi transportation than the general population.

A 1984 study commissioned by the U.S. Department of Transportation confirms the main conclusions of the FTC staff economists' report. The DOT study concluded that regulations restricting entry of new taxicabs and preventing discounting of fares cost consumers nearly $800 million annually in higher fares, and resulted in 38,000 fewer jobs nationwide in the taxi industry.[3]

While these figures are significant on a nationwide basis, they are an aggregate of the many local areas that bear the costs of taxicab regulation. In Cambridge, Massachusetts, for example, we recently estimated consumer injury due to taxicab regulation to be $1.5 million annually.[4]

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2 M. Frankena and P. Pautler, An Economic Analysis of Taxicab Regulation (FTC Bureau of Economics 1984 Staff Report) (hereinafter cited as "Taxicab Regulation").

3 Urban Mass Transportation Administration, U.S. Department of Transportation, Regulatory Impediments to Private Sector Urban Transit 85 (1984).

4 Letter to James T. McDavitt, Chairman of Cambridge License Commission, from Ross D. Petty, FTC attorney (July 30, 1987).

An analysis of the effects of deregulation of taxicabs at airports is included in the 1984 FTC staff economists' report. Prior to that report, in 1977, the FTC sponsored a detailed study by Professor Arthur De Vany of regulations governing taxicab service at the Dallas/Fort Worth Regional Airport.[5] Each of these reports recognizes that distinctions must be drawn between metropolitan and airport taxicab markets and that total deregulation at airports may not always be feasible. Each report concludes, however, that partial deregulation of taxicabs at airports can provide the same beneficial effects that flow from the deregulation of taxicabs in other areas.

Airports in Seattle and San Diego encountered difficulties that can accompany total deregulation of taxicabs at airports.[6] For example, the airport in Seattle experienced a lengthening of cab lines, significant fare variance, disputes among taxicab drivers, and refusals by drivers to provide short-haul service for customers. Professor Richard O. Zerbe suggests that these problems stem from one fundamental cause--taxis are able to charge high fares because customers are not able to shop efficiently for the lowest fare.[7] Consequently, cab queues lengthen as drivers attempt to reap fare premiums.[8] These

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5 A. De Vany, Alternative Ground Transportation Systems for Dallas/Fort Worth Regional Airport (1977).

6 Airport taxicabs typically form a single queue, making it difficult for consumers to consider several taxicabs before selecting the one they prefer. In contrast, taxicab users in most cities can easily sample a number of taxicabs by calling the dispatch services of various companies until they ultimately select a taxicab company for use on a regular basis. In such a radio-dispatch market, taxicab companies can develop reputations for price and service, allowing competition to work to the benefit of consumers.

7 R. Zerbe, Seattle Taxis: Deregulation Hits a Pothole, Regulation, Nov.-Dec. 1983, at 48.

8 These problems appear to have been exacerbated by Seattle's retention of the dispatching system it had prior to deregulation, when fares were uniform. Taxicabs were called into the loading area according to their place in line. If the taxicab was refused by a customer, the taxicab did not go to the end of the line, but went to a holding area and soon returned to the head of the line.

problems spawned a rash of consumer complaints. Seattle authorities responded by putting a ceiling on the fares that could be charged by airport taxicabs,[9] by providing for rate-posting, and by creating a separate queue for short-haul trips.[10] These measures resulted in an increase of taxicab competition and fewer consumer complaints.

The airport in San Diego experienced similar problems after total deregulation. Consumers complained about high fares and fare variance. There were long queues, short-haul refusals, and disputes among cab drivers about their places in line. San Diego substantially relieved these problems by imposing fare ceilings, raising the permit fee, and hiring additional starters.[11]

The Current System at Green State Airport

Green State Airport is presently serviced by a sole taxicab company pursuant to a concession agreement. The concessionaire's taxicabs, like all taxicabs in the State of Rhode Island, are regulated by the Rhode Island Public Utilities Commission (RIPUC).[12] Under existing regulations, a taxicab may solicit fares only in the areas for which it holds operating authority.

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[9] Lengthy cab queues may be shortened by reducing fare ceilings, thereby making it less lucrative for taxicab drivers to wait long periods of time for a passenger. The ceiling imposed by Rhode Island's current method of rate regulation (the zone of reasonableness discussed in the next section of the text) may be low enough to constrain undue lengthening of taxicab queues at Green State Airport. If not, RIDOT may wish to consider whether it should petition RIPUC to establish a separate fare ceiling for airport service.

[10] The New Orleans airport also has separate taxicab queues for long and short trips.

[11] Taxicab Regulation, <u>supra</u> note 3, at 135-36. In view of the planned expansion at Green State Airport, RIDOT may wish to address such problems by providing consumers with the opportunity to shop around by establishing a taxi dispatch system that allows cabs to compete and consumers to choose among different levels of taxicab fares and service.

[12] RIPUC and RIDOT are separate, unrelated administrative agencies. RIDOT has no direct authority to regulate taxicabs. It can do so only collaterally, as part of its authority to manage the airport, which is private property.

Typically, that authority is confined to the city or town in which the taxicab is based. The regulations also provide that a trip may not originate outside of a taxicab's base city unless the trip is pre-arranged at the request of the passenger, i.e., the passenger calls the taxicab company. Thus, while a taxicab may transport a passenger from its base city to any point in the state, including the Green State Airport, it must return empty, or "deadhead," to its base city if it is not authorized to solicit passengers at the airport. Similarly, an airport taxicab taking a customer to a location other than the city of Warwick, where the airport is located, must deadhead back to the airport. This deadheading back to the base city is inefficient and leads to higher costs for taxicab service.[13]

All Rhode Island taxicab companies must disclose their rate structure on tariffs that are filed with RIPUC. These rates must be approved by RIPUC as just and reasonable. RIPUC has established a zone of reasonableness within which fares will be presumed just and reasonable. Taxicabs filing rates within this zone need not explicitly justify their rates and no public hearing on the validity of the rates is necessary. Presently, the zone of reasonableness ranges from a minimum of $4.80 to a maximum of $9.00 for a five-mile trip. The taxi concessionaire at the airport charges $8.05 for a five-mile trip. While this zone of reasonableness may provide the flexibility for some price competition among taxicabs transporting passengers to the airport, it obviously has no such beneficial effect on trips that originate at the airport, where there is a single concessionaire providing taxicab service.

From conversations with officials of RIDOT and RIPUC, we understand that both agencies have received consumer complaints about long waiting times during peak periods for taxicab service at the airport. RIDOT also believes there is a perception among airport patrons that taxicab service at the airport is not adequate and that this causes many people to make prearrangements for pick-up by private automobiles. RIDOT believes that improvements in the taxicab system at the airport may result in increased usage of taxicabs by consumers and reduced automobile congestion.

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13 In his study of the Dallas/Fort Worth Airport, De Vany observed that the extra costs of deadheading are usually passed on to customers in the form of higher fares, surcharges, longer waiting times and refusal of service. De Vany, *supra* note 6, at 31-32.

The Benefits of an Open Entry System at Green State Airport

The taxicab system at Green State Airport shares many common features with the Dallas/Fort Worth Airport system studied by De Vany in 1977. These common characteristics include the operation of the taxicab system by a sole concessionaire, a prohibition against other taxicabs picking up passengers at the airport unless expressly requested to do so in advance by a particular passenger, and a requirement that the concessionaire provide a minimum number of taxicabs to service the airport. As De Vany found, a system that employs a sole concessionaire is not conducive to price competition or quality of service competition. Consumers may be forced to pay higher fees than they would under an open entry system. When properly designed, an open entry system has the potential to lower fares and to ameliorate other problems, such as excessive waiting time. Open entry would also eliminate or minimize the inefficient deadheading that now occurs when, for example, a taxicab transports a passenger from Providence to the airport and must then return empty to its base city.[14]

RIDOT may wish to consider a system at Green State Airport that would allow any taxicab licensed in Rhode Island to service the airport. In his study of the Dallas/Fort Worth Airport, De Vany found that an open system involved the elimination of deadheading by permitting all taxicabs to pick up passengers both at the airport and in the community to which they took the passengers.[15] Significantly, De Vany calculated that, as of 1977, the elimination of just one-half of the deadheading that occurred at the Dallas/Fort Worth Airport would produce annual savings in excess of $700,000.[16]

The deregulation of taxicabs at Green State Airport can yield benefits that are real and immediate. In addition to the elimination of inefficient deadheading, deregulation would likely benefit consumers by leading to lower fares and improved service. The fares charged by the current concessionaire are higher than

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14 Id.

15 Most airports that have open systems, such as New York, Chicago, Washington National, and Los Angeles allow all city licensed cabs to serve the airport. De Vany, supra note 6, at 14.

16 Id. at 32.

those of most other Rhode Island taxicab companies. If open entry led to a fare reduction to approximately that of the median fare for the Providence/Cranston/Johnston area, airport taxicab consumers would save over $500 per day, or about $200,000 per year in fares alone.[17] We cannot estimate the dollar value of other likely benefits such as reduced waiting time and reduced traffic congestion. However, such benefits are likely both to be significant and to increase the demand for airport taxicab service, thereby increasing consumer benefits still further.

Other locales that have deregulated taxicab service have experienced comparable benefits. For example, after Seattle deregulated taxicabs in 1979, more than 200 new jobs for taxicab drivers were created between 1979 and 1983.[18] In addition, waiting times in Seattle decreased significantly, and no municipality that has deregulated taxicab entry has reported an increase in waiting times.[19] Similarly, in San Diego, the average waiting time in the radio-dispatched taxicab market declined 20 percent after deregulation, and the average waiting times at major taxicab stands became negligible.[20]

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17 Based on fares listed in the report by Paratransit Services, Taxicab Tariffs and Regulation in Rhode Island (1984), the median Providence fare for a 10-mile trip (for 145 of that city's 157 authorized vehicles) was $10.85. The comparable airport fare at that time was $14.80. RIDOT has told us that the average length of taxicab trips originating from the airport is 10 miles and that there are an average of 150 trips per day, and that the taxi concessionaire must pay RIDOT $.30 for each trip that originates at the airport. Thus, a "competitive" fare of $11.15 might result, if the $.30 charge is added to the area-wide average. Subtracting this fare from the comparable airport fare yields an overcharge of $3.65 per 10-mile trip. This $3.65 overcharge on 150 daily trips, 365 days per year, results in an estimated loss to consumers of $199,837.50 per year. This calculation assumes that the typical airport-originated trip is no more costly to provide than the typical area-wide taxicab trip.

18 Zerbe, _supra_ note 8, at 43-44. It is also estimated that price regulation in Seattle had inflated taxicab fares by approximately 11 percent. _Id._ at 45.

19 _Id._

20 Taxicab Regulation, _supra_ note 3, at 117.

Conclusion

RIDOT may wish to petition RIPUC to sanction the adoption of an open entry system at Green State Airport that would allow any taxicab in the State of Rhode Island to service the airport. Properly instituted, such a system can both lower fares and increase the availability of taxicabs at the airport by eliminating wasteful deadheading and by introducing other efficiencies. Experience has shown that similar systems at other airports have produced these benefits by increasing competition in the taxicab market. Adoption of such a system is likely to provide tangible benefits to taxicab patrons at Green State Airport and to the citizens of Rhode Island.

We hope these comments will assist you in your deliberations and we appreciate the opportunity to present our views.

Sincerely,

Phoebe D. Morse

Phoebe D. Morse
Regional Director
Boston Regional Office