

Sharing Economy Workshop, Project No. P15-1200
The taxi industry in Victoria, Australia
By Professor Allan Fels

I have done several official reviews of the Victorian taxi industry dating back to 1984 when as Prices Commissioner, Victoria I called for liberalisation of licensing; in 1994 as Chair of the Trade Practices Commission, Australia's Antitrust body, I signed off on a report calling for liberalisation of taxi licenses throughout Australia and discussing a number of possible compensations schemes; I did similar work a few years later at the Australian Competition and Consumer Commission. Unfortunately, in all cases the key recommendation to remove the government's restriction on the number of licenses was rejected on the grounds that license values would fall to close to zero and that this was unacceptable.

In 2011 the Victorian government asked me to conduct a major review of the taxi industry.

The review entitled *Customers first: safety service and choice* was broadly adopted by the Victorian government

(http://www.taxi.vic.gov.au/_data/assets/pdf_file/0005/118877/Taxi-Industry-Inquiry-Draft-report.pdf and http://www.taxi.vic.gov.au/_data/assets/pdf_file/0009/118629/Taxi-Industry-Inquiry-Final-Report.PDF).

Generally speaking there were three issues that I wish to emphasise:

- Licensing
- Other anticompetitive practices
- Regulatory design

The Report was done prior to the arrival of Uber and others on the scene and I will briefly comment on that at the end of this note.

At the beginning of my enquiry I was conscious of several important points:

The value of licences (licence plates, medallions, etcetera) was AU\$525,000 (roughly US\$500,000 then). Removal of the restriction on the number of licenses would have caused the value of licenses to have plummeted to a very low price indeed. Experience of previous reports of mine had shown that no government was interested in adopting such an approach nor were governments interested in significant compensation including such matters as "buyback" schemes under which the government would offer to buy all licenses on the market. The government would then in some way resell them in the future in such a way that the revenue gained from the new sales would pay for the costs of buying the old licenses. Other compensation schemes including a tax on the industry were also not on the agenda.

Another important factor was that the industry had been on notice for thirty years or more that there might be licensing deregulation one day. The industry has used the time to establish a large number of other anticompetitive

arrangements and practices which would have greatly reduced the pro competitive effect of removing license restrictions. These issues had to be tackled in the report as well.

Yet another important factor was that there had been a kind of regulatory degeneration over time. The industry had learned that it got its way on all matters to do with regulation. As a result the problems were not just about licensing restrictions. There was a very large number of problems concerning the safety of passengers and drivers; the quality and knowledge of drivers as well as their incomes; issues concerning the nature and quality of taxi cabs; issues concerning the treatment of people with a disability; pricing; issues in country areas; and a very large number of other issues. The result was that the industry needed a comprehensive regulatory review on this occasion and my report made 139 recommendations covering the whole field.

Another important background point was that the quality of service had deteriorated over time and surveys revealed deep public dissatisfaction with the taxi industry.

Regarding licensing issues, the government adopted my key proposal (with some modifications that I did not particularly favour). It made the very important decision that the government would remove itself from the business of setting a limit on the number of taxi licenses. This would be left to the market. Any qualified person could get a taxi license/license plate/medallion. This is key reform.

However, it involved a very important compromise. It would be necessary to pay \$22,000 each year for a license. Incidentally, this amount is indexed in line with movements in the consumer price index minus a derisory 0.5 annual subtraction.

The reason for recommending that a price be paid for a license was to protect current licence holders to some extent. If an applicant could get a licence from the government for \$22,000 they would also be prepared to pay the same amount approximately to the holders of current licences. Accordingly, current licence holders would have an asset worth \$22,000 per year. The net present value of this was around \$250,000 to \$300,000. In fact licences value fell to \$280,000 and have remained there.

So far, in the first year there has been an addition of about 15 percent to the number of licences and this number will probably increase.

During the enquiry it was obvious that the licensing and other restrictions on competition were causing high prices, poor service and a lack of innovation in the industry. My own impression was that there was massive scope for a less regulated industry to offer a much greater number and range of services and also to improve quality and variety in numerous dimensions. It was one of those situations where it was clear that substantial deregulation would cause a massive expansion of the market. Unfortunately the inward-looking industry was opposed to this and did not recognise this point.

It has taken the arrival of Uber to start to demonstrate to the public what the possibilities are in terms of superior service and drivers, competitive prices, safety and especially innovation. There has been regulatory resistance to Uber's

arrival in Melbourne. The main action taken by the regulator has been the imposition of fines. It seems that Uber has paid the fines for drivers. However, the regulator appears to be stepping up its legal action and is apparently set to bring criminal proceedings against drivers. What the legal outcome of this will be is somewhat unclear at this stage.

It is clear from a customer's perspective, however, that a less restricted industry is the way forward for more comprehensive and better services for the public and for the development of more competition and an expanded market.