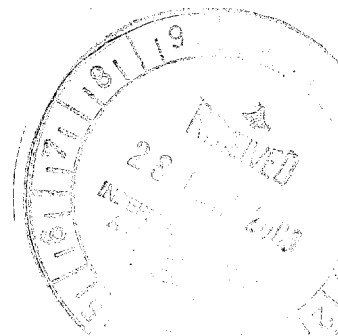


Submission to the Independent Pricing and Regulatory Tribunal on Taxi **Fares**.

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Submitted by Mark Bristow, a Sydney **Taxi** Driver.

I am a Sydney taxi driver and I am concerned about the viability of the taxi industry. The industry is threatened by many factors; limousine hire, improving mass transit, free club and hotel buses and cheap car rental. Two other factors are emerging; time-share ownership of cars and the stirrings of a gypsy cab industry. The taxi industries stance over the years has been to ignore potential competition and to rely on a pool of poorly paid drivers to keep costs down. Its policy has been to “snug” up tariffs and to limit the release of new taxi plates. This has ensured a generally steady rise in the price of taxi plates to their current price of around \$280,000. The price of plates is the major problem facing the industry. All attempts to secure a decent hourly rate for taxi drivers, while keeping tariffs affordable for passengers, are going to founder on the fact that each taxi, whether on or off the road, is effectively servicing a \$280,000 debt, Tariffs are now at such a level that further rises will restrict demand and increase competition. Rather than fostering policies that limit supply to compensate for lesser demand I believe the industry should be trying to increase demand. The most effective way to do this is to lower tariffs in non-peak periods. A trial period in which tariffs were cut by say 25% between 10 am and midday during the week would be a good way to test the waters. This would be an interim measure, as ultimately the benefits of any increase in demand will accrue largely to the plate owners as pay-in costs rise in response. In the long run the industry simply must address the problem of the price of plates. There is not another industry in the country that handicaps itself in such a manner. Fifty years ago, when faith in central planning, quotas and omniscient government had not been dashed, the case for issuing taxi plates may have seemed clear cut. Now though the average taxi passenger would be chagrined to learn that around 20% of his fare is going to an “investor” whose main aim is to keep the service expensive and rare. If this “back of the envelope” 20% could be translated into a fare decrease of the same magnitude by eliminating the plate owner then I think we would have such an increase in demand that drivers would actually be able to make a living without having to work 70 hours a week. As it stands a driver works the first seven hours of his shift to cover fixed costs. Pay in to the taxi base averages around \$145 per shift for night drivers. Fuel is about \$20-\$25 for the shift and car wash is around \$10. This means a night driver must take about \$175 before he makes a cent for himself. On an average night the driver probably takes around \$25 per hour. With a 3 pm start the night driver works until 10pm to cover costs. He has the next 5 hours to make his money. Is it any wonder then that taxis are stacked up twenty deep outside any likely venues at 2 am on a Tuesday morning. A driver who has worked 7 hours for nothing is glad of the opportunity to make \$10 for an hours work between 2 am and 3 am. If the fixed costs could be covered by say 8.30 pm many drivers would finish early allowing the drivers left on the road to make a dollar. Right now the market is highly inefficient. The high, and unnecessary, fixed cost component ensures as many cabs on the road at 11 pm on Monday as at 11 pm on Saturday. A driver seeking to drive a cab on Friday night will be told that “Yes, you can drive on Friday night but only if you also commit to driving on Monday night.” Such are the market distortions caused by the imperative of ensuring a return on a \$280,000 investment. This industry is the last holdout of central planning. The costs of this attachment have been considerable for the drivers and the rewards have accrued almost entirely to the investors. It is time that the tribunal ceased piecemeal approaches to the significant problem facing the taxi industry and addressed the real issues.

- Assumptions:
- 1) Each taxi is on the road for 12 shifts per week
 - 2) Pay-in cost to base averages \$145 per shift for night shift.
 - 3) Pay-in cost to base averages \$105 for day shift.
 - 4) Driver works 5 shifts per week for 48 weeks per year= 240 shifts
 - 5) Cost of plate is \$280,000. At 8% this returns \$22,400 p.a

Now, if each plate returns \$22400 the cost attributable per shift becomes $\$22400/52*12=\35.89 . (We could probably further refine this to take account of the differing pay-in rates for night and day drivers and estimate that the night driver is paying out $\$35.89*145/105=\49.56 and the day driver is paying \$22.22 per shift. However I am not sure of the logic or methodology so I'll leave it aside for now.)

This means that each driver is working for almost one and a half hours to cover the return to the plate-holder. As previously stated, other fixed costs see to it that the night driver must work the first 6 hours of his shift to get to zero. Assuming steady business through the night if he cuts his hours by one third and finishes at 11p.m he cuts his net return by two thirds. This is obviously totally unviable and leaves him no option but to work at least 10 hours per shift even on the quietest nights. If fixed costs could be covered by say 8-8.30 pm then the option to quit early on a quiet night becomes more realistic, leaving a slightly more rational allocation of resources. At least a pay rise of \$35.89 per shift would begin to reward the cabdriver who endures probably the most ill paid, aggravating, tiring job in the country. If the cost saving from eliminating the intermediary could in part be passed on to the cab users in the form of lower fares and improved cars then we would see a significant increase in demand, which would also benefit the driver.

The problems associated with this industry have been caused by attempts by the NSW Government to regulate the industry, in the interests of plate owners. The NSW Taxi Council has assisted them in this. Regulation has failed and has been detrimental to the interests of **drivers and** of passengers. If we continue on the same path of patching up the many minor problems, whilst ignoring the major problem, the industry will become increasingly uncompetitive.

There are no cheap solutions, **as** interested parties will have to be placated. The **first thing that needs to be done** is to stop **exacerbating** the problem. The price of plates must not rise any further. The NSW Government must stand in the market **as** a seller of an unlimited number of taxi plates at say \$280,000. This would be enough to encourage sellers at a slight discount to this price and quickly eliminate the speculative premium. Ways must then **be considered** to **begin** a buy-back of issued plates. Obviously the issue of funding the buy back must be addressed. Various possibilities arise, all of them painful and politically difficult. Maybe a state levy on petrol at a couple of cents a litre, sold **as part** of a mass transit revolution could be considered. In any case, my aim has been **mainly** to **draw attention** to the many problems **facing** the taxi industry, and the reasons for these problems.

Mark Bursk