

# Compensation in the Australian Taxi Industry: Year in Review

Professor Richard Holden

June 20, 2017

My June 2016 report “Compensation in the Australian Taxi Industry” considered what rationale, if any, there was for compensating taxi licence holders in light of the emergence of ridesharing services. The key findings of that report were:

- (i) The economic case for compensating existing licence holders was not strong;
- (ii) Licences were likely to retain a positive value;
- (iii) There was a lack of publicly available evidence to support a case for compensation;
- (iv) Available data suggested that taxi market growth had been steady since the advent of ridesharing; and
- (v) Any hardship payment to existing licence holders should be paid by the government, not by consumers or other market participants.

In the 12 months since that report, there has been additional evidence on the impact of ridesharing, as well as experiences of different approaches to regulating ridesharing. This follow-up report confirms that the taxi industry continues to enjoy stable, valuable and generally exclusive economic rights. The case for compensation is extremely weak, as is the case for funding compensation through a transport levy on taxis and ridesharing.

## Demand for taxis is stable since the emergence and regulation of ridesharing

Evidence suggests that ridesharing is growing the overall transport market rather than capturing the existing taxi market. As the New South Wales Independent Pricing and Regulatory Tribunal notes in its most recent Survey of Point-to-Point Transport in Sydney:<sup>1</sup>

**Demand for point-to-point transport in Sydney grew in 2016. While demand for taxis was relatively stable, there was increased use of other modes of point-to-point transport, particularly ridesharing.**

Taxi use in Sydney <sup>2</sup>				
	Before ridesharing 2012	Before reform 2014	After reform 2016	One year on 2017
<b>Demand</b> People who used a taxi in the last six months	55	58	60-61	61
<b>Frequency</b> People who use a taxi at least once a week	9	14	13-15	14

<sup>1</sup> <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-administrative-taxi-passenger-survey/information-paper-survey-of-point-to-point-transport-use-february-2017.pdf>

<sup>2</sup> [https://www.ipart.nsw.gov.au/files/sharedassets/website/trimholdingbay/fact\\_sheet\\_-\\_survey\\_of\\_taxi\\_use\\_in\\_sydney\\_-\\_december\\_2012.pdf](https://www.ipart.nsw.gov.au/files/sharedassets/website/trimholdingbay/fact_sheet_-_survey_of_taxi_use_in_sydney_-_december_2012.pdf); [https://www.ipart.nsw.gov.au/files/sharedassets/website/trimholdingbay/final\\_report\\_-\\_taverner\\_research\\_-\\_report\\_on\\_survey\\_of\\_taxi\\_use\\_-\\_december\\_2014.pdf](https://www.ipart.nsw.gov.au/files/sharedassets/website/trimholdingbay/final_report_-_taverner_research_-_report_on_survey_of_taxi_use_-_december_2014.pdf); [https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-administrative-taxi-passenger-survey/final\\_report\\_on\\_surveys\\_of\\_taxi\\_use\\_-\\_may\\_2016.pdf](https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-administrative-taxi-passenger-survey/final_report_on_surveys_of_taxi_use_-_may_2016.pdf); [https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-administrative-taxi-passenger-survey/information-paper-survey-of-point-to-point-transport-use-february-2017-\[w171028\].pdf](https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-administrative-taxi-passenger-survey/information-paper-survey-of-point-to-point-transport-use-february-2017-[w171028].pdf)

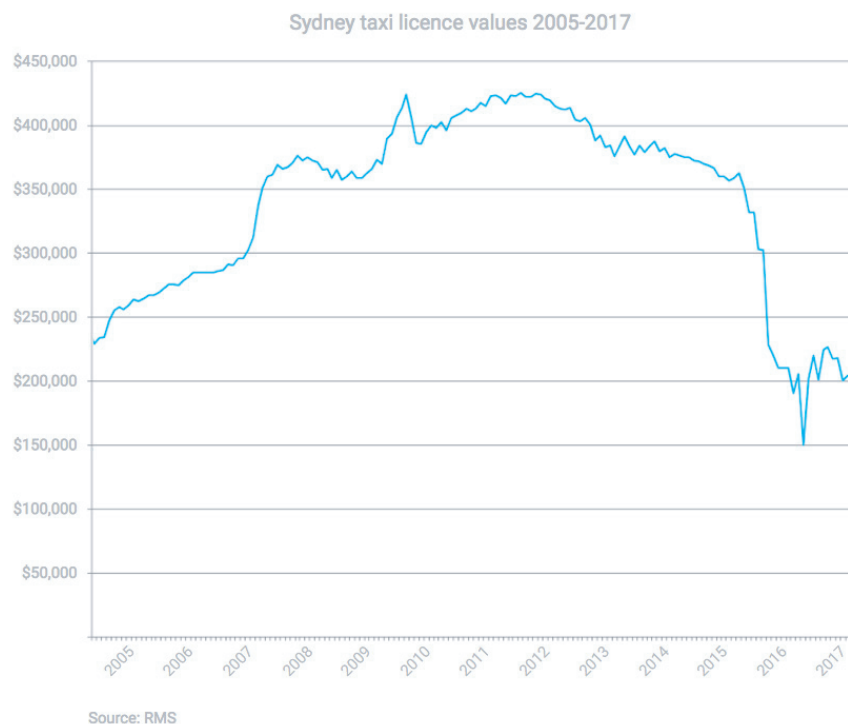
There is similar evidence in other Australian markets. For instance, the Australian Capital Territory government – the earliest jurisdiction to regulate ridesharing – noted that:

**While the introduction of rideshare represents a supply increase, it is not apparent that this has substantially eroded demand for taxi services. The increased supply may have instead been taken up by otherwise latent consumer demand for a differentiated service resulting in an expansion of the on-demand transport market.<sup>3</sup>**

These findings are consistent with the experience in other developed cities regionally. In Singapore, Uber has operated for over four years. The Minister for Transport recently observed that the taxi market has remained stable since the emergence of Uber and other platforms. He concluded that “New players have been meeting new demand or unmet demand” for transport.<sup>4</sup>

## Taxi licence values are stable since ridesharing regulation

Taxi licence values have stabilised since the regulation of ridesharing. In New South Wales, Roads and Maritime Services data<sup>5</sup> shows that licence values began to decline before ridesharing emerged in 2014, and before it was regulated in late 2015. A drop in licence values following the regulation of ridesharing corrected itself swiftly.



The correction recognises that licences continue to hold economic value, since they confer exclusive access to a large and stable market for rank-and-hail transport services. Licence prices have remained relatively constant ever since.

As such, there is little evidence to suggest that compensation for taxi plate owners is warranted. Licence holders are seeing stable values, reflecting their exclusive access to a majority of the transport market (rank-and-hail). That segment continues to grow. The New South Wales Government should reconsider the imposition of a levy on consumers since there is no demonstrable case for compensation.

<sup>3</sup> [https://www.accesscanberra.act.gov.au/app/answers/detail/a\\_id/3225/~ /taxi-industry-reforms](https://www.accesscanberra.act.gov.au/app/answers/detail/a_id/3225/~ /taxi-industry-reforms)

<sup>4</sup> <http://www.straitstimes.com/singapore/parliament-demand-for-taxi-and-taxi-like-services-has-doubled>

<sup>5</sup> <http://www.rms.nsw.gov.au/images/about/corporate-publications/statistics/taxi-transfers-chart-large.png>

Similarly, the evidence in Victoria is that prices were relatively stable in the period immediately before reform, despite the growth of ridesharing services.<sup>6</sup> Any diminution in licence value<sup>7</sup> is attributable to the abolition of these licences by the Victorian Government (discussed below).

## States that abolish licences may hurt taxi licence holders the most

Victoria intends to abolish taxi licences entirely. The Government will offer partial compensation up to a maximum of \$100,000 for the first licence, \$50,000 for the second, third and fourth licence, as well as \$50 million in targeted assistance. The package will be funded through a \$2 levy.

The Victorian approach is likely to be the least desirable approach for taxi licence holders. Under the approach in states such as New South Wales, Queensland, and South Australia, licence owners receive compensation plus retain exclusive economic rights to the rank-and-hail segment of the transport market: reported to be up to 65-80% of taxi work in these states.<sup>8</sup> These licences thus retain significant asset value. By contrast, the Victorian approach leaves owners with some compensation but no asset and no exclusive economic rights.

The Victorian approach offers \$100,000 in compensation for the first licence but, because of the loss of the protected rank-and-hail segment, they receive no other economic value. By contrast, the New South Wales approach offers \$20,000 in compensation, plus continued exclusive access to the rank-and-hail segment. The value of this revenue stream is reflected in the current value of NSW licences: approximately \$200,000 according to RMS data.<sup>9</sup>

In essence, Victoria licence holders receive \$100,000 in value for their first licence, while New South Wales holders receive \$220,000 in value. For a second licence, licence holders in Victoria receive \$50,000 in additional value versus \$220,000 in New South Wales.

For an individual with two licences, the New South Wales approach gives licence holders a total of \$440,000. In Victoria, compensation is a total of \$150,000—approximately one-third of the value in New South Wales.



<sup>6</sup><http://taxi.vic.gov.au/owners-and-operators/taxi-owners-and-operators/licence-transfer-and-assignment/metropolitan-taxi-licence-transfer-prices>

<sup>7</sup><http://taxi.vic.gov.au/owners-and-operators/taxi-owners-and-operators/licence-transfer-and-assignment/metropolitan-taxi-licence-transfer-prices>

<sup>8</sup><https://www.atia.com.au/wp-content/uploads/2014-State-Territory-Taxi-Statistics.pdf>; <http://personalisedtransport.tmr.qld.gov.au/20996/documents/40588>

<sup>9</sup><http://www.rms.nsw.gov.au/images/about/corporate-publications/statistics/taxi-transfers-chart-large.png>

Moreover, the levy in each state reduces taxi demand by raising prices. Because the Victorian levy is \$2 compared to \$1 in New South Wales, Victorian taxis may suffer an estimated 9.4% reduction in demand compared to 3.2% in New South Wales. This further magnifies the difference in effective compensation between New South Wales and Victoria.

## Levies decrease transport affordability

As noted in the original report, even a \$1 levy corresponds to a 7-12% increase in the cost of ridesharing services in typical markets.

## Levies will hurt drivers and operators

Such levies also hurt drivers and operators—including taxi drivers. A \$1 levy corresponds to a 4% increase in the average New South Wales taxi fare, and given estimates of the price-elasticity of demand<sup>10</sup> this leads to a 3.2% decrease in taxi demand. The \$2 levy in Victoria translates to a 9.4% decrease in demand given average fares and price elasticities in the state.

In practice, this means 3.2% less income for taxi drivers or taxi operators in New South Wales, and 9.4% less income for those in Victoria.

## Levy implementation

The original report also pointed out that requiring drivers or operators to collect the levy imposes a significant administrative burden. A driver working six days per week who has 10 fares per day would collect around \$3,000 per annum on behalf of the government, across 3,000 separate transactions in a \$1 levy environment.

Recording, reporting, and remitting these funds is time consuming and burdensome. It turns drivers and operators into tax collectors. If taxi operators collect the levy, regulators will need to enforce and audit reporting requirements against hundreds or thousands of such operators.

Furthermore, collection via taxi networks or platforms may be extremely costly for the government. Taxi networks in many states do not collect routine information about trips undertaken by affiliated taxis.

In Victoria, compliance appears to be a significant challenge, with only 28.8 million of 35-40 million trips likely to result in payment of the levy.<sup>12</sup>

## Conclusion

Available evidence confirms that there is no sound basis for compensating the taxi industry through a transport levy. The market for point-to-point transport continues to grow; licence holders continue to enjoy valuable economic assets; and government taxi policy involving levies seriously disadvantages licence holders and the travelling public. Governments should eliminate these levies.

<sup>10</sup> [https://www.ipart.nsw.gov.au/files/sharedassets/website/trimholdingbay/stakeholder\\_guide\\_to\\_the\\_taxi\\_industry\\_model\\_-\\_april\\_2014.pdf](https://www.ipart.nsw.gov.au/files/sharedassets/website/trimholdingbay/stakeholder_guide_to_the_taxi_industry_model_-_april_2014.pdf)

<sup>11</sup> <http://taxi.vic.gov.au/taxi-reform/taxi-industry-inquiry>

<sup>12</sup> <http://www.parliament.vic.gov.au/images/stories/committees/SCEI/CPV/Transcripts/FINAL-DEDJTR.pdf>

## State-by-State Summary

State	Approach	Assessment	Recommendation
NSW	Taxi licence grants exclusive access to rank-and-hail. No new licences for four years. \$1 levy on taxi and ridesharing trips.	Sensible taxi licence approach but levy is distortionary.	Remove levy.
VIC	Licence abolition. Rank-and-hail rights become non-exclusive. \$2 levy on taxi and ridesharing trips.	Least compelling policy approach. Licence value driven to zero and high levy very distortionary.	Remove levy. Retain taxi licences with exclusive rank-and-hail access.
QLD	Taxi licence grants exclusive access to rank-and-hail. No new taxi licences before 2018. \$237.26 fee imposed on ridesharing operators.	Sensible taxi licence approach but ridesharing vehicle licence deters market participation and limits the benefits of reform.	Reduce ridesharing vehicle licence fee to encourage market participation and maximise the broad economic benefits of reform.
SA	Taxi licence grants exclusive access to rank-and-hail. No new taxi licences for five years. \$1 levy now operative.	Sensible taxi licence approach but levy is distortionary.	Remove levy.
WA	Under consideration.	N/A	Freeze licences with exclusive rank-and-hail access. Do not impose levy. Hardship compensation funded from consolidated revenue if applicable.
TAS	No compensation. Licences frozen for three years. Taxi licence grants exclusive access to rank-and-hail.	Sensible policy mix. This approach preserves material licence value, does not distort the transport market, and does not reduce demand with a levy.	Continue.
ACT	First Australian state/territory to authorise ridesharing. No compensation. Taxi licence grants exclusive access to rank-and-hail.	Sensible policy mix.	Continue.
NT	Perpetual licences were already bought back in 1999, and replaced with annual licences. \$1 levy introduced.	There is no reasonable justification for the introduction of a levy. Revenue from annual licences has already recovered the cost of compensation. The levy is distortionary.	Do not impose levy.

# About the author

**Professor Richard Holden**



Richard Holden is Professor of Economics at UNSW Australia Business School and an Australian Research Council Future Fellow from 2013-2017.

Prior to that he was on the faculty at the University of Chicago and the Massachusetts Institute of Technology. He received a PhD from Harvard University in 2006, where he was a Frank Knox Scholar.

His research focuses on contract theory, organizational economics, law and economics, and political economy. He has written on topics including: political districting, the boundary of the firm, incentives in organizations, mechanism design, and voting rules.

Professor Holden has published in top general interest journals such as the American Economic Review and the Quarterly Journal of Economics.

He is currently editor of the Journal of Law and Economics, and is the founding director of the Herbert Smith Freehills Initiative on Law & Economics at UNSW.

He has been a Visiting Professor of Economics at the MIT Department of Economics and the MIT Sloan School of Management, Visiting Professor of Economics at the Harvard Economics Department, and Visiting Professor of Law at the University of Chicago Law School.

His research has been featured in press articles in such outlets as: The New York Times, The Financial Times, the New Republic, and the Daily Kos.

Professor Holden appears regularly on PVO News Day on Sky News and writes for The Australian Financial Review. He also writes a weekly column analyzing global economic data called Vital Signs for The Conversation.