



## Submission to the Commission for Taxi Regulation - National Review of Taxi, Hackney and Limousine Services and Vehicles Standards

Submission S/05/002

March 2005



**The Competition Authority**  
An tÚdarás Iomaíochta

## Introduction

1. The Competition Authority welcomes the National Review of Taxi, Hackney and Limousine and Vehicles Standards undertaken by The Commission for Taxi Regulation. We have consistently argued that reform of the taxi regulation regime is necessary to realise fully the enormous benefits of the entry liberalisation of the industry and maintain them over time. The Authority's 2002 submission to the Department of the Environment and Local Government, on Qualitative Improvements in Taxi Services and Future Regulation of those Services, provides an analysis in this regard.<sup>1</sup>
2. This submission provides The Competition Authority's comments on the format of the proposed review and on some of the substantive issues that will be under review. In general, the proposed review is laudable, in particular for its breadth of consultation and simultaneous focus on core issues. It is important that the subsequent assessment of the costs and benefits of various regulatory and other policy options takes full account of the hidden costs of regulation.

## Methodology of the Review

3. In pursuing its functions, the Commission's ultimate goal should be ensuring that the markets providing taxi, hackneys and limousines services work well for individual consumers and business users. The review will provide critical information to determine:
  - whether consumers are offered choice by service providers, whether they are able to trust that the information they receive is correct and that their contract will be honoured e.g. whether every step is taken to ensure that they will arrive safely at their destination in a timely manner.
  - whether services are provided in an efficient manner i.e. rivalry between the service providers exerts downward pressure on costs and promotes quality and innovation.
4. The Commission for Taxi Regulation's proposed approach for examining the existing regulatory framework and surveying consumers, is to be applauded for its breadth of consultation, transparency and focus on core issues. The proposed review will provide the Commission with critical information to determine the need for regulation, and the type of regulation needed.
5. In preparing a code of regulations, the Commission will have to assess the merits of various alternative policy tools (including non-intervention). This process should be guided by the Government's policy on better regulation, which aims at ensuring that any regulatory intervention is *necessary, transparent, accountable, proportionate, consistent* and *effective*.<sup>2</sup> This is done by completing "regulatory impact assessments" (or "RIA"s): evaluations of the relative costs and benefits of the different policy interventions in order to identify the policy that works best.

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<sup>1</sup> Submission to the Department of Environment and Local Government available at <http://www.tca.ie/decisions/submissions/taxisub.pdf> - copy attached.

<sup>2</sup> White Paper: Regulating Better, Department of the Taoiseach, January 2004.

6. It is important that such assessments take account of *all* the costs and benefits associated with any intervention, i.e.
- the *direct* costs of regulation and its enforcement, which are borne by industry (e.g. increased expense), the Commission for Taxi Regulation (e.g. increased staff time) and ultimately consumers and tax-payers,
- and**
- the *indirect* costs or hidden costs of regulation e.g. costs borne by consumers when regulation reduces the number of taxis available because it restricts access to the profession or raises the cost of providing the service. Less taxis means less choice for consumers, less competition between existing providers to offer the best service to consumers, and can translate into longer taxi waiting times.

### **RIA Example**

7. For instance, if the Commission's review found that consumers in need of wheelchair accessible vehicles are experiencing difficulties in hiring such vehicles, perhaps at certain times of the day, a regulatory impact assessment would evaluate the benefits of requiring 100% of the taxi fleet to be wheelchair accessible compared to alternatives. Such an analysis would evaluate the full costs of requiring all taxis to be accessible - in terms of increased fares to consumers and availability of taxis - compared to, say, requiring a proportion of all taxis to be accessible. It would similarly examine whether 100% coverage would ensure taxi drivers take business from wheelchair users in preference to other business, especially in times of peak demand. Drivers may have less incentive to accept jobs from those most in need of that type of vehicle, because there may be additional costs associated with picking up passengers in wheelchairs. In the absence of any incentive to accept this kind of job, having thousands of wheelchair accessible vehicles on the streets would likely not be either a necessary nor an effective policy option when alternatives can be considered to adequately provide accessible taxis to those who really need them. In other words, a 100% policy might be more costly and less effective in achieving a critically important public policy objective.
8. A regulatory impact analysis would consider alternative policy options such as (a) having a minimum proportion of wheelchair accessible cars<sup>3</sup>, whereby the drivers were adequately compensated for the additional capital expense of having a wheelchair accessible vehicle, and (b) giving drivers of those vehicles financial incentives to prefer custom from wheelchair users over other customers. A system that subsidised fares for wheelchair passenger journeys might simultaneously provide incentives for drivers to prefer wheelchair users over other customers and boost demand for wheelchair accessible vehicles.<sup>4</sup>

<sup>3</sup> While the precise proportion of wheelchair accessible vehicles that is appropriate will depend on the country in question, support for a figure of around 15% is reported in the IRU & ECMT report (in Finland and the UK).

<sup>4</sup> For a comprehensive review of the issues surrounding taxi accessibility the reader is directed to *Economic Aspects of Taxi Accessibility*, IRU (International Road Transport Union) & ECMT (European Conference of Ministers of Transport), OECD 2001.

## **Consumer Surveys**

9. Information regarding consumers' preferences and their willingness to pay is essential to evaluate the relative costs and benefits of different policy interventions. Customer surveys can provide such information. The focus of the surveys of Irish consumers, businesses, tourists should not be limited to their priorities in hiring taxi, hackney and limousine services but extend to finding the amount they are prepared to pay for each addition to the quality of service.<sup>5</sup> In carrying out such analysis, the Commission may find that consumers declare that they value certain quality standards or features, such as cleanliness or style of vehicles, but that they are not willing to pay (much) for them. If the amount that consumers are willing to pay for a particular aspect of service is less than the costs (direct and indirect) associated with providing this aspect, then it should not be required. This kind of information is invaluable in finding the regulated price-quality package which best matches the needs of the vast majority of consumers.<sup>6</sup>
10. Price regulation is not currently within the remit of the Commission for Taxi Regulation; fares are set alongside taximeter areas by local authorities. Thus the extent to which the optimal regulated price-quality package can be achieved in Ireland is limited by the fact that the two functions are not housed in the one public body. Fare levels determine the attractiveness of the business and hence the number of taxi drivers. By affecting the number of taxis, fare regulation is therefore also a determinant of a key feature of the quality of service offered by the taxi industry – taxi waiting time.

## **Fare regulation**

11. The Commission is reviewing a number of issues related to fare regulation covering -
- The advantages or disadvantages of a uniform fare level and structure for the country as a whole;
  - The potential to simplify the fare structure;
  - The case for extending fare control to hackneys; and
  - The criteria to be applied and the process to be followed in revising fare levels and responding to the requests of taxi interests for fare increases.

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<sup>5</sup> An analysis carried out by the OFT in its study of The Regulation of Licensed Taxi and PHV Services in the UK (Nov 2003) may provide a useful methodology for such information gathering.

<sup>6</sup> It is important to note that requiring a certain basic level of service, at a regulated price, allows for innovative businesses to provide additional services in an innovative manner. For example: some hackney firms may wish to advertise that all their vehicles are of a certain standard, others may sell advertising space inside and outside their vehicles.

### *Uniformity Across Ireland*

12. The task of regulating fares is complex. It requires taking into account the interactions between quality and fare regulation as well as mimicking competitive market prices to ensure that supply meets demand. In particular, the fare regulator will have to avoid situations where there are not enough taxis because fares are too low and/or quality standards are too high. Conversely, the fare regulator will have to avoid situations where too many taxis are idle because fares are too high. In addressing these concerns, the specificity of local markets are important, as demand patterns for taxi services are different in urban and rural areas for instance. Thus, there is a case for having different taximeter areas across the country.

### *Fare Structure*

13. Whether the fare structure is simplified or not, it is vital that regulated fares are maximum fares only. Maximum fares allow drivers to offer discounts, maintaining a degree of price competition that may be availed of by innovative companies who intend to cater for specific market segments. Lower hiring fees can boost demand for short trips, generating extra business and dispersing taxis more, thus reducing waiting times.

### *Hackney Fares*

14. Hackney fares should not be regulated. Consumers can benefit hugely from price competition between hackneys and taxis and between hackneys themselves. Price competition is facilitated in this instance because consumers can choose a hackney from the comfort of their home/office and shop around on the phone. If the Commission's review raises concerns that consumers are not benefiting fully from such competition, it should consider informing the public of its right to negotiate fares with hackney drivers.

### *The Process to be Applied*

15. The structure of fares should be set with the sole aim of ensuring that supply meets demand. Ideally, an efficient system of fare regulation should attempt to mimic what would happen in a well functioning market, i.e. one where monopoly pricing does not prevail and where certain groups of consumers are not susceptible to over-charging.
16. A fare review process should be established that is both regular and systematic. Fares will need to be re-balanced on a regular basis, increasing them at times of the day or week when customers queue and reducing them when there is overcrowding of taxis at ranks. Accordingly, fare reviews should not be seen simply as an opportunity for lobbying the fare regulator. Changes in fares, up as well as down, should be based on objective evidence of excess supply or excess demand – and not because of pressure exerted by special interest groups. Where there is overcrowding of taxis on streets, downward adjustment of fares is desirable.
17. A reliable means of information gathering should be developed to assist the fare review process. In addition to the observation of ranks and consumer satisfaction surveys, detailed records of taxi usage should be kept. Meters could be used to assist this process.

18. The identification of consumers' priorities in terms of the quality of service demanded and what they are willing to pay for different levels of quality will greatly assist in this process. All of the above would be best achieved if the Commission for Taxi Regulation had the function of regulating price as well as quality. As the Commission develops expertise in regulatory impact assessment, it will be best placed to assess any proposed fare adjustments. It would also be free of political considerations. Having the Commission for Taxi Regulation regulating both price and quality would be in line with better regulation principles; such a policy has been implemented in the telecommunications sector, the electricity sector and most recently in the aviation sector.
19. If the Commission can issue guidelines to local authorities for setting fare levels, this would be welcome.

## Conclusion

20. The Competition Act, 2002 confers on The Competition Authority the function of advising public authorities on issues concerning competition, which may arise in the performance of their functions. We have developed expertise in a number of areas related to taxi regulation and we would be happy to assist the Commission for Taxi Regulation in this regard. In the meantime, we wish the Commission well in its review.

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## productivity

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