



**Submission to the Commission for Tax
Regulation on Taximeter Areas and Taxi Fares
(Response to Consultation Paper No. 3)**

Submission S/05/010

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The Competition Authority
An tÚdarás Iomaíochta

1. INTRODUCTION

- 1.1 In its consultation paper *Roadmap – Towards a New National Code of Regulation for Taxis, Hackneys and Limousines in Ireland*, the Commission for Taxi Regulation (the Commission) proposed changes in relation to taximeter areas, and fare structures and rates. It is now consulting on a number of possible changes in relation to fare structure, fare levels and taximeter areas. In the present submission, the Competition Authority supplements its previous submissions on the *Roadmap*¹ and on the *National Review of Taxi, Hackney and Limousine Services and Vehicles Standards*².

2. THE REGULATION OF TAXI FARES

- 2.1 A number of detailed questions are asked by the Commission in relation to taxi fares such as should all taxi fares be regulated (Question 1), should the taxi fare structure be the same throughout the country (Question 2), should taxi fare rates be the same throughout the country or should there be regional or local variations (Question 3), etc. To assist the Commission in responding to these questions, we review the rationale for maximum fare regulation, how, overall, the fare review process should take place, and how it should translate into fare structure, fare level, minimum fares, unsocial hours and extras.

The Rationale for Maximum Fare Regulation

- 2.2 Maximum fare regulation is proposed by the Commission. The rationale behind maximum fare regulation in the taxi industry is well-established. First, maximum fares reduce the cost of shopping around for taxis, particularly in the case of street hires where there is the uncertainty of waiting for another taxi and the possibility that the next is more expensive. Second, maximum fares protect vulnerable customers who are susceptible to over-charging (e.g. tourists). Third, *maximum* fare regulation promotes competition: as individual drivers can set fares below the metered level and offer discounts, consumers have some bargaining power over fares as it leaves scope for consumers to negotiate rates below the maximum fare level.

Fare Review Process

- 2.3 An efficient system of fare regulation should attempt to mimic what would happen in a well-functioning market. Taxi fares should ensure that supply meets demand and avoid situations where:
- fares are set too low at times of high demand resulting in too few taxis supplying their services, excessive queues at ranks and long waiting times;

¹ Submission to the Commission for Taxi Regulation on the National Review and Roadmap (S/05/008): http://www.tca.ie/decisions/submissions/s_05_008.pdf

² Submission to the Commission for Taxi Regulation - National Review of Taxi, Hackney and Limousine Services and Vehicles Standards (S/05/002): http://www.tca.ie/decisions/submissions/s_05_002.pdf

- conversely, fares are set too high at times of low demand resulting in too many drivers supplying their services, long queues of empty taxis at ranks and idle taxis, leaving customers the opportunity to systematically bargain for their fares.
- 2.4 As a general rule, fares should not be determined by reference to the costs of taxi operation³ or by reference to taxi fares in other cities or countries. Fares should ensure that supply meets demand for taxi services. Fares are at the right level when consumers do not have to queue at ranks for taxis, when waiting times for taxis are short, when taxis have a high occupancy rate, when fares are rarely reduced below the maximum price and tipping is at a relatively low level.⁴ Under such circumstances, fares give value for money to customers, and an adequate return to drivers (and vehicle owners) which implies that fares reflect taxi operation⁵ and investment costs.
- 2.5 When deciding how frequently fares should be reviewed, the Commission may want to consider that while systematic and regular fare reviews present the advantage of predictability, they would not allow the Commission to take into account sudden, significant and persistent changes in supply conditions. It may also want to factor in that conducting such reviews is costly. To ensure that consumers do not suffer from shocks in the supply of taxis, the Commission may want to consider a maximum length of time between reviews – say 5 years – and identify a number of parameters that could trigger either a price adjustment or a full review.

Fare Structure, Fare Level, Minimum Fares, Unsocial Hours and Extras

- 2.6 In deciding on the fare structure and its components, the Commission will have to assess whether there are significant variations in local supply and demand conditions, and whether the benefits of allowing fares to be adjusted to local market conditions outweigh the costs associated with having several sets of fare rates. If local market conditions vary across the country, a single fare structure, allowing for variations in its components depending on local market conditions, could present a good compromise between the two constraints.
- 2.7 In making its decision on fare structure, fare level, minimum fares, unsocial hours and extras, the Commission will have to pursue the following objectives:
- Ensure value for money;
 - Encourage taxi use;
 - Provide incentives to assist in matching supply and demand; and
 - Encourage drivers to increase productivity and efficiency.

³ For further comments on this issue see the Competition Authority's Submission on the *Roadmap* (S/05/008).

⁴ Frequent, non-prompted tipping could suggest that customers attach a higher value to the service provided than what is charged by the meter.

⁵ Labour market conditions determine a key component of taxi operation costs. When the labour market is tight, taxi drivers will expect a higher return on their labour input, i.e. higher pay levels to reflect the fact that there are alternative employment opportunities. By contrast, with depressed labour market conditions, lower returns on labour input is expected due to the shortage of better paid employment opportunities.

- 2.8 The Commission will have to take into account how each price component will impact on both the demand for taxis and the supply of taxis, knowing that the impact may vary depending on local supply and demand conditions as well as time of day, hour of the week, etc.

3. THE DESIGNATION OF TAXIMETER AREAS

3.1 Currently, the designation of taximeter areas serves two purposes:

- It defines an area where a particular maximum fare regulation applies; and
- It defines the area where a taxi can ply for on-street hire and standing at ranks.

3.2 In reviewing taximeter areas and their functions, the Commission will take into account the fact that the current designation of taximeter areas is such that the majority of trips go beyond these areas, rendering the regulation of maximum fares ineffective, and decide whether taximeters be redesigned. The Commission should be aware that such a decision could impact on the effectiveness of maximum fare taxi regulation if it was decided to have different maximum taxi fares in different areas.

4. CONCLUSION

4.1 As substantial changes may take place, it is critical that the Commission informs its fare review with detailed information on local market conditions or representative samples. The systematic gathering of information envisaged by the Commission in the *Roadmap* should effectively assist it in determining whether market conditions vary across the country. Such information gathering should cover:

- Demand patterns in different areas;
- Waiting times for taxis, depending on booking mechanisms, including ease of plying in densely populated areas;
- Speed of traffic and occupancy rate of vehicles;
- Discount and tipping practices; and
- How taxi fares compare with hackneys'.

4.2 Ultimately, such data will provide the evidence necessary to justify increases or decreases in the overall fare level.



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