



8 March 2001

Productivity Commission
Airport Inquiry
LB 2 Collins St East
MELBOURNE VIC 3000

The ATIA is pleased to present the attached submission to the Productivity Commission's Inquiry into Price Regulation of Airport Services.

There are a number of factors which justify the establishment of a process of control over the level of charges that airport operators can impose on the taxi industry. They are:

1. Travel to/from a major city's airport is the single largest source of demand for taxi services
2. The taxi industry is in the practical position that airport operators enjoy monopolistic powers and so are price setters with taxi operators being price takers
3. The taxi industry already contributes to the more efficient operations of airports through resources it provides to manage passenger and vehicle flow through at airport taxi ranks
4. Taxi drivers face the risk of major losses should the State/Territory regulators not approve or delay the passing on to passengers of the charges imposed by airport operators on taxis using the airport
5. It is much easier for the taxi driver to operate if the airport charge is collected in a way that is transparent and can be observed by the passenger
6. Airport operators do not always focus on the wider implications of the charging regime they seek to establish eg the timing of the introduce of airport charges at Tullamarine Airport.

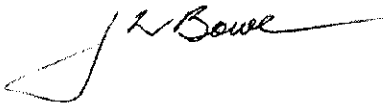
The most administratively efficient means of meeting the taxi industry's concerns are to establish arrangements where airport operators must submit their proposed ground facility fee charges or increases in charges to the existing State/Territory regulators who control taxi fares. These regulators must address this issue in any case in determining whether taxi drivers will be allowed to pass on the airport's ground facilities fees to the passengers.

The airport operators should only be able to introduce the charges or increased charges from the date determined by regulators (when taxi drivers would also be allowed to pass on the costs to passenger).

Through this approach, there would be some balance within the system that would constrain the airports' monopolistic powers and the costs that must eventually be met by the passengers.

We would welcome the opportunity to discuss our submission during the Public Hearings.

Yours faithfully

A handwritten signature in black ink, appearing to read "John Bowe". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

John Bowe
President

J12746

Price Regulation of Airport Services

**Submission by the
Australian Taxi Industry Association
To the
Productivity Commission**

March 2001

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1. Introduction

The Australian Taxi Industry Association (ATIA) welcomes this opportunity to provide advice on the impact of private sector operations of airports on the taxi industry.

With the initial long term leasing of most major Australian airports, the ATIA understood that access fees which that may be imposed on taxis would be covered by the "landside road and lighting" provision and therefore would be covered by the CIP-X cap on price increases.

However, over recent years the airport operators have moved to impose "ground facility fees" on taxis that pick up passengers at airports.

Actual arrangements have varied between airports with some establishing boom gate exit charging either after the passengers have entered the taxi or before the taxi departs the holding area. With boom gates there is normally no paper receipt of the transaction, which has the potential to create difficulties when the taxi driver seeks to recover the charge from the passenger.

In other locations such as Canberra, receipts are provided which can be given by the driver to the passenger if required.

Generally, controlled access/egress through a charge per airport pick up has been implemented with little or minimal concern within the taxi industry. This is largely because State regulators have allowed the airport charge to be passed on to the passenger as an identified add-on to the fare.

A major exception was the introduction of a ground facility fee at Tullamarine Airport in Melbourne. There the introduction was badly handled by the airport operator and its timing could not have been worse for the taxi industry.

The Tullamarine Airport fee followed relatively closely behind the introduction of the GST where there are unique provisions that have the effect of making virtually every taxi driver directly involved in the GST system as a small business operation.

It immediately followed the introduction of the City Link tolls where the charging arrangements meant that there is no transparency between the tolls and the level of the extra fee taxi drivers must add to their fares.

As noted earlier, this lack of transparency contributes to passenger queries at its most polite and altercations in more extreme circumstances.

Certainly, it had the impact of making an already potentially difficult, if not dangerous, task even more unpleasant for Melbourne taxi drivers.

When the ground facilities fee was then introduced for pick up of passengers at Tullamarine Airport in a way that added a further avenue of confrontation between passengers and taxi drivers, then it cannot be too surprising that a backlash against the fee was generated.

Our understanding is that with greater planning and co-operation by the airport operators with the taxi industry, these problems could have been substantially reduced, if not eliminated.

2. Importance of Airport/Taxi Interrelationship

To appreciate the importance that ATIA places on this review of Price Regulation of Airport Services, it is appropriate to examine the relationship between the operation of a major airport and the taxi industry.

Clearly the fundamental role of the taxi is to transport departing passengers to the airport and collect arriving passengers to transport them to their ultimate destination.

At all airports the traffic management tasks associated with:

1. the reception of departing passengers and “consolidating” them to board their aircraft
2. organising arriving passengers, have them collect their luggage and then depart the airport environs

becomes more onerous as the size of aircraft and the frequency of service increases.

In effect each aircraft departure, but more particularly each arrival, is a mini peak transport task and when a large number of aircraft movements occur in a concentrated period then a significant peak transport task occurs.

One avenue through which major airports have managed the ground side traffic flow is to separate the arrivals and departure areas particularly the kerb side access to enter and egress vehicles especially taxis.

This has led to the situation where taxis that drop off their passengers do not immediately ply for hire and collect an arriving passenger at the airport for transport to their destination within the city. If they wish to collect an arriving passenger then the taxi must enter the holding area and take their place in the queue.

Arrangements to collect arriving passengers have become increasingly more structured in order to cope with the growth in volumes of passengers moving through the airports.

Taxi drivers recognise there is substantial demand at airports with the prospect of higher than average fares, depending on the passenger’s final destination.

Consequently taxi drivers are prepared to enter “holding areas” at airports where they may wait for up to several hours before it is their turn to pick up the next passenger, often to the detriment of general community demand for taxi services in the immediate vicinity of the airport precincts.

Especially as a result of these long wait times the organisation of the movement from the airport taxi holding area to the pick up point is strictly on a first come/next in line basis.

Should this system become corrupted then taxi drivers will adopt self enforcement of the basic rule of rank work.

Cities, which have removed controls on taxi numbers, have experienced problems as a result the breakdown of usual vehicle allocation practices, substantially to the detriment of passengers and the efficient working of the airport.

As happened in Auckland, the problems can become so severe, degenerating into physical violence, that the airport operator or authority has had to introduce its own forms of regulation by effectively controlling in some way those taxis that can pick up arriving passengers.

These problems are not evident in Australia, in part because the taxi industry has invested considerable resources to facilitate the efficient management of taxi dispatch at major airports, supported by an internal compliance regime within taxi companies.

In addition to infrastructure that is provided by the airport operators, at virtually all major airports the taxi industry provides rank controllers at known critical periods of demand who operate to organise the most efficient dispatch of arriving passengers who wish to use the taxi service.

There is an undoubted benefit to airport operators in having this task performed by the taxi industry, particularly in dispersing the peak travel passengers as quickly as possible.

ATIA acknowledges that during peak periods queues of passengers develop at the taxi ranks, where often the delays are caused by the time involved in

1. passengers and their luggage getting into the taxi
2. that taxi then departing the rank, and
3. the next taxi then moving from the holding areas to the airport terminal ranks.

These can be the greater reasons for delays rather than the passengers' general perception that there are not enough taxis, although this can be a contributing factor at times.

3. Significance of Airports to the Taxi Industry

While there are no detailed statistics that can identify exactly what proportion of the total demand for taxis is generated by travel to and from the airports, the ATIA confirms that a major airport, such as Kingsford Smith in Sydney is undoubtedly the largest single generator of demand for taxi travel in a city.

One guide to the importance of this single source of demand was the impact of the pilots dispute of 1989 on taxi drivers' revenue. It is estimated that at the height of the dispute drivers' revenue in Sydney was only 75% of normal takings.

It is recognised that, as airport fares tend to be significantly higher than average fares, the impact on the number of trips would not be as great as the impact on revenue.

Offsetting that factor is that the pilots dispute only covered domestic trunk airline services – regional services and international airline services were substantially unaffected.

On balance, therefore, we consider that a reasonable benchmark estimate for a major airport in relatively close proximity to the CBD would be that 25% of total taxi travel (on a per trip basis) is generated by airport related demand.

This proportion of total taxi travel generated by airports would be lower for other Australian cities where populations and airport usage numbers are lower and where airports are not as convenient to the CBD as is Sydney's KSA.

However, our best estimates are that airports generate 10-20% of total taxi travel as measured by the number of trips.

As noted earlier, this proportion would increase if measured by revenue.

4. Economic Power of Airports

Each major city airport in Australia effectively enjoys complete monopolistic power, albeit there may be some marginal level of competition between cities and their respective airports as international airline destinations.

Therefore the taxi industry faces the situation that:

- airport operators enjoy monopolistic powers in the market place
- travel to and from airports is the single largest market segment for the taxi industry
- demand for taxi travel to and from airports is highly inelastic.

This means that if the airport operators are unencumbered in the pricing policies they can adopt, they are able to exploit their monopolistic power in determining the level of ground facility fees to be charged to taxis that use the airport.

While regulators have so far allowed for the ground facility fees to be passed on by taxi drivers to passengers as an extra to the metered fare, there can be no assurance that this approach would continue to be followed regardless of the increases in the level of the ground facility fees that are imposed by the airport operators.

Thus, in practice, the airport operator is a price setter and the taxi industry is a price taker.

The economic strength of the airport operators is further reinforced by the taxi industry being an atomised operation. As a result of this fragmented nature of our industry it is difficult to conceive of the taxi industry withholding supply, almost regardless of the level of ground facility fees charged by airport operators.

5. Need for Balance

Given the absolute economic domination by the airport operators over the taxi industry, ATIA believes there is compelling justification for there to be some regulatory control over the level of ground facilities fees that are charged by airport operators.

While at present there is some protection through taxi facilities being included in the landside road and lighting category that is subject to the CPI-X price cap, it is appreciated that this provision will not apply in future.

Given that taxi fares are already controlled through State and Territory legislation, and that there has, at least so far, been adjustments to taxi fares to allow drivers to pass on the ground facility fees charged by airport operators, ATIA proposes that:

Ground facility fees to be charged by airport operators should be:

- 1. submitted to the relevant State/Territory regulator for approval**
- 2. only introduced or increased at a date approved by the State/Territory regulator when the fees are allowed to be passed on by taxi drivers to their passengers**
- 3. widely advertised throughout the terminals and especially at the airport taxi rank by the airport operator identifying:**
 - a) the amount of the fee**
 - b) that the fee is an 'airports charge'**
 - c) that it is not part of the normal taxi fare structure for that city.**

This approach would minimise any additional compliance costs to the Government and the airport operators and enable the charging regime to be overseen through the same arrangements that control the other elements that combine to determine the taxi fare finally paid by the passenger. It would improve consumer protection.

It would also remove the taxi industry's exposure to the risk that it could be trapped in an untenable situation of an airport operator introducing or increasing the ground facilities fee but the State/Territory regulator not accepting that taxi drivers can incorporate that charge into the fare paid by the passenger.

Australian Taxi Industry Association
March 2001