

AUSTRALIAN TAXI INDUSTRY ASSOCIATION

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Productivity Commission
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Attention: Michelle Cross

Via Facsimile: (03) 9653 2199

DRAFT REPORT HEARINGS PRICE REGULATION OF AIRPORT SERVICES

Dear Michelle

Thank you for the opportunity to comment on the Productivity Commission's Draft Report on price Regulations of Airport Services.

MARKET POWER OF AIRPORT

We have some difficulty reconciling the Commission's assessment of the extent of Market Power able to be exercised by airports.

➤ At pages XXI/II, the Commission states:

"Market power appears to be strongest for:

- Vehicle access, including front door access to the airport for passengers, transport providers, and off-airport car-parking providers"

Yet the Commission then considers the extent of market power of Airports over taxis to be "low/moderate" (Table 2 page XXII) and further:

"Nevertheless, airport operators, by controlling access to their 'front door' could attempt to limit competition from off-airport providers of car parking or other transport providers (eg taxis) (page XXIII).

ATIA strongly supports the Commission's views that, in discussing vehicle access facilities,

"the importance of airport-related business to their (taxis etc) overall business dictates to a large extent the degree to which airports have, and could exercise, market power in their dealings with them." (page 135).

As we described in our submission, airports represent the largest single market for the taxi industry and thus we are, to a very substantial extent, subject to the market powers of airports.

- Similarly, Melbourne Airport (for example) in allocating 790 car spaces for the taxi holding bays (page 142) provides a clear demonstration of the importance of the airport market to the taxi industry. That facility will, when completed, be much the largest taxi holding facility in Melbourne underlying the importance of this market.

ATIA must also take issue with the conclusions of the Commission about the level of unifying strength within the taxi industry.

The Commission states (page 171):

"As taxi drivers are organised at the state and national level and operate under the auspices of a few large companies, they would seem to have a degree of economic and political power to countervail market power airports may have with regard to taxi charges. The strong and effective bargaining of Melbourne taxi drivers in response to proposals for an airport levy on taxis using airport holding facilities indicates a degree of countervailing power in this area".

We must note that, while there are driver organisations operating within the taxi industry, the extent of their representation of taxi drivers is relatively low and so consequently, is their ability to develop 'countervailing power' in negotiations with airports.

Similarly, while there are a limited number of large organisations that provide 'taxi brands', these networks have no effective control over the individual taxi operators providing services under that brand. Thus, for example, Silver Top Taxis cannot direct an operator to serve or not serve a particular market such as airports. This is especially so for airport pick-up where passengers are allocated to taxis on a first come/first served basis from the taxi holding bay rather than be allocated through the taxi company's radio network.

Therefore, it would be far more realistic to assess the large taxi companies' ability to provide any countervailing power to the airport as effectively ZERO!!

The example quoted by the Commission of the Melbourne taxi drivers should be treated with considerable caution. APAM's move to introduce the charge closely followed the introduction of the GST and the commencement of charging for Melbourne's tollway network. As a result, the reaction of drivers was, understandably, much more confrontational than when similar charges have been introduced at the other airports around Australia.

ATIA would note that, notwithstanding the Melbourne taxi drivers and industry objections, it was only the power of the ACCC that achieved the reduction of the charge from \$1.40 to \$0.66, powers which the Commission recommends should be dropped.

Perhaps therefore, this example should instead act as an endorsement to maintain the status quo including ACCC exercising control over land-side access.

As demonstrated by these comments, our strong view is that the Commission has underestimated the extent of market power that airport can exercise over the provision of taxi services.

COMMENT ON DRAFT RECOMMENDATIONS

It is noted that the Commission considers that, under Option A of a modified status quo, "taxi-parking services should *not* be subject to explicit price regulation and should not be included in an aeronautical price cap". (page 308).

For the reasons described above outlining why the Commission has underestimated the extent of airports' market power, ATIA strongly recommends that this position be reversed and the current controls over taxi-parking services be retained.

However, ATIA understands that the Commission's preferred approach is Option B involving lighter-handed regulation of all major airports for a probationary period involving, inter alia:

- Encouragement of voluntary commercial agreements by providing guidelines regarding coverage and consultation and dispute-settlement mechanisms
- Guidelines for what would be regarded as 'good behaviour' by airports and airlines (pages 309/310)

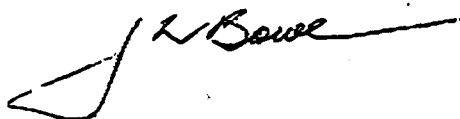
On the bases that the key elements of ATIA proposal were included in such guidelines and agreements, that is:

1. Airports to negotiate with the taxi industry on the level of charges to be imposed and the facilities to be provided for taxi operations;
2. Airport to consult fully with State/Territory regulators before introducing or increasing charges on the taxi industry;
3. Airports undertaking not to introduce or increase the charges until the regulators have allowed taxi operators to pass on the charges to passengers; and
4. Airports to take all reasonable steps to advise the travelling public of the proposed level of airport charges for a reasonable period both before and after the charges are introduced or increased

then ATIA would support the Productivity Commission's recommendations under Option B.

It is confirmed Mr Jack Evans will represent the ATIA at the public hearings.

Yours faithfully



JOHN BOWE
President
12 October 2001