



Inquiry into Microeconomic Reform in Western Australia Taxis

ISSUE

The number of taxis in Western Australia is restricted by the Department of Transport.

The Department issues taxi plates that give the owner of the plate the right to operate a taxi.

There is no rationale for restricting the number of taxis operating in the industry. Restrictions impose a number of costs on taxi passengers, including higher fares, longer waiting times and unreliable services.

WHAT WE RECOMMENDED

The ERA considers that restrictions on the number of taxis operating in Western Australia should be removed.

We also recommend that the restrictions that prevent small charter vehicles from competing directly with taxis be removed.¹

1. Small charter vehicles provide a similar service to taxis, but are currently subject to a number of conditions that prevent them from competing directly with taxis (for example, they must be pre-booked and are required to charge no less than \$60).

WHY WE RECOMMENDED THIS

The ERA found that restrictions on the number of taxis imposes considerable costs on the Western Australian community.

We estimate that the annual net benefit of reforming the Perth taxi market would be valued at between \$13.6 million and \$38.6 million per year.

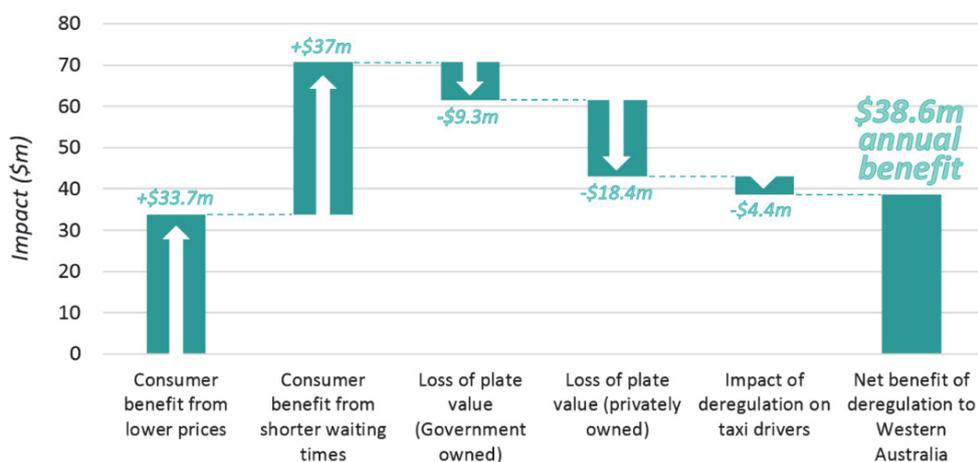
Consumers would experience a benefit of up to \$70.7 million per annum from lower prices and shorter waiting times. However, part of this would come at the expense of taxi plate owners (\$27.7 million per annum) and taxi drivers (\$4.4 million per annum).

BENEFITS OF REFORM

Removing supply restrictions on taxis will lower taxi prices, reduce waiting times and increase service reliability.

The ERA estimates the benefit to passengers of lower taxi prices to be between \$32.7 million and \$33.7 million per year reflecting that taxi license plates will no longer have a material value that must be recouped from passengers.

THE ESTIMATED NET BENEFIT OF DEREGULATION



(The consumer benefit from lower prices, and consumer benefit from lower waiting times shown are based on the upper bound benefit calculated by the ERA)

Currently, restrictions on the number of taxi plates means that they are scarce, resulting in them having a value of approximately \$300,000 and generating annual revenue for plate owners of around \$18,000.

This revenue is ultimately derived from passengers in the form of higher fares.

The ERA estimates that the benefit of shorter waiting times for passengers will be between \$13 million and \$37 million per year. This is based upon international evidence that suggests that waiting time could be reduced on average by between two to five minutes.

Shorter waiting times for passengers could save the economy from \$13 million to \$37 million per year.

The ERA has not been able to quantify the value of increased service reliability.

Excess demand for taxi services provides taxi operators with a degree of choice about the passengers that they accept, primarily with pre-booked passengers.

Removing supply restrictions will eliminate the excess demand that currently exists for taxi services and increase competition for passengers.

Competition for passengers decreases the extent to which drivers can exercise discretion over the passengers they collect.

This increases taxi reliability by providing passengers with greater certainty that their taxi will arrive as expected.

Approximately 90 per cent of taxi drivers do not own a taxi plate. Instead, they lease a taxi plate from a third-party owner (being either the Government or a private plate owner).

The removal of supply restrictions will allow these drivers to benefit from greater opportunities to own and operate their own taxi businesses, rather than work for a plate owner.

Restrictions on the number of taxis in Western Australia have resulted in higher fares, longer waiting times, and unreliable services.

COSTS OF REFORM

Taxi plate owners will lose the value of their taxi plates, estimated to be \$27.7 million per year. \$18.4 million of this is borne by private taxi plate investors, the remaining \$9.3 million is borne by the Government, which owns about half of the taxi plates in Perth and leases them directly to taxi drivers.

Taxi drivers will generally be unaffected by reform.

However, around 1,000 taxi drivers who lease their plates from the Government would lose a portion of their income, estimated to be around \$4,000 per driver per year.

These drivers have enjoyed an advantage over drivers that lease from private plate owners under the current arrangements that would be eliminated in the event supply restrictions are removed.

This fact sheet is part of a series on the ERA's 2014 Inquiry into Microeconomic Reform in Western Australia

The full report and additional fact sheets are available at erawa.com.au

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