**Regulatory reform**

**Competition Impact Assessment**

**Taxi regulation**

*You are asked to provide a short competition impact assessment on taxi regulation reform in a hypothetical town. You can perform the exercise in small groups (max 4 people). Read carefully the description of the current situation in par. 1 and 2.*

1. **Background**

The city of XXXX has a City Council that is the municipal authority in charge of regulating the taxi market. In pursuing its functions, the City Council’s ultimate goal should be ensuring that the markets providing taxi services function efficiently and deliver the maximum benefit to consumers, the taxi industry and the overall economy.

XXXX is a town with a number of major tourist attractions. 60% of taxi rides in the town are generated by tourists. In order to protect the tourists, the City Council has maintained a highly regulated taxi environment in the past.

Despite the high level of regulation, the level of consumer complaints has been quite high, largely related to an absence of supply of taxis both at peak hours and at night. At the request of the Department of Transportation and Local Government, the City Council has reviewed the regulations in place. It has found that the existing regulations were not always in accord with the public interest and is suggesting new regulatory proposals that are intended to ensure the efficient functioning of the market of taxis, guaranteeing that safety, quality and availability are assured at all times of the day and year, and to deliver the maximum benefit to consumers in accord with the public interest.

1. **Description of existing regulations and current environment**

The City Council, empowered by the Traffic Act, has the duty of determining the regulation of the taxi industry, which has three dimensions: the regulation of entry, the regulation of quality and the regulation of fares. The City Council currently has 2562 licences in circulation.

In the last three years, the city has issued a total of 25 new licences, i.e. increased the number of licences available by 1 per cent.

The City Council, the municipal licensing authority, requires that all persons operating a taxi shall own a driving licence and pass a background check, before they are licensed. The potential taxi drivers must meet government standards on financial viability, safety of passengers and the public, and vehicle maintenance. Operators must also ensure that taxis under their control fulfil the same conditions. In particular, the background check requires taxi drivers: to present a bank account statement for the last five years; to pass a medical fitness check; to undergo a review of the driving record; to pass tests on the knowledge of the local road network and on language skills; and to take the taxi vehicle to a city garage to have it tested.

A satisfactory background check must be completed before obtaining a licence. There are two paths by which a licence can be obtained: first, when the City Council issues new licences and second, when an incumbent taxi driver wants to sell his or her own licence. In both cases, the newcomer has to pay a fee for the licence.

Due to the restrictions on entry and to prevent the abuse of market power, the licensing authority determines a per-distance-fare per time band and area plus an initial charge. The rules do not state whether drivers can offer discounts. While discounts are occasionally obtained through advance negotiation with a driver, particularly for long trips, such discounts are rare. The fares are increased when necessary to reflect inflation and the market price of petrol. The Council specifies, as well, the taximeter characteristics and the regularity of its inspections.

It has been pointed out by various consumer and tourist associations that the goal of the current regulation is to protect incumbents instead of protecting consumers. It has been alleged that the measures to obtain a licence (replacing an existing licence holder or acquiring one of the rare additional licences issued by local authority) restrict entry to the market.

As a result, there is a significant demand and supply imbalance that gives speculators the incentive to apply for licences and on obtaining them (for a regulated price), sell at a high market value and make a healthy profit. The shortage of supply also lowers the quality of service, for instance, waiting time over the last five years has increased significantly, as the number of active taxis during the day has decreased from 9.2 to 7.9 taxis per 10,000 people and some illegal taxis have already entered the market. Taxis are particularly difficult to find at night (currently, there are only 5.7 taxis per 10,000 people), because the lower rate of usage and higher likelihood of “bad” customers results in taxi drivers earning less, per hour, at night than during the day. In addition, the fact that most taxi drivers have families means that they are less willing to work at night.

1. **The affected market**

The product market directly affected by the regulation is the market for taxi services which includes all the vehicles providing door-to-door passenger services on demand within the municipal area. This market can be segmented on the basis of how customers search for the service. According to this criterion, the following segments can be delimited: the phone-booked taxi market, the taxi stand market and the hailed-taxi market. The scope of the market is the municipality affected by the City Council regulation as taxis can only take passengers from within their licensed area.

Any substantive impact on other elements of the supply chain (i.e. supply of special devises for taxis such as taximeters) is unlikely.

Although the market is not highly concentrated (there are 2562 licenses in circulation, most of which owned by self-employed drivers who drive their own vehicle) and the degree of differentiation [[1]](#footnote-1)is low, competition in the market defined above is rather weak, with important supply and demand imbalances (especially at night) and with taxi drivers apparently making little effort to improve the service with the objective of attracting customers. This is the result of:

• The existence of information failures, regarding both price and quality, that prevent consumers from choosing the most suitable service for them (for example, when a taxi is ordered by phone, they do not know the features of the taxi);

• The artificial restrictions on the number of drivers in the market (in the last three years, the city increased the number of licenses available by only 1 per cent) which prevents potential drivers from entering into the market when there is a situation of undersupply; and

• The custom, enforced by taxi drivers through mutual threats, that requires customers at taxi stands to take the first taxi, rather than choosing a car that has quality-related features that they might prefer.

1. *Please list the alternative feasible policy options that you envisage addressing the problem/s and reaching the regulatory reform objectives*
2. *Please indicate the potential impact of feasible alternative options in competition*
3. *Is the City Council obliged to follow the assessment outcome?*
1. The degree of differentiation refers to the amount of modifications that can be done to the service in order to make it different from those of the competitors. [↑](#footnote-ref-1)