



Essential Services Commission  
Taxi Fare Review 2016

Response to Consultation Paper:  
Melbourne Airport Submission

May 2016

## Introduction

As Victoria's principal gateway to the world, Melbourne Airport is a major contributor to the Victorian taxi industry and as such has a vital interest in the role taxis' play in creating positive impressions of Melbourne as a place to live, visit and do business. The competency, compliance and conduct of taxi drivers, the cleanliness and conditions of vehicles, the cost, reliability and quality of the service all have a bearing on the experience of returning Victorians and visitors to the state. Furthermore, it enhances Victoria's reputation as a tourist destination and more widely a place to conduct business and investment.

In undertaking its fare setting role, the Essential Services Commission's objectives are to promote the efficient provision and use of commercial passenger vehicle services; and promote the long term interests of consumers, by having regard to the price, quality and reliability of taxi services.<sup>1</sup> This mandate is certainly in keeping with Melbourne Airports objectives and we look forward to continuing our collaboration with industry to deliver better outcomes for the travelling public.

Melbourne Airport does encourage the regulator and industry to continue taking a balanced approach to achieving these outcomes. It is important that this objective is not purely understood as providing a service for the lowest possible price, rather a sustainable price. Achieving a balance of delivering value for money to the customer whilst improving the quality and reliability of the service is a complex issue, and Melbourne Airport is committed to working with industry and Government to identify and realise a superior service to its customers.

## Boosting the Economy

Melbourne Airport is Victoria's principal domestic and international aviation gateway that operates curfew free, 24 hours a day, 365 days a year. As the gateway to Victoria, Melbourne Airport makes a major contribution to the local, state and national economies. The airport connects Victorians with the rest of Australia and the world for business, tourism and trade. The airport's operations are a significant generator of employment and economic activity.

In 2016, more than 33 million passengers will pass through the airport with the airport directly responsible for 6% of Victoria's Gross State Product, contributing \$1.47 billion which will more than double to \$3.21 billion by 2033.<sup>2</sup> This year alone, more than 7.9 million interstate and international visitors will arrive in Melbourne through Melbourne Airport, providing an important economic stimulus through tourism related activities. These visitors spend nearly \$8.3 billion annually in the Victorian economy – accounting for almost 50% of the total current tourism expenditure in Victoria.

## Access to Melbourne Airport

Melbourne Airport is located approximately 23 kilometres from Melbourne's CBD and unlike the majority of other monitored airports it is solely reliant on road infrastructure for ground transport access to and from the airport. Although the airport continues to lobby the Victorian Government for its commitment to rail access,<sup>3</sup> its continued absence ensures a higher utilisation of private vehicles, taxis and bus services.

As outlined in Melbourne Airports Master Plan, the high vehicle utilisation sees private vehicles account for 64.3% of traffic, 23.1% taxi and hire cars, 11.7% buses and 0.9% other modes including active transport.<sup>4</sup>

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<sup>1</sup> Essential Services Commission Act 2001

<sup>2</sup> Melbourne Airport Master Plan 2013:38

<sup>3</sup> Productivity Commission - Economic Regulation of Airport Services 2012:266

<sup>4</sup> Melbourne Airport Master Plan 2013:115

With more than 110,000 vehicles entering the Melbourne Airport precinct each day, the efficient and effective management of the roadways and forecourts utilising appropriate economic and operational levers is essential for the safe, secure and equitable operation of the ground transport network. This model of charging commercial entities has been endorsed and monitored by the Productivity Commission and the ACCC.

The airport's strong growth has necessitated the internal transport network to be upgraded to meet increased demand. A renewed emphasis on making greater use of high-occupancy vehicles, preferably not just road based, is also required and these initiatives must be supported by reliable and efficient transport links between the airport, the Melbourne CBD, the local region and the wider metropolitan area.

Melbourne Airport has invested significantly in its internal road network and forecourt capacity in recent years. Recent upgrades include the construction of Airport Drive which provides direct access to the airport precinct from the M-80 Ring Road, as well as the delivery of a new multi-level ground transport hub to support the new domestic Terminal 4, including the delivery of a new 10 bay taxi rank.

Over the coming years, Melbourne Airport will invest approximately \$600 million dollars to upgrade road infrastructure and facilities. This will include more internal road improvements and new road network, an optimised and enhanced forecourt which includes additional taxi efficiency, as well as future proofing taxi management across the airport precinct. All of these initiatives will improve the operating environment for all ground transport operators and users.

### Symbiotic Relationship

Each year the Victorian taxi industry makes around 32-35 million taxi trips, with 19% of taxi users being travellers requiring transportation to or from the airport.<sup>5</sup> This network capacity provides Melbourne Airport with the capability to deliver taxi services to more than 3.2 million arriving passengers per year. To be able to provide this service to Victoria's arriving passengers, the airport needs to dispatch some 5,900 taxis per day across three taxi ranks. When considering Victoria has 4,765 registered metro taxis,<sup>6</sup> there is clearly an ostensible need to ensure a consistent supply of taxis to the airport. Further strengthening this significant relationship is the fact that the airport is also responsible for generating 30% of all taxi revenue.<sup>7</sup> When you combine these facts, there is clearly a symbiotic relationship between Melbourne Airport, the Victorian taxi industry, and the customer.

### Value of Taxi Services

After private vehicles, taxis are the next most frequently used mode of passenger transport at Melbourne Airport. Taxis are a convenient transport mode and an attractive option for certain types of passengers, including:

- Business travellers,
- Time-sensitive travellers who place a premium on the added convenience of being dropped off and picked up right outside the terminal,
- Passengers that prefer not to drive,
- Passengers who do not own a car, or are uncomfortable leaving a car at a car park, and
- Passengers who live close to the airport.<sup>8</sup>

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<sup>5</sup> Taxi Industry Inquiry Final Report 2012:60

<sup>6</sup> Taxi Industry Inquiry Final Report 2012:57

<sup>7</sup> <http://taxi.vic.gov.au/about-us/overview/new-taxi-licences-issued>

<sup>8</sup> Productivity Commission - Economic Regulation of Airport Services 2012:263

Melbourne Airport recognises the premium service taxis provide customers which is evident in the priority taxis are given to the terminal forecourt to service both arriving and departing passengers. In addition to the level of access provided, through operational efficiencies achieved within the airports forecourt, taxi passengers now have a faster and more seamless approach when entering the airport. Melbourne Airport prides itself in its leading taxi waiting times. Customers who arrive at Melbourne Airport will not be waiting for any longer than 5 minutes for a taxi service in off peak or 10 minutes for a taxi in peak periods– with the airport achieving this benchmark 95% of the time.

This level of service is critical to ensure that customers are provided with a reliable and efficient taxi service which meets the markets expectations. A degradation of service levels, which is contingent on taxi supply and availability, may see customers move to other modes of transport. This is not in the interest of Melbourne Airport, the taxi industry and more importantly the customer.

### Cost of Delivering Taxi Services

Melbourne Airport provides a range of services and facilities for taxi drivers, including a 1.9 hectare taxi holding area on Melrose Drive with capacity for 680 vehicles as well as a secondary holding area closer to the terminals which can accommodate approximately 200 taxis. These holding areas are vital to ensure there is sufficient quantity and availability of services for arriving passengers.

Given taxi drivers can experience waiting times of up to one and a half hours leading into peak periods, Melbourne Airport has also provided additional infrastructure for drivers within the airport precinct, including a cafe, prayer room, restrooms, car washing facilities and a petrol station. These facilities provide drivers with basic rest and service areas, ensuring drivers are refreshed and productive. Furthermore, Melbourne Airport also provides cleaning services for these facilities as well as physical and electronic security for the holding areas as well as the taxi ranks. To ensure that service levels are maintained for arriving passengers and to enable equitable access for drivers from the holding areas, Melbourne Airport also provides for traffic management systems for vehicles moving from the holding areas to the terminals three taxi ranks.

All of this comes at a considerable cost to the airport. Over the past two years alone Melbourne Airport has invested more than \$226M in building sustainable road and transport infrastructure. For FY17, Melbourne Airport is budgeted to incur operating expenses in excess of \$4.1M to deliver taxi services to customers. On this point, it is important to emphasise that Melbourne Airport is a private organisation, and as such, it funds all services and infrastructure at the airport. Therefore, like the majority of commercial businesses, Melbourne Airport takes the view that all commercial users who rely on and obtain a commercial benefit from the infrastructure provided by the airport should pay for such access on an equitable basis.

### New Fee Determination

In reviewing the current cost of providing this essential service, Melbourne Airport will be increasing the airport access fee to \$3.58 inclusive of GST; held for two years and then indexed annually according to CPI. Indexation in accordance with CPI is considered the most efficient method to reflect the increased costs of providing services while minimising the ongoing administrative burden of the more frequent revision of charges.

Melbourne Airport's fee are intended to recover, and not profit from, the cost of building and maintaining infrastructure for taxi services, including holding bays and driver amenities, queue management services and managed taxi ranks.

As passengers are the ultimate recipient of the benefits associated with investment in airport infrastructure and resources by way of minimal taxi waiting times, well organised ranks, good road network capacity and safe and efficient traffic management, Melbourne Airport strongly supports the pass through of this increased charge to the passenger. This precedent is established with the current pass through endorsed by the Commission for the airport as well as road tolls including CityLink, EastLink and PeninsulaLink. This mechanism is also applied across other Australian airports.

Although this new access fee represents a sharp increase, it should be noted that it is in line with fees charged at Australia's other major airports.

It should also be noted that the access fee represents a relatively small proportion of the total cost to the customer. With an access fee of \$3.58, when compared to the total cost for a taxi journey from the airport to the CBD, the access fee represents 5.60% of the journey cost. This is significantly lower than the associated proportioned cost at Australia's five monitored airports.

<b>Airport</b>	<b>Access Fee<sup>9</sup></b>	<b>Standard Fare to CBD<sup>10</sup></b>	<b>Airport Access Fee Portion</b>
Sydney	\$4.10	\$38	10.78%
<i>Melbourne</i>	\$3.58	<i>\$64</i>	5.60%
Brisbane	\$3.50	\$47	7.44%
Perth	\$3.00	\$31	9.67%
Adelaide	\$2.00	\$19	10.52%

Understandably any necessity to increase costs to the customer with no apparent improvement in quality or reliability will be scrutinised by industry and the travelling public. Whilst it is easy to state what benefits the customer currently obtains under the current pricing regime, it is perhaps more relevant to outline the impacts to quality and reliability should the pass through of taxi access fees to the passenger not be accepted by the Commission.

### **Impact of Fare Determination to the Customer**

In the event the Commission does not approve the pass through of access fees, Melbourne Airport is faced with two prospects; it immediately reduces investment in infrastructure and services to taxis to ensure alignment of cost recovery, or it seeks to impose access fees directly on the taxi industry.

Under the first scenario, based on realistic commercial drivers, Melbourne Airport would need to evaluate the long term sustainability of incurring losses associated with providing taxi services to the millions of business and tourist travellers arriving into Melbourne each year. Any required reduction in services by Melbourne Airport would adversely impact taxi drivers and customers alike:

- Removing access to the primary taxi holding yard would deprive drivers of suitable rest facilities. This action would reduce taxi supply as drivers would no longer enjoy the basic conditions afforded to them which would discourage their service of the airport. This would subsequently reduce taxi availability for customers whilst increasing their waiting times to in-excess of 65 minutes at peak periods. Furthermore, it would also reduce service quality in terms of driver and vehicle cleanliness and serviceability.

<sup>9</sup> Correct as at 8 January 2016

<sup>10</sup> [www.taxifare.com.au](http://www.taxifare.com.au)

- Should the airport be required to remove access to the taxi queue management system, the impact to taxi drivers, customers and airport users would be wide spread. Taxis would arrive at the airport in an uncontrolled manner, creating severe congestion on an already demanding road network; it would decrease efficiency in the taxi ranks whilst permitting unwanted behaviour such as short fare refusal and disputes between drivers.

This scenario is not in the interests of the airport, the taxi industry or the customer.

Alternatively, should the airport seek cost recovery directly with taxi operators, the level of service and infrastructure afforded to taxi drivers would remain unchanged. However, given that taxi operators would not be lawfully permitted to pass through the costs to the consumer, this approach would serve as a significant deterrent for drivers to service and supply the airport. Without adequate taxi supply, there would be a market shift to other modes of transport which would be detrimental to the taxi industry. This approach also presents the unintended consequence of some drivers unlawfully passing the charges through to the consumer. This of course is contrary to the nature and intent of a regulated fare setting regime and only serves to further harm the industry.

The Commission's objective is to ensure fares reflect the reasonable costs associated with providing taxi services; ensuring there is a reasonable return on investment; promoting the supply of taxis as and when required by passengers; and ensuring taxi waiting times are not excessively high.<sup>11</sup> With respect to the provision of taxi services from the airport, there is little doubt that all of these objectives are best achieved through a pass through of access fees.

### Fare Structure

In the Commission's paper, two discussions were deliberated which are of interest to Melbourne Airport; chiefly short fare refusal and fare structures from Melbourne Airport.

In our last submission to the Commission in 2013, Melbourne Airport acknowledged that short fare refusal was an issue which affected a number of mass gathering sites, including the CBD and the Crown Entertainment complex. Since the 2013 fare review the issue of short fare refusal continues to be a challenge at Melbourne Airport, as well as other mass gathering sites.

Melbourne Airport continues to support a consistent approach to dealing with short fare refusal and considers that a price based mechanism which sees a minimum fare as an appropriate solution. Melbourne Airport would be pleased to provide further data of short fare refusal over time to inform the analysis of the Commission.

In terms of the Commission's suggestion that there may be benefits in a unique fare structure from Melbourne Airport, this is a proposition that Melbourne Airport does not support. The associated narrative supports incentivising taxi supply away from the airport and into other geographic areas. Should this be achieved, and the airport was unable to meet taxi demand with supply, there would be a market shift to other modes of transport which would be detrimental to the taxi industry and jeopardise Victoria as the aviation gateway to Australia.

The very requirement for such a fare proposition to incentivise taxis servicing the CBD over the airport is also in contrast to the demands of both markets. The CBD is most undersupplied in the weekend PM demand, that being during Friday and Saturday nights. This is a period of low demand by the airport and

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<sup>11</sup> Essential Services Commission Principles Paper 2013:1

therefore there is little competing demand for taxi supply. Likewise, the airports high demand is in the early weekday mornings where the airport is required to build and hold taxi supply prior to peak demand. This supply is predominately directed to the CBD from 0830 which allows for wider market utilisation when it is required.

### Implementation and ongoing engagement

To promote consumer awareness and to support taxi owners and drivers, Melbourne Airport is committed to communicating the changed access fee arrangements directly with customers.

As part of the implementation of this revised charge, Melbourne Airport will undertake targeted communications to key audiences about the nature of the changes. This will include signage at the ranks advising of the charge; the preparation and funding of in-vehicle stickers communicating the charge and supporting web based materials detailing the charge and its rationale.

Melbourne Airport meets regularly with taxi driver representatives and the Victorian Taxi Association and will continue to engage with these groups through implementation.

### Next steps

Melbourne Airport seeks ESC endorsement to the pass through of the access charge to the end customer with implementation as of 1 July 2016.

Support for the pass through of this access fee will ensure customers continue to benefit from taxi access to Melbourne Airport including: minimal waiting times; consistent and reliable vehicle availability; premium access to and from the airport terminal; and efficient movement of traffic in and out of the airport precinct.

Melbourne Airport appreciates the opportunity to make this submission and would be pleased to discuss this matter further with the Commission in its deliberations if necessary.