



taxi INDUSTRY INQUIRY

Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

Dear Sir/Madam

Reserve Bank of Australia review of card surcharging (“Review”) – Submission

On 28 March 2011, the Victorian State Government announced a major independent inquiry into the Victorian taxi and hire car industry (“**Inquiry**”).

I have been appointed Chair of the Inquiry, with Dr David Cousins AM appointed as Assistant Commissioner.

The Terms of Reference for the Inquiry are very broad, with the overall aim being to instigate major and enduring improvements to service, safety and competition in Victoria’s commercial passenger vehicle industry. Relevantly, the Terms of Reference require the Inquiry to ensure its recommendations cover:

- the appropriateness of the structure of the taxi industry including accountabilities of the range of industry participants with a particular focus on commercial incentives to participants;
- competition in the sector, in particular focusing on vertical integration, anti-competitive practices and incentives for innovation; and
- the effects of regulation, particularly relating to (amongst other things) price controls and taxi fare setting arrangements, and how these impact on customer service and innovation.

It is in this context that the Inquiry makes this submission in response to the paper *Review of Card Surcharging: A Consultation Document*.

The Review is being conducted at a most opportune time for the Inquiry given the significance of the issues it raises.

The issue

All electronic payments in Victorian taxis attract a surcharge over cash payments. For Cabcharge-branded cards this is a 10% surcharge, and for branded credit cards this is an 11% surcharge (as GST is added to the 10% surcharge). These surcharges are not only applied to the metered fare, but also any flagfall, booking fee, tolls and GST payable. In most cases the fee is paid to Cabcharge, which has electronic processing facilities in nearly all Victorian taxis. There are a number of other small payment processing providers.

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Early estimates of the Inquiry are that the value of taxi trips in Victoria paid for electronically was in the order of \$250 million during 2010. The cost to consumers of the surcharge in Victoria alone was therefore in the order of \$25 million during that period.

Cabcharge Australia Ltd is an ASX listed company providing various products and services to taxi drivers, owners and network service providers (taxi booking companies). The two key activities it undertakes are the provision of:

- a payment instrument (Cabcharge charge cards) which can only be used in taxis; and
- non-cash payment processing systems (including electronic systems), which are used to process electronic transactions including Visa, Mastercard and other credit and debit cards, and Cabcharge charge cards.

The Federal Court of Australia recently found that Cabcharge has substantial market power in markets for the supply of non-cash payment instruments to purchasers of taxi services and payment processing services.

A consequence of Cabcharge's market power appears to be that it is able to charge fees on both Cabcharge cards and other payment cards (e.g. Visa and Mastercard) that far exceed fees charged on conventional electronic transactions in the retail sector, the averages of which are described in your paper. There appear to be serious doubts as to whether the service fees charged by Cabcharge are in any way reflective of the costs incurred by Cabcharge in processing electronic transactions.

Proposed approach

The Inquiry requests that the Review consider any and all measures that would help to ensure that fees charged for electronic payments for taxi services are consistent with those that would be charged in a competitive market. The Inquiry would particularly support measures that would facilitate long-lasting solutions to the competition problems that appear to be endemic in the taxi industry.

To this end, the Inquiry requests the opportunity to meet with the Review to discuss the surcharge and options that may exist for addressing it.

Of course, the Inquiry has the opportunity to make recommendations that only relate to the Victorian taxi industry such as regulatory options, and is giving serious consideration to this. However given the national dimension to this issue it seems preferable to address it in the most expansive manner possible.

I look forward to working with the Review on this important matter. I can be contacted at the details below for the purposes of an initial meeting.

Yours sincerely



PROFESSOR ALLAN FELS AO
Chair of the Taxi Industry Inquiry

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