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Author(s): Clive Gaunt

Source: *Journal of Transport Economics and Policy*, Vol. 30, No. 1 (Jan., 1996), pp. 103-106

Published by: [University of Bath](#) and [The London School of Economics and Political Science](#)

Stable URL: <http://www.jstor.org/stable/20053100>

Accessed: 18/02/2014 13:05

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Taxicab Deregulation in New Zealand

By Clive Gaunt*

1. Introduction

In 1989 the New Zealand government removed the most significant regulations and controls from the New Zealand taxicab industry. Before this time, the Ministry of Transport (MOT) presided over both industry quantity and quality controls. The number of taxi operator licences was controlled primarily by four geographically based Transport Licensing Authorities (TLA) and people who applied for an operator licence were required to appear before the relevant TLA at a public hearing, where the need for and public good of the proposed service were evaluated. In addition, the taxi industry in every town with a population exceeding 20,000 was subject to a triennial review, conducted by the relevant TLA with data and analysis of demand provided by the MOT. Additional licences were rarely issued. In fact, the number of taxi licences declined from 3,245 in 1975 to 2,762 in 1989.

In addition to the licence controls, fares were also controlled. The Secretary for Transport fixed a fare schedule for each licence area, a taximeter was required to be fitted to every taxicab and the fixed fare displayed on that taximeter. Accordingly, there were 78 different fare schedules in operation in December 1987. Taxi organisations were able to apply for a review of the fare schedule, upon payment of a fee (\$500 in November 1987). Fares were set on a cost-plus basis, taking into account running costs, standing costs, wages and a 10 per cent profit. Taxi organisations normally provided the cost data for the fare reviews, and indications are that the process was very subjective¹ which encouraged numerous applications (for example, there were 61 applications in 1983). In 1986 this system was supplemented by a national indexation system for fare setting, where all costs, the index and fares were automatically updated every six months.

Quality controls imposed standards on vehicles, driver competence and operator performance. Vehicles were required to have a current certificate of fitness, be less than ten years old, and carry a maximum of six passengers. To obtain a taxi driver's licence, drivers had to be at least 20 years old, needed to have held a driver's licence for two years, be of good health, and pass written, oral and practical tests including a test of their knowledge of the area. Minimum periods of rest were prescribed for drivers, each taxi was

* Faculty of Business, Queensland University of Technology.

¹ In the New Zealand Taxi Proprietors' Federation application for a review of Christchurch taxi fares (November 1987), the Federation estimates total costs at \$47,358 and total revenue at \$37,041 per cab, giving an annual loss of \$10,316. These figures are not consistent with the market value of a Christchurch licence at that time of \$24,000 and highlight the subjectivity of the fare review process.

required to keep a logbook, the operator was required to be a member of an approved taxi organisation, advertising on taxis was very restricted, and multiple hiring was limited to two people, at specific pick-up points.

2. Deregulating the New Zealand Taxi Industry

The passing of the Transport Services Licensing Act 1989 (effective 1 November 1989), brought significant changes to the way in which the industry is regulated and controlled.

Taxi deregulation in 1989 had its origins in the land transport reforms of 1983. A major review of land transport licensing and regulation began in 1982 and concluded with the phasing out of the monopoly held by New Zealand rail over long-distance freight and passenger services, by allowing road operators to compete over these distances. The 1982 review recommended changes to the taxi industry, but the taxi industry successfully lobbied the government against such changes and the taxi industry provisions were deleted from the 1983 legislation. However, the 1983 legislation resulted in the blurring of the distinction between taxi and other passenger services. Whereas a taxi was defined as being used for hire or reward to any member of the public for the carriage of a maximum of seven passengers, a Passenger Service Vehicle (PSV) was defined as a vehicle used for carrying passengers and/or goods for hire or reward. Controls over taxis were very strict, whereas the 1983 changes made it very easy to obtain a PSV licence. At this time a Mr Tarr applied to the TLA for a PSV licence, in order to provide a limousine service. The application was granted. The MOT strongly opposed the granting of the licence to Mr Tarr, claiming that a taxi service was being provided. The MOT appealed as far as the High Court, where it was ruled that the granting of the licence was legal.

In a speech to the Taxi Proprietors Conference in August 1986,² the Minister for Transport expressed dismay at the industry's lack of efficiency and sought meaningful change from within the industry, but stated unequivocally that the government had no immediate plans to deregulate the industry. However, in September 1987, a new Minister for Transport announced a formal review of the industry. A discussion paper was produced and public submissions sought. Proposals for the reform of the industry were published in June 1988, first introduced to parliament in May 1989, and finally passed with a number of amendments in September 1989.

The 1989 legislation removed the quantitative controls over entry and fares. Under the act, taxis and limousines are defined as Small Passenger Service Vehicles (carrying 12 or fewer passengers for hire or reward), with the owners of such vehicles required to have a passenger service licence. There are no restrictions on the number of passenger service licences issued and a licence-holder may operate any number of vehicles under the licence. In addition, fares are to be set by individual taxi organisations and the maximum fare registered with the Secretary for Transport, calibrated on the taximeter and displayed both inside and outside the taxicab.

² Recorded in a paper entitled "Draft Speech to Taxi Proprietors Conference for Minister of Transport, Tauranga, 26 August 1986".

People holding a taxi licence on 1 November 1989 were automatically issued with a passenger service licence. New operators are required to publish a notice, stating an intention to apply for a licence, in an approved newspaper before the application can be processed. Before a licence is issued, each applicant is assessed as to whether he or she constitutes a 'fit and proper person'. This involves checks of criminal convictions, transport offences and the general character of the applicant. Applicants who are refused a licence have the right to appeal on the decision to the District Court. Licence-holders are also required to obtain a Certificate of Knowledge, which is issued upon successful completion of a test of the applicant's knowledge and understanding of the laws and safety requirements of operating a passenger service.

Licence-holders must belong to an approved taxi organisation, where an approved taxi organisation provides a 24 hour/7 day service and possesses a telephone booking and communication system.³ A licence-holder must maintain a register of complaints. A licence holder may operate any number of passenger service vehicles under the licence and each vehicle must possess a Certificate of Fitness to be issued by a Testing Station. Vehicles are required to display the following: a unique vehicle identifier; name and address of the licence holder; a rooftop sign 'TAXI'; a sign indicating whether the vehicle is available for hire; the procedure by which complaints can be made; and a fare schedule both inside and outside the vehicle. A taximeter must be installed and must be tested, sealed and certified every six months.

Drivers of small passenger vehicles must also be licensed. Drivers are subject to checks of their criminal record and driving record before a licence is issued. In addition, drivers are required to pass a map reading test and must hold a first aid certificate. Drivers must also carry and display a sealed photo identification card, issued by the Secretary for Transport and valid for five years. All drivers are required to undergo an annual medical examination.

A driver is permitted, subject to normal traffic rules, to cruise for hire. Multiple hiring is permitted, and is not restricted to particular taxi ranks. However, for multiple hiring to take place the first hirer must agree to share the vehicle with subsequent hirers.

Both taxi operators and drivers are subject to a demerit points system, where a licence-holder will be disqualified for a period of five years, should 200 or more demerit points be incurred within a two-year period. Demerit points (15, 25 or 100) are incurred when licence-holders are convicted of criminal offences and illegal operating practices. For example, taximeter tampering would incur the maximum penalty of 100 demerit points.

While the protection afforded to existing taxi operators was removed in November 1989 with the lifting of price and entry controls, scheduled passenger services (that is, buses) running along fixed routes continued to be protected from competition until July 1991. From 1 July 1991 these routes were partially opened to competition by allowing private operators to run commercial, unsubsidised passenger services. Regional councils have the option of supplementing these commercial services with subsidised services.

³ Exemptions to this requirement may be obtained outside the large urban areas where it can be shown that insufficient demand exists for such a service.

3. Conclusion

The reform of the New Zealand taxi industry has been far reaching, but it is incomplete. The most significant controls over fares, entry and competition with other transport modes have been removed. However, less economically significant 'quality' controls remain and in some areas these controls have been increased. It remains for future research to assess the impact of deregulation on fares, waiting time and other aspects of service quality.