

**For discussion
on 22 May 2009**

Legislative Council Panel on Transport

Changes in Operating Conditions after Taxi Fare Adjustments and Overseas Study and Discussions with Taxi Trade on Charging According to Meters

Purpose

This paper briefs Members on the changes in the taxi trade's operating conditions after the taxi fare adjustments, information obtained by the Administration on the regulatory requirements and experience in other cities regarding charging according to meters, and relevant discussions with the trade at the Transport Department (TD)'s taxi conferences.

Fare Structure of "Raising Short-haul Fares and Lowering Long-haul Fares"

2. The fare structure of "raising short-haul fares and lowering long-haul fares" was implemented to align taxi fare structure with the actual market conditions so as to tackle the problem of fare bargaining; and, at the same time, to align taxi fare structure with the fare structures of other public transport modes, including railways, franchised buses and green-minibuses, which would in turn enhance the competitiveness of the taxi trade.

3. Since the fare adjustments took effect, the Administration has been monitoring changes in the operating conditions of the taxi trade. On the one hand, we have been tracking changes in meter revenue, while, on the other hand, collecting views from the trade through various channels, including TD's taxi conferences, in order to gauge changes in the operating conditions of the trade subsequent to the fare adjustments.

Changes in Operating Conditions after Taxi Fare Adjustments

(i) Urban taxis

Fare adjustment

4. The following fare adjustment was introduced for urban taxis on 30 November 2008:

Urban Taxis	Fares		
	Before adjustment	After adjustment	
Flagfall charge for the first 2 km or any part thereof	\$16	\$18	
Incremental charge for every subsequent 200m or part thereof and for every waiting period of 1 minute or part thereof	\$1.40	Below \$70.50 (Before 9 km)	\$1.50
		\$70.50 (9 km) onwards	\$1

Changes in Operating Conditions after Fare Adjustment

5. Following the fare adjustment for urban taxis in November 2008, changes have taken place in the overall operating environment, including a decrease in the price of liquefied petroleum gas (LPG) from \$4.37 per litre in November 2008 to \$3.01 per litre in December 2008. The LPG price maintained at an average of \$2.73 per litre from January to May 2009. This has helped reduce the operating costs of taxis. During the period, the urban taxi rental remained at the same level. Meanwhile, the overall economy moved downward following the global financial tsunami. Following a contraction of 2.6% in the fourth quarter of 2008, Gross Domestic Product registered a sharp year-on-year decline of 7.8% in real terms in the first quarter of 2009. Consumption markets also moderated. The taxi trade's business was inevitably affected. The urban taxis' meter revenue has slightly decreased by 1.5%. Nevertheless, due to the significant reduction in operating costs by 10.7%, the net income for urban taxi drivers has in general increased by 10.5% after the fare adjustment.

6. Changes in the average revenue and operating costs for urban taxi drivers before and after the fare adjustment are as follows:

Urban Taxis	Average monthly meter revenue	Average monthly operating costs	Average monthly net income
Jan to Nov 2008	\$21,016	\$11,828	\$9,188
Dec 2008 to Mar 2009	\$20,711	\$10,562	\$10,149
<i>Change over Jan to Nov 2008</i>	<i>-1.5%</i>	<i>-10.7%</i>	<i>+10.5%</i>

7. The urban taxi trade generally considers that the fare adjustment has created a positive impact on the income of drivers. It enables them to maintain stable income amidst the economic downturn. The number of long-haul passengers has increased while that of short-haul passengers has slightly decreased. According to the representatives of radio call stations, the number of passengers hiring long-haul taxi services through telephone booking has increased since the implementation of the new fares. The average taxi trip distance has increased from 4.6 km in November 2008 to the current figure of 5 km, representing an increase of about 9%.

(ii) Lantau taxis

Fare adjustment

8. The following fare adjustment was introduced for Lantau taxis on 30 November 2008:

Lantau Taxis	Fares		
	Before adjustment	After adjustment	
Flagfall charge for the first 2 km or any part thereof	\$12	\$13	
Incremental charge for every subsequent 200 m or part thereof and for every waiting period of 1 minute or part thereof	\$1.20	Below \$130 (Before 20km)	\$1.30
		\$130 (20 km) onwards	\$1.20

Changes in Operating Conditions after Fare Adjustment

9. The fare adjustments were introduced for Lantau and urban taxis concurrently in 2008. Changes in the overall operating environment of Lantau taxis since then have been therefore similar to those of urban taxis. However, Lantau taxis are also affected by their unique operating conditions on the island. Subsequent to the fare adjustment, the demand for Lantau taxi services has seen no significant changes. The number of trips and average trip distance have remained stable.

10. Changes in the average revenue and operating costs for Lantau taxi drivers before and after the fare adjustment are as follows:

Lantau Taxis	Average monthly meter revenue	Average monthly operating costs	Average monthly net income
Jan to Nov 2008	\$35,353	\$22,552	\$12,801
Dec 2008 to Mar 2009	\$36,523	\$19,489	\$17,034
<i>Change over Jan to Nov 2008</i>	+3.3%	-13.6%	+33.1%

11. The Lantau taxi trade considers that the new fares have helped increase the income of drivers. The number of Lantau taxi passengers has had no obvious change.

(iii) New Territories Taxis

Fare Adjustment

12. The following fare adjustment was introduced for New Territories (NT) taxis on 16 January 2009:

NT Taxis	Fares		
	Before adjustment	After adjustment	
Flagfall charge for the first 2 km or any part thereof	\$13.5	\$14.5	
Incremental charge for every subsequent 200 m or part thereof and for every waiting period of 1 minute or part thereof	\$1.20	Below \$53.5 (Before 8 km)	\$1.30
		\$53.5 (8 km) onwards	\$1.00

Changes in Operating Conditions after Fare Adjustment

13. On operating costs, the LPG price remained at an average of \$2.64 per litre in the first five months of 2009, lower than the annual average of \$4.37 per litre in 2008. This has helped relieve the pressure on taxi operation. The NT taxi rental has remained at the same level after the fare adjustment.

14. On revenue, NT taxi revenue has increased slightly despite the downward trend of the overall economy. The average net income of drivers has increased as compared with the average monthly net income of \$7,545 for 2008.

15. Changes in the average revenue and operating costs of NT taxi drivers before and after the fare adjustment are as follows:

NT Taxis	Average monthly meter revenue	Average monthly operating cost	Average monthly net income
Jan to Dec 2008	\$16,590	\$9,045	\$7,545
16 Jan to Mar 2009	\$16,788	\$7,579	\$9,209
<i>Change over Jan to Dec 2008</i>	<i>+1.2%</i>	<i>-16.2%</i>	<i>+22.1%</i>

16. The NT taxi trade generally considers that the new fares have had positive impact on its operating environment. The majority of the trade shares the view that, excluding seasonal factors such as festivals and holidays, the meter revenue of drivers has increased after the new fares were implemented. They also consider that the new fares would have produced a more prominent boosting effect

if the economy had not been hit by the financial tsunami. Some trade members pointed out that the numbers of long-haul and short-haul passengers had both increased slightly after the fare adjustment, while some indicated that the number of short-haul passengers had slightly decreased. The number of passengers hiring long-haul taxi service through telephone booking is similar before and after the fare adjustment. In addition, over 200 NT taxis that remained idle for a long time have now been rented out.

17. The above information shows that taxi revenues and operating costs are affected by a number of factors. Since the fare adjustments for urban and Lantau taxis in November 2008, the taxi trade has encountered various changes in the operating environment, including changes in the LPG price and the economic conditions. In general, drivers' net income has increased slightly as compared with the figures before the fare adjustments. As for NT taxi drivers, their net income has also increased since the fares were adjusted about three months ago.

Regulatory Requirements and Experience of Charging According to Meters in Other Cities

18. We have approached those eight cities which previously indicated that they prohibited charging below metered fares for further information on their regulatory requirements and experience in enforcement. Seven of them have responded. The information obtained is set out below.

(1) Regulatory Requirements of Charging According to Meters

19. In Melbourne, relevant regulations expressly prohibit taxi drivers from charging fares higher than the amount allowed in the licence conditions. The licence conditions provide that metered fares have to be charged for off-the-street taxi trips and causal telephone bookings, but drivers are allowed to charge less than metered fares for regular or permanent customers.

20. In Toronto, taxi operators or drivers are required to charge according to meters except for passengers over 65 and persons with disabilities. Such requirements are set out in relevant by-laws.

21. In Vancouver, relevant legislations stipulate that taxi operators cannot charge above or below the fare level specified by the authority concerned.

Relevant legislations in Frankfurt, Tokyo, Beijing and Shanghai contain similar requirements.

(2) Enforcement

22. The Melbourne authority indicated that it had not taken any enforcement action against non-compliance of charging according to meters and hence there was no prosecution case. The authority pointed out that as taxis in the city were generally rented to drivers by taxi operators based on a 50% : 50% revenue sharing arrangement, operators normally required rentees to charge according to meters.

23. In Toronto, the authority concerned will take enforcement actions upon receipt of complaints against charging above metered fares. However, there is no record of enforcement against undercharging.

24. In Vancouver, the authority concerned enforces the legislation on charging according to meters by requiring taxi drivers to display on their taximeters the specified rates.

25. The Beijing authority stated that as local taxi drivers did not undercharge passengers, the enforcement authority had not handled such cases over the years.

26. According to Tokyo and Shanghai authorities, as the enforcement agencies have to rely on evidences given by parties concerned (drivers and passengers), there are enforcement difficulties if taxi fares, though lower than the metered fares, are mutually agreed between drivers and passengers.

27. The Frankfurt authority has not responded to our enquiry about how the requirement of charging according to meters is enforced.

(3) Targets of Penalties

28. All the respondent cities impose fines on either taxi drivers; taxi companies or drivers; or taxi companies. No penalties are laid down against passengers.

(4) Exemption Provisions

29. As regards whether taxi drivers are allowed to charge below metered fares in certain circumstances such as wrong routing taken by drivers, different

responses were received from the various cities. Melbourne authority stipulates in the licence conditions that taxi drivers/operators can undercharge permanent and regular customers, but does not set out exemption provisions for individual circumstances (such as taking a longer route). The authority concerned however indicated that under, such circumstances, drivers could decide on their own to charge less than metered fares.

30. The Toronto authority stipulates in the law that taxi drivers can charge less than metered fares for persons with disabilities or aged over 65.

31. The Shanghai authority states that in cases of wrong routing, drivers may negotiate with passengers on taxi fares. There are no express exemption provisions in the law.

32. In Beijing, it is stipulated in the law that drivers may agree with passengers on taxi fares only in cases of “damaged taximeters”.

33. Neither Vancouver nor Tokyo has exemption provisions in their laws. Frankfurt has made no response on this matter.

Discussions with Taxi Trade

34. At TD’s taxi conferences, we briefed trade members on the experience of overseas cities in implementing the requirement of charging according to meters and discussed with them relevant issues. The taxi trade expressed the view that fare bargaining by passengers had become less frequent after the new fares had been implemented. The discounts offered to passengers have decreased, reflecting reduced room for the operation of discount taxis.

35. Trade members have diverse views on whether legislation should be enacted to regulate charging according to meters. Relatively more members of the urban and NT taxi trades support such course of action, while some members express reservation. The Lantau taxi trade objects to the proposal unanimously.

36. Those in favour of enacting legislation on charging according to meters consider that the statutory requirement will help enforcement actions by the Police. Quite a number of them also suggested that penalties should be imposed on both drivers and passengers. Some trade members indicated that if legislation was enacted, the issue regarding how to exempt charging below metered fares in such

circumstances as wrong routing taken by the driver had to be addressed.

37. Those who expressed reservation over enacting such legislation pointed out that the taxi fare structure should be adjusted in response to market conditions so as to tackle the problem of discount taxis. The service quality should also be upgraded to enhance the competitiveness of taxi trade and therefore improve its operating conditions. They are of the view that legislation on charging according to meters may undermine the flexibility in taxi operation, creating burden on both drivers and passengers as well as discouraging the public from using the taxi service.

Administration's Views on Legislating to Regulate Charging According to Meters

38. Criminalising certain acts is a serious issue. Making fare bargaining a criminal offence would be controversial among members of our community. We have to assess if the amendment of legislation can effectively address the problem of fare bargaining, and at the same time consider whether this will cause troubles to the public and jeopardize the flexibility of taxi operation.

39. The root of the problem of fare bargaining lies in the imbalance between supply and demand in the market. Therefore, the most effective solution is to tackle this issue through the market mechanism by suitably adjusting the fare structure and level to bring them in line with market conditions. We understand that the problem of fare bargaining has become alleviated since the implementation of new fares and the discounts offered to passengers have dwindled, reflecting reduced room for the operation of discount taxis.

40. In fact, the existing legislation prohibits taxi drivers from soliciting passengers by offering fare discounts. The Police is of the view that legislating against undercharging or fare bargaining by passengers will not help their enforcement against discount taxis. The difficulties in collecting evidence will remain since the acts in question are usually done with mutual consent between drivers and passengers. In undercover operations, the police officers concerned will still cannot offer or ask for discounts for the purpose of collecting evidence. In other words, legislation on charging according to meters or against fare bargaining by passengers will not help the enforcement actions of the Police.

41. For those overseas cities in which the requirements for charging according to meters are stipulated in the laws/licence conditions (i.e. charging above or below metered fares is prohibited), generally no concrete enforcement action has been taken against undercharging. For individual cities which enforcement action has been taken, the authorities concerned admit difficulties in collecting evidence in cases where the fare is mutually agreed between the two parties, as they can only rely on the statements of the driver and the passenger as evidence. Experience of other cities shows that enacting legislation against undercharging is difficult to enforce, rendering the prohibition ineffective. Using legislative means to address market problems would not bring any concrete effect.

42. In view of the above, we consider that enacting legislation is not an effective means to eliminate the problem of fare bargaining. Market problems have to be tackled through the market mechanism. The implementation of the new fare structure has already shown positive results. The problem of fare bargaining has become alleviated since the implementation of new fares and the discounts offered to passengers have dwindled, reflecting reduced room for the operation of discount taxis. We will continue to monitor changes in the operating conditions of the taxi trade. While the Police will continue their enforcement efforts, we will strengthen publicity and education to enhance among drivers and passengers the awareness of calculating taxi fares according to meters.

43. Members are welcome to comment on the above.

Transport and Housing Bureau
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