



Australian  
Competition &  
Consumer  
Commission

25 February 2008

## Statement of Issues — Cabcharge Australia Limited – proposed acquisition of Suburban Transport Services Pty Ltd

1. Outlined below is the Statement of Issues released by the Australian Competition and Consumer Commission (ACCC) in relation to the proposed acquisition of Suburban Transport Services Pty Ltd (**Suburban**) by Cabcharge Australia Limited (**Cabcharge**).
2. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
3. In line with the ACCC's *Merger Review Process Guidelines* (available on the ACCC's website at [www.accc.gov.au](http://www.accc.gov.au)) the ACCC has established a secondary timeline for further consideration of the issues. The ACCC anticipates completing further market inquiries by **12 March 2008** and anticipates making a final decision by **4 April 2008**. However, the anticipated timeline can change in line with the *Merger Review Process Guidelines*. To keep abreast of possible changes in relation to timing and to find relevant documents, market participants should visit the Mergers Register on the ACCC's website at [www.accc.gov.au/mergersregister](http://www.accc.gov.au/mergersregister).
4. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

### Background

5. On 21 December 2007, Cabcharge publicly announced its agreement to acquire Suburban (**the proposed acquisition**).

6. On 14 January 2008, the ACCC commenced its informal review of the proposed acquisition.

## **The parties**

### **Cabcharge Australia Limited**

7. Cabcharge is listed on the ASX and is a provider of taxi charge account services and taxi-related services in Australia. Cabcharge's principal business is the supply of Cabcharge branded charge account cards, dockets and eTickets to corporate and government clients, as well as the supply of the Cabcharge EFTPOS FAREWAY System to the taxi industry.
8. The Cabcharge EFTPOS FAREWAY System is a mobile electronic payments system which processes non-cash payments for taxi fares throughout Australia and in participating countries internationally.
9. The Cabcharge EFTPOS FAREWAY System enables passengers to pay fares using:
  - Cabcharge branded charge cards, dockets and eTickets (which are replacing Cabcharge's pre-printed account coded "blue dockets") used by Cabcharge account customers;
  - third party charge cards (American Express, Diners Club, Motorpass, JCB);
  - bank issued credit cards (MasterCard, Visa Card) and debit cards.
10. Cabcharge primarily derives income from a service fee (10% surcharge) charged to passengers using the Cabcharge EFTPOS FAREWAY System. Cabcharge provides processing services for non-cash payments processed on this system, whether the taxi fare is paid for using Cabcharge branded charge cards, dockets and eTickets, or paid for using third party charge cards, bank issued credit and debit cards.
11. Cabcharge has publicly stated that approximately 400 taxi companies across Australia accept Cabcharge branded charge cards, dockets and eTickets, representing approximately 14,500 taxis from the national fleet. Cabcharge estimates that the Cabcharge EFTPOS FAREWAY System is offered in 96% of all taxis in Australia.
12. Cabcharge has publicly stated that its charge account customer base comprises of around 44,000 account customers ranging from large corporations and government bodies to small businesses and individual accounts.
13. In recent years, Cabcharge has made numerous acquisitions of taxi companies which provide network booking and dispatch services. Cabcharge currently owns major taxi networks which operate in the Sydney and Melbourne metropolitan areas.

### **Suburban Transport Services Pty Limited**

14. Suburban is a provider of network booking and dispatch services, operating in the Adelaide metropolitan area.
15. There are approximately 1,000 taxis operating in metropolitan Adelaide. These taxis are each affiliated with one of the three taxi networks that operate in Adelaide – Suburban Transport Services, Yellow Cabs (Adelaide) and Adelaide Independent Taxis. Each of these taxi networks have comparable taxi fleets.

### **The transaction**

16. On 7 December 2007, Suburban sought bids for their business via an Information Memorandum.
17. Cabcharge submitted a binding offer to acquire all the shares of Suburban.

### **Industry background**

18. The taxi industry in Australia comprises of drivers, operators, licence owners, taxi networks, as well as suppliers of taxi-specific non-cash payment methods, non-cash payment processing systems, taxi meters and taxi licence leasing services.
19. Taxi networks are sometimes referred to as depots, co-operatives and taxi companies. Taxi networks provide most of the services that a taxi operator requires, including advertising of booking numbers, dispatch of bookings, equipment (such as safety cameras, GPS location equipment), maintenance, information and enforcement of standards.
20. There are a number of possible payment methods which a passenger could use and a taxi driver could accept to pay for the hire of a taxi, including cash, credit card, debit card, vouchers (including, amongst others, Cabcharge vouchers), a subsidy card or voucher, a Cabcharge branded card or eTicket, or a combination of the above methods.
21. In addition to the Cabcharge EFTPOS FAREWAY System, third party non-cash payment processing systems also exist. Market inquiries have indicated that taxi operators will not use third party non-cash payment processing systems in substitution to the Cabcharge EFTPOS FAREWAY system, but only in addition to it. The ACCC understands that, at present, Cabcharge will not allow third party non-cash payment processing systems to accept Cabcharge branded charge cards, dockets and eTickets.
22. State Government regulation of the taxi industry includes the issuing of taxi licences, the certification of taxi drivers, and the setting and administering of service standards and practices. Taxi networks must meet minimum performance standards including response times and service delivery standards.

23. It is an Australia-wide regulatory requirement that taxi operators are members of an accredited taxi network which provides, either directly or indirectly, taxi booking and dispatch services and communication systems.
24. Maximum taxi fares are controlled and regulated by state governments.

### **Market inquiries**

25. On 17 January 2008, the ACCC commenced market inquiries regarding the proposed acquisition. A range of interested parties provided responses, including taxi networks, taxi industry associations, as well as potential entrants for the processing of non-cash payments in the taxi industry.
26. The ACCC is now calling for certain further information from interested parties, as set out below.

### **Statement of Issues**

27. For the purposes of this Statement of Issues, the issues are divided into three categories: 'issues that are likely to raise concerns' and 'issues that may raise concerns' and 'issues unlikely to pose concerns'.
28. The ACCC is inviting information from interested parties (preferably supported by examples and supporting evidence) in relation to all issues.

### **Issues that are likely to raise concerns**

#### *Potential for the proposed acquisition to raise barriers to entry and expansion for the supply of taxi-specific non-cash payment methods*

29. Market inquiries indicated that the acquisition of taxi networks by Cabcharge raises barriers to entry and expansion for companies seeking to supply taxi-specific non-cash payment methods.
30. Taxi-specific non-cash payment methods refer to charge cards, vouchers and dockets which are accepted for the payment of taxi fares, but are not able to be used more generally for non-cash payments. Taxi-specific non-cash payment methods provide corporate and government clients with security and accountability whilst accommodating the travel requirements of employees.
31. Potential providers of alternative taxi-specific non-cash payment methods submitted that the acquisition of taxi networks by Cabcharge would reduce the proportion of independent taxi fleets with which to negotiate for the supply of a competing taxi-specific non-cash payment method to Cabcharge.
32. Market inquiries indicated that broad acceptance of a taxi-specific non-cash payment method is required in order to be an effective competitor. The ACCC understands that network effects (in the economic sense) appear to be common for taxi-specific non-cash payment methods whereby a payment method becomes more valuable the more it is offered and accepted, thus encouraging ever-increasing numbers of users.

33. The ACCC invites further information and comments about whether the proposed acquisition of Suburban will increase barriers to entry and expansion for the supply of taxi-specific non-cash payment methods.

In particular, the ACCC is seeking further comment on:

(i) Foreclosure of potential and existing competitors

- Do you consider that the acquisition of Suburban by Cabcharge will have the likely effect of foreclosing potential and existing competitors from negotiating with this taxi network for the supply of taxi-specific non-cash payment methods in Adelaide, or more generally? If so, to what extent, and why?
- In light of Cabcharge's current ownership of major taxi networks in the Sydney and Melbourne metropolitan areas, is the acquisition of Suburban by Cabcharge likely to have the effect of preventing or hindering the effectiveness, timeliness, and/or sufficiency of entry of competing taxi-specific non-cash payment methods, either in Adelaide or generally? If so, how?
- Do regulatory barriers in South Australia raise barriers to entry and expansion for suppliers of competing taxi-specific non-cash payment methods? If so, please detail.

(ii) Strategies for entry and expansion of taxi-specific non-cash payment methods

- Please outline the strategies for entry and expansion for the supply of taxi-specific non-cash payment methods. In providing comments as to entry and expansion strategies, please give specific examples of any attempted entry and supporting information, if available.
- How important is universal acceptance (ie. acceptance in all taxis) to the supply of taxi-specific non-cash payment methods?
- In order to be commercially viable does a new supplier of a taxi-specific non-cash payment method necessarily require use of the Cabcharge EFTPOS FAREWAY System? If not, what are the alternative payment options?
- Is national coverage necessary for the supply of an alternative taxi-specific non-cash payment method? Could a taxi-specific non-cash payment method be commercially viable if it was only available in taxis operating in Adelaide or alternatively South Australia?

*Potential for the proposed acquisition to raise barriers to entry and expansion for the processing of non-cash payments in the taxi industry*

34. Market inquiries indicated that the acquisition of taxi networks by Cabcharge raises barriers to entry and expansion for potential entrants seeking to process non-cash payments in the taxi industry. It has been indicated that the acquisition of taxi networks by Cabcharge reduces the proportion of independent taxi fleets with which to negotiate for processing of non-cash payments alternative to Cabcharge.
35. The ACCC understands that the processing of non-cash payments involves a separate functional level to that of the provision of non-cash payment methods to the taxi industry. The processing of non-cash payments in the taxi industry involves agreements between card issuers and merchants. Merchants in the taxi industry tend to be the organisations, such as taxi networks, that provide processing services rather than taxi drivers or operators.
36. In consideration for taxi networks making the Cabcharge EFTPOS FAREWAY System available in their taxi fleets, Cabcharge makes payments (as rebates on processing fees) to taxi networks based on the value of transactions they process through the Cabcharge EFTPOS FAREWAY System.
37. The ACCC understands that, at present, Cabcharge's taxi-specific non-cash payment methods can only be processed with Cabcharge EFTPOS FAREWAY System. Potential competitors seeking to supply non-cash payment systems to the taxi industry are therefore limited to the processing of third party charge cards or bank issued credit cards. Market inquiries indicated that Cabcharge branded charge account cards and eTickets account for approximately 60% of non-cash transactions in the taxi industry.
38. Market participants submitted that this is not a result of any technical limitation of alternative non-cash payment systems, but because there is no commercial agreement between Cabcharge and any competing providers of non-cash payment systems which allow for the acceptance of Cabcharge branded charge account cards and eTickets.
39. Market inquiries indicated that the inability of any competing non-cash payment system to accept Cabcharge's taxi-specific non-cash payment methods (ie. Cabcharge charge account cards and eTickets) has the result that potential competitors seeking to process non-cash payments in the taxi industry will not present effective competition to the Cabcharge EFTPOS FAREWAY System. As noted above, competition is generally by way of secondary non-cash payment systems in taxis (i.e. the installation of competing systems *in addition to*, not in substitution for, the Cabcharge EFTPOS FAREWAY System).
40. The ACCC notes that potential entrants may negotiate individually with taxi operators for the supply of competing non-cash payment systems to the Cabcharge EFTPOS FAREWAY System. Market inquiries indicated that negotiation with individual taxi operators is highly inefficient due to the multitude of taxi operators and the associated communications costs involved,

limiting the successful entry of potential entrants seeking to provide alternative non-cash payment systems.

41. The ACCC invites further information and comments about whether the proposed acquisition of Suburban will increase barriers to entry and expansion for the processing of non-cash payments in the taxi industry.

In particular, the ACCC is seeking further comment on:

(i) Foreclosure of potential and existing competitors

- Do you consider that the acquisition of Suburban by Cabcharge will have the likely effect of foreclosing potential and existing competitors from negotiating with this taxi network for processing of non-cash payments in the Adelaide taxi industry, or more generally? If so, to what extent, and why?
- In light of Cabcharge's current ownership of major taxi networks in the Sydney and Melbourne metropolitan areas, is the acquisition of Suburban by Cabcharge likely to have the effect of preventing or hindering the effectiveness, timeliness, and/or sufficiency of entry of potential competitors seeking to process non-cash payments in the taxi industry either in Adelaide or generally? If so, how?
- Do regulatory barriers in South Australia raise barriers to entry and expansion for potential competitors seeking to process non-cash payments in the Adelaide taxi industry? If so, please detail.

(ii) Strategies for entry and expansion of non-cash payment processing in the taxi industry

- Please outline the strategies for entry and expansion for the processing of non-cash payments in the taxi industry. In providing comments as to entry and expansion strategies, please give specific examples of any attempted entry and supporting information, if available.
- How important is acceptance of Cabcharge branded charge cards, dockets and eTickets to the processing of non-cash payments in the taxi industry?
- Is prospective entry for the processing of non-cash payments in the taxi industry attempted locally, regionally and/or nationally?

## **Issues that may raise concerns**

### *National taxi booking number services*

42. National taxi booking numbers allow the public to call a single number throughout Australia which will direct them to the local taxi network in the relevant area which has licensed the local rights to the particular number.

43. Market inquiries have indicated that taxi networks acquire the licence for national taxi booking numbers in order to attract taxi operators to their network. It has been indicated that the perceived ability of a taxi network to provide taxi bookings to a taxi operator is an important factor in attracting taxi operators to a particular taxi network.
44. The proposed acquisition would increase Cabcharge's shareholding in Taxi 131 008 Pty Ltd, the licence provider of the 13 1008 national taxi booking number.
45. Cabcharge currently has a majority shareholding of the major competing national taxi booking number, 13 2227 (13 CABS).
46. The ACCC invites further information and comments about whether the proposed acquisition of Suburban by Cabcharge will raise competition concerns in respect of an increased shareholding by Cabcharge of the national taxi booking number, 13 1008.

*Potential for the proposed acquisition to raise barriers to entry and expansion for the supply of taxi equipment to the taxi industry*

47. Market inquiries indicated that the acquisition of taxi networks by Cabcharge raises barriers to entry for potential entrants seeking to supply a variety of taxi equipment (including meters, GPS systems, cameras, etc) and ancillary services including installation to the taxi industry.
48. Cabcharge is a supplier of taxi equipment to the taxi industry.
49. Market inquiries indicated that the acquisition of taxi networks by Cabcharge reduces the proportion of independent taxi fleets with which to negotiate for the supply of competing taxi equipment.
50. The ACCC invites further information and comments about whether, and if so, the extent to which, the proposed acquisition of Suburban will increase barriers to entry and expansion for the supply of taxi equipment to the taxi industry.

In particular, the ACCC is seeking further comment on:

(i) Foreclosure of potential and existing competitors

- Do you consider that the acquisition of Suburban by Cabcharge is likely to have the likely effect of foreclosing potential and existing competitors from negotiating with this taxi network for the supply of taxi equipment to the Adelaide taxi industry, or more generally? If so, to what extent, and why?
- In light of Cabcharge's current ownership of major taxi networks in the Sydney and Melbourne metropolitan areas, is the acquisition of Suburban by Cabcharge likely to have the effect of preventing or hindering the effectiveness, timeliness and/or sufficiency of entry or expansion of competing taxi equipment suppliers? If so, how?



- Do regulatory barriers in South Australia raise barriers to entry and expansion for suppliers of competing taxi equipment? If so, please detail.
- (ii) Strategies for entry and expansion of taxi equipment suppliers
- Please outline the strategies for entry and expansion for the supply of taxi equipment. In providing comments as to entry and expansion strategies, please give specific examples of any attempted entry and supporting information, if available.
  - How important are economies of scale for the supply of taxi equipment?
  - Is prospective entry for the supply of taxi equipment attempted locally, regionally and/or nationally?

### **Issues unlikely to pose concerns**

51. Cabcharge and Suburban both also provide the following services:
- provision of taxi services to the public;
  - provision of network booking and dispatch services;
  - provision of taxi network services to taxi operators.
52. However, Cabcharge does not currently provide these services within the Adelaide metropolitan area.
53. The ACCC considers that the proposed acquisition is unlikely to raise horizontal aggregation concerns in relation to these services, on the basis that the ACCC's current view as to the geographic market in which to assess these particular services is in the Adelaide metropolitan area.

### **ACCC's future steps**

54. The ACCC will finalise its view on this matter after it considers market responses invited by this Statement of Issues.
55. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter.
56. Submissions are to be received by the ACCC no later than **12 March 2008**. The ACCC will consider the submissions received from the market and the merger parties in light of the issues identified above and will, in conjunction with information and submissions already provided by the parties, come to a final view as to the appropriate course of action to take to resolve any competition concerns that remain.

57. The ACCC intends to publicly announce its final view by **4 April 2008**. However the anticipated timeline may change in line with the *Merger Review Process Guidelines*. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.