COMPETITION IN THE CANADIAN TAXI INDUSTRY
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1. Introduction
The philosophy in favour of competition and why it is included in the anti-trust or competition legislation is stated in one opinion as follows:

“Possession of unchallenged economic power deadens initiative, discourages thrift and depresses energy; immunity from competition is a narcotic, and rivalry a stimulant to industrial progress; the spur of constant stress is necessary to counteract an inevitable disposition to let well alone.”

In less emphatic words, in the regulatory context, the Competition Bureau states “Competition should be an essential guiding principle in the design and implementation of regulations. Greater competition benefits consumers in terms of lower prices, higher quality of service, increased consumer convenience, and higher levels of innovation. … Regulatory limits on competition should be based on the best available data, be designed to address legitimate policy concerns, and be no broader than what is reasonably necessary to mitigate those concerns.”

This paper examines the taxi industry in Canada. The analysis considers the economic model of regulation, the Competition Bureau’s advocacy of competition in the taxi industry, and the competitive struggle between the regulated taxi industry and the Transportation Network Companies (TNCs).

2. The Regulated Taxi Industry in Canada
The provinces or municipalities within each province regulate the taxi industry. Taxi ‘supply’ or ‘entry’ regulation was imposed in most cities during the 1930s and 1940s (with the exception of Montreal during World War I). In some cases taxi regulation is known to predate the 20th century. For example, in Toronto fares applied to zones in 1857 and documents on Breaches of Cab Law in 1885 are known to exist. Taxi regulation takes two forms: economic and safety. The first is basically concerned with: entry/transfer; fares; and service. The second deals with vehicle and mechanical conditions, driver requirements and insurance requirements.

The impact of taxi regulation entry can be represented by the classic non-competitive cartel model. Figure 1 presents a model of the regulated model at the aggregate and the firm level. When entry into the market is closed, the quantity of taxicabs eventually falls short of this equilibrium output as the population increases. The licence owners press for rate increases that push prices higher. The individual taxicab makes an economic profit above the competitive equilibrium. This is equal to the increase in price multiplied by the reduced output, as represented by the shaded rectangle formed between the points of the higher prices on the demand curve and the firm’s total cost curve. It is this profit that becomes capitalized into the value of the licence. Based on the discount rates of new entrants and their expectations of change in the regulatory system, a market for the exchange of taxi licences is created.

Although the taxi industry exhibits constant economies of scale in production, there are some network economies in the dispatch of services. As a result, a few larger firms, or cooperatives, tend to form within

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the regulated taxi industry. The industry in the major cities in Canada is dominated by a few major taxi companies. The major companies and share of total cabs in each city are:

- Beck Taxi, Co-op cabs, Royal Taxi and Diamond Taxi in Toronto (3550/4849)
- Blue line Taxi and Capital in Ottawa (640/1001)
- Unicity Taxi and Duffy’s Taxi in Winnipeg (372/410)
- United Cabs, Blueline Tax and Prestige Car Service in Saskatoon (115/160 in 2005)
- Premiere Taxi, Discount Taxi, Co-op Taxi and Capital Cabs in Regina (86/120 in 2005)
- Casino Taxi with 260 GPS and Yellow cab with 250 in Halifax (85% of market)
- Yellow Cab and associates and Alberta Co-op Taxi in Edmonton (800 + cabs/1319 – Feb 2016)
- Checker Group in Calgary and two others (751/1411 – Dec 2016)
- Co-op, Taxi Union, NIC Taxi Inc., Taxi Hochelaga, etc. in Montreal (NA/3935)
- Yellow Cab (249), Black Top & Checker Cabs (230 cabs) in Vancouver (79% of market)

The theory on competitive markets shows that closed entry brings with it a number of undesirable results: higher prices from a decrease in supply of taxicabs; greater inefficiencies or loss in consumer welfare; a worse allocation of resources (prices are further from marginal costs); and a worse service from a decrease in the supply of taxicabs. In addition, the costs of entry into the industry are increased for new entrants (supply curve or marginal costs or average total costs are pushed upward) due to capital costs of the licence and these costs are ultimately transmitted to the consumer in the form of higher prices. It is for these reasons that the removal of economic regulation of entry is advocated.

3. The Competition Bureau’s Views on Permitting Competition in the Taxi Industry

The competition law (Competition Act), a law of general application applies to the taxi industry even though it is regulated. “The basic purpose of the legislation has been stated in the Supreme Court of Canada as being "for the protection of the public interest in free competition". In this statute Parliament has embodied what has been described as the competition policy of Canada. By enacting this legislation Parliament has assumed the continuation in Canada of a free private enterprise economy, actuated by the profit motive and governed by a competitive market.” There is a long history indicating that the Competition Act applies to the taxi industry: 1. In 1977, taxi services in Chatham, NB were convicted under the criminal conspiracy provisions; 2. In 1979, the Taxi Royal Radio S.O.S. (Enr’g) of Granby, Quebec was charged under the misleading advertising provisions (later acquitted); In 1986, taxis in Vancouver were charged under the bid-rigging provision (later acquitted); In 1996, taxis in Ottawa were charged under the conspiracy, monopoly and related price maintenance provisions (later acquitted).
In 1998, an inquiry was commenced under the conspiracy provision to restrict licences (discontinued in 2001). The relationship between competition policy and economic regulation is governed by a doctrine known as the regulated conduct defence. This doctrine provides a legal defence to individuals or corporations for conduct which would otherwise be a criminal violation of the Competition Act when the conduct is subject to valid federal or provincial regulatory authority. In 1976, the Combines Investigation Act (now the Competition Act) was amended and a section was added that permitted the Director of the Combines Investigation Act now the Commissioner of the Competition Act to make interventions in respect of competition. Since then, a few interventions or submissions were made advocating competition in the taxi industry. The Competition Bureau’s views in the taxi industry are described hereafter.

A. Submission by the Commissioner of Competition Provided to the City of Toronto Taxicab Industry Review

The February 18, 2014, submission recommended that the City of Toronto’s regulatory framework for taxi services facilitate new forms of competition that are likely to benefit consumers. In particular, it recommended that consideration be given to increasing the number of taxicab licences issued and amending regulations that would allow the use of new cost-saving software applications designed to arrange and pay for passenger motor vehicle transportation services (“applications”). First, it reviewed the Toronto taxi marketplace reiterating some of the Toronto’s 2013 findings, namely – increased taxi plate values reflecting expectation of higher profits, the higher fares in North America, and the longer wait times for a taxi than other cities. It indicates that restricting taxi numbers unnecessarily limits competition and harms consumers by making taxis less available. This leads to welfare loss and places an undue burden on certain segments of the population that rely on its services.

Second, the Bureau disputes concerns of oversupply, if entry restrictions are relaxed based on evidence of other jurisdictions. It suggests that consideration be given to increasing the number of additional taxi licences issued in the City of Toronto by 7-31%. If done, this is expected to lead to a drop in prices for taxi licences and excess profits associated with scarce licences.

Third, new technologies are emerging, such as including point-of-sale terminals and software applications to request taxi services that can have both positive and negative implications. Finally, the Bureau recommended that any regulations applied to new service methods and technologies in the taxi industry be designed to allow entry and competition. It goes on to stress that consumers and taxi operators benefit from competition and regulations should be limited to what is needed to protect the public and taxi operators from harm. Therefore, unwarranted restrictions on competition should be avoided, and any restrictions on competition that are implemented should be no broader than reasonably necessary to address legitimate subjects of regulation.

B. Taxi industry’s emerging digital dispatch services

On November 25, 2014, the Bureau provided its views on emerging digital services. These services offer an innovative and convenient alternative to traditional methods of arranging urban transportation, such as hailing a taxicab on the street or phoning a traditional dispatcher. This is convenient for consumers. In addition, many of the new emerging software applications offer additional features, including payment options and Global Positioning System technology to allow consumers to identify nearby available vehicles and tailor their requests accordingly. The Competition Bureau expressed the view that these innovative business models have the potential to offer important benefits to consumers through more competition, including lower prices, greater convenience and better service quality. While concerns have been expressed with these services, the Bureau believes that municipalities should consider whether
prohibitions on digital dispatch services and ridesharing applications are necessary and explore whether less restrictive regulations could adequately address their concerns.39

C. Modernizing Regulation in the Canadian taxi industry

On November 26, 2015, the Bureau released a document providing its views on modernizing regulation in this industry. The document draws attention to the growing unrest in the taxi industry threatened by stringent regulations, new ride-sharing services and maligned taxi operators, leaving regulators trapped between maintaining their existing systems, which severely restrict competition, demands of consumers who want low prices and innovative new services and calls from taxi drivers to prevent the new unregulated upstarts. If old ways cannot bring about a solution, the way forward is to embrace change. Regulations should be relaxed and be no more intrusive than necessary, so that competitive forces can influence how the industry evolves and innovates.

The first section of the document describes Canada’s taxi industry. It indicates that municipalities regulate the industry encompassing: economic (fares and entry), safety & insurance and standards of service. By controlling entry (through the issuance of plates) which has rarely kept pace with demand, these plates have soared in value resulting in rents to their owners and a vehicle for investment purposes (by taxi drivers and other parties). This often results in fewer service providers, higher prices and poorer quality of service. Over time, regulations have been enacted to address some of these difficulties. Recently, new technology has permitted the development of innovative platforms and software applications that enable ride-sharing by their users. Providers of these services (known as TNCs) have become an emerging and important development. Entry by the TNCs provides a meaningful source of competition to traditional taxi operators that provide considerable benefits to consumers, such as: 1. Price; 2. Availability and waiting times; 3. Convenience; and 4. Quality of service. Evidence or argument for these benefits is given. In response, traditional taxi companies are developing their own software applications and have worked to improve quality of service. It is also reported that plate values have fallen.

The second section examines the regulatory responses to TNCs. There have been several responses: 1. Regulations to prevent operation of TNCs (seizure of vehicles, charges against drivers, etc.). 2. Regulations to allow the operation of TNCs (generally fewer than those required by taxi operators but they also enjoy fewer privileges). The third section examines principles for regulating transportation services. The Bureau does not advocate blanket prohibitions to new forms of competition by TNCs because these prohibitions would limit the benefits of innovation to consumers. While new entry can raise regulatory concerns –safety, insurance, impact on existing operators – a lighter approach to regulation may be more applicable. Regulations should be made and tested using empirical evidence wherever possible to test their efficacy and intended effect. Sunset clauses may help in determining if these regulations continue to serve their desired purpose and less intrusive ones should be designed.

The fourth section examines overregulation of TNCs and taxis. The Bureau urges regulators to take a less intrusive and more balanced approach when designing and implementing regulations for transportation services. In regulations pertaining to, public safety and consumer protection; quality of service; licensing and training; limits on street hails or use of taxi stands; price controls; entry restrictions; and accessibility, it describes where regulations between TNCs and taxis can be balanced and where unneeded or less intrusive regulations can be made. The Bureau advocates allowing all industry participants to set their fares independently in a more flexible manner together with removing entry restrictions (i.e. by transitioning from “closed entry” systems, characterized by strict limits on the number of taxi plates, to an “open entry” system). The final section concludes by indicating that competition should be an essential guiding principle in the design and implementation of regulations. Greater competition benefits consumers in terms of lower prices, higher quality of service, increased consumer convenience, and higher levels of innovation.40
4. The Competitive Struggle

While good reasons may exist to advocate competition, it rarely comes without a fight. History provides ample evidence that entry by new competitors is not received with open arms and this also holds true for the taxi industry. The initial attempt by TNCs to enter the market both in Canada and other parts of the world is met with strenuous opposition. Some Canadian cities such as Vancouver and countries elsewhere in the world have enacted regulations or taken legal action to explicitly prevent the operation of TNCs.

Often the TNCs have been treated as unlicensed “bandit” taxis and legal action was taken against them. The City of Montreal reportedly seized almost 200 private vehicles since the beginning of 2015 for allegedly engaging in illegal ride-sharing. The City of Ottawa laid 234 charges against unlicensed drivers believed to be working for Uber between October 2014 and May 2016. The City of Toronto laid 208 charges against 104 UberX drivers between 2012 and 2015. Apart from the legal action, the fights between the upstarts and the established carriers were relentless and brutal. Nevertheless, the TNCs continued to operate often arguing that their service was not covered under the taxi regulations. The struggle in some of the major Canadian cities is documented hereafter.

Toronto: The first TNCs were reported to have begun service in 2012 (Uber – August 31, 2012 and Hailo – September 26, 2012). On October 14, 2014 Hailo indicated that it would close its North American operations—including Toronto. The following headlines provide ample evidence of their struggle: Liberal MPP John Fraser introduced an anti-Uber bill today, December 3, 2014, www.ottawacitizen.ca; TTA (Toronto Taxi Alliance) Thanks John Fraser For Anti-Uber Bill, www.taxialliance.ca; Tip line to report Uber drivers to the Insurance Bureau of Canada, Toronto Taxi Business, www.taxialliance.com; TTA thanks Justice Dunphy at close of Uber court hearing, June 3, 2015, Toronto Taxi Business; In the Uber vs. taxi industry mud-slinging, everyone looks dirty, June 4, 2015, www.canadianbusiness.com; Taxi industry to City, police: enforce the law, July 2, 2015, Toronto Taxi Business; CDN$400M Class Action Commenced Against Uber X and Uber XL on Behalf of all Taxicab and Limousine Drivers, Owners and Brokers Licensed in Ontario, July 23, 2015, www.marketwired.com; Toronto Cabbies go on Hunger strike against Uber, December 1, 2015, www.vicenews.com; Toronto cab drivers gather for Uber protest in Ottawa, February 2, 2016, www.citynew.com; The Uber controversy reveals the rottenness of the taxi industry, January 5, 2016, www.marxist.com; etc. The last article states “There is now an ongoing war of taxi drivers and cab companies against Uber. We’ve seen demonstrations, road blockages, intimidation and violence.”

Montreal: TNCs (Hailo and Uber) were reported to have begun service towards the end of 2013. Uber began service on October 18, 2013. The entry of Uber has been described as the “Uber War”. Opposition to its entry can be seen in the following media reports: UberX illegal, says Montreal Mayor Denis Coderre, October 29, 2014, www.cbcnews.ca; Montreal is at war with Uber: which side will surrender, May 22, 2015, www.canadianbusiness.com; Taxi drivers in Montreal descend on airport to protest against Uber, February 10, 2016, www.news1130.com; Uber faces injunction in Montreal, February 15, 2016, www.mcgilldaily.com; “This is our first friendly warning’: Montreal taxi drivers egg Uber cars and offices”, February 18, 2016, www.nationalpost.ca; Quebec Uber drivers have cars seized, fine up to $7,500, September 15, 2016, www.ctvnews.ca; Montreal Taxi Industry fails to shut down Uber, October 4, 2016, www.brockpress.com; “Angry” Taxi drivers block Montreal streets over Uber deal, October 5, 2016, www.cbcnews.ca. The question of TNCs entry into Quebec has not yet been resolved though the Quebec government has allowed Uber into the market on a one-year pilot program.

Vancouver: TNCs were reported to have begun service on September 12, 2012. On November 22, 2012, Uber announced it was exiting the "Secret Uber" stage in Vancouver to comply with provincial regulations after a meeting with their regulatory body. In November 2014, the Vancouver Taxi

**Ottawa:** TNCs were reported to have first begun service begun service in October 2014. The opposition to Uber was more violent. This can be seen in the some of the media reports noted hereafter: Uber driver beaten unconscious in Ottawa, 2 suspects charged, June 24, 2015, www.canadianpress.ca; Ottawa Taxi baron leads national effort against Uber ridesharing, July 11, 2015, www.starphoenix.com; Video shows cabbie harassing Uber customer at Ottawa train station, September 4, 2015, www.thetorontosun.com; Taxi drivers launch $215 million lawsuit against City of Ottawa weeks before Uber becomes legal, August 13, 2016, www.nationalpost.ca; and Uber battle with Toronto, Ottawa taxi industry to ramp up, March 10, 2017, www.bnn.ca. Even after the City passed regulations to permit the entry of TNCs the Taxi industry is still challenging the City.

**Edmonton:** TNCs were reported to have first begun service on December 18, 2014. Uber stopped service at the end of February 2016 and resumed service on July 1, 2016, after the Province decided on an insurance product. The opposition to Uber entering the market can be seen in the following newspaper clippings: Edmonton taxi drivers protest Uber app downtown, January 14, 2015, www.calgarysun.ca; Edmonton cabbies urge city to crack down on Uber, January 14, 2015, www.GlobalNews.ca; Edmonton cabbies took off their shirts and demanded pizza at a protest over Uber. But they also had a point, September 23, 2015, www.CalgaryHerald.com; About 70 Uber drivers charged in Edmonton undercover sting, December 2015, www.edmontonjournal.com; and Police break up Edmonton debate over Uber, January 27, 2016, www.insurancebusiness.com. A Journal columnist writer indicated those statistics (i.e. the 135 complaints against taxi drivers in 2014, besides the 336 made in 2015) are a perfect example of the growing frustration against a "broken, non-competitive business model" that has resulted in poor service

**Calgary:** TNCs were reported to have first begun service begun service in mid October 2015. On November 20, 2015, the City filed an injunction against Uber to cease operations (and Uber agreed). In February 2016, the City approved a new by-law permitting Uber to operate but Uber said it could not begin operations under the new by-law as the conditions were too onerous. It later began operations for the second time on December 6, 2016. The following news headlines provide ample evidence of its struggle. Uber hits Calgary streets despite City’s warnings, October 15, 2015, www.discoverairdrie.com; Covert crackdown on Uber drivers underway, violations being processed, says Calgary officials, October 30, 2015, www.calgaryherald.ca; and Calgary Uber drivers plead guilty, fined after 2015 city hall sting, April 28, 2017, www.calgaryherald.ca. The last clipping indicates that thirty-four Uber drivers pleaded guilty to operating without the appropriate licensing and were fined $1,500 each, nearly two years after they were caught via a covert sting operation launched by city hall.
**Saskatoon:** TNCs are not permitted under the present provincial taxi regulations of Saskatchewan. Even before TNCs like Uber have begun operating the opposition to it entering can be seen in the following newspaper clippings: Saskatoon’s United Cabs raises concerns about Uber rides, May 12, 2015, [www.cbcnews.ca](http://www.cbcnews.ca); Saskatoon city council will lobby province to have Uber regulated, September 14, 2015, [www.globalnews.ca](http://www.globalnews.ca); and City council to step up as province declines to regulate Uber, March 8, 2016, [www.ckom.com](http://www.ckom.com)

**Winnipeg:** Long before the TNCs entered the Winnipeg market the two established taxis began their opposition to Uber’s potential entry. This is seen in the following media reports: Taxis take aim at Uber, September 24, 2015, [www.winnipegsun.ca](http://www.winnipegsun.ca); and Winnipeg Taxis drivers step up fight against Uber, January 19, 2016, Economy and Business, [www.communitynewscommons.org](http://www.communitynewscommons.org). It can be seen from the following quote that the two established carriers went as far as combining to prevent the TNCs’ entry

> “Duffy’s Taxi and Unicity Taxi formed the Winnipeg Taxi Alliance to fight Uber’s potential incursion into the Winnipeg market. Uber’s application to operate in Winnipeg is currently before the provincial Taxicab Board.” February 5, 2016, [www.rankandfile.ca/2016/02/05/uber-not-the-answer-to-winnipeg-transport-woes](http://www.rankandfile.ca/2016/02/05/uber-not-the-answer-to-winnipeg-transport-woes)

The above citations provide ample evidence of TNCs struggle to enter into the market, a struggle that became a war of ideology, words, intimidation, demonstrations, road blockages and violence. Apart from the established taxi industry, the TNCs have had to deal with the established regulatory authorities which experience indicates tends to inertia. They tend to give consumers what they think consumers should have not what consumers want, they have sought to extend their regulatory powers, they have sought to entrench their powers and they have sought to entrench their powers and they have sought to impede or retard the introduction and adoption of innovations.

### 5. A New Competitive Paradigm

The TNCs are gaining success in their competitive struggle against the Taxi industry. The success to-date of TNCs to legally enter the market in Canada in the major cities is shown in the following Table 1. In the major cities surveyed in this table, the TNCs are either allowed, or expected to be allowed. In the US, as of 2014 TNCs are allowed to legally operate in 10 US States, today TNC regulations exist in all States, except 1 (Oregon). In other parts of the world the struggle continues.

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<th>Canadian City</th>
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<td>Entry Controlled</td>
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As a “gale of creative destruction”, competition is a force that maximizes consumer welfare, brings about innovative products and creates a more optimal system of distribution in the form of lower prices. The odds are that the TNCs will ultimately succeed in their competitive struggle. Apart from theory, the public has embraced and demanded these new forms of service because they offer better and more convenient service at competitive prices. The advent of the TNCs is a function of advances in communications technology. Just as the newspapers and the “bricks and mortar” retailers are being confronted with a new competitive paradigm, the competition of the TNCs is forcing adjustment in the taxi industry. In the case of the regulated taxi industry, the effect is to lower the capitalized value of the taxi licences.
threat of the TNCs entering the market can depress the values of the taxi licenses. Figure 2 presents the taxi licence exchanges in Winnipeg leading up to the entry of the TNCs on March 1, 2018. Concerns had been growing prior to the policy announcement in March 2017, had shaved-off a third of the values seen in 2014, but subsequently taxi licence values have fallen by half.

Figure 2 Exchange values of Full Taxi Licences in Winnipeg, January 2014-February 2018

6. Conclusion
The regulated taxi markets in Canada do not create rights for taxi operators to ‘collude’ and exclude others from entering the market. As Judge Posner eloquently stated in a taxi cartel case in the US “When new technologies or new business methods appear, a common result is the decline or even disappearance of the old. Were the old deemed to have a constitutional right to preclude the entry of the new into the markets of the old, economic progress might grind to a halt. Instead of taxis we might have horse and buggies; instead of the telephone, the telegraph; instead of computers, slide rules. [It would also mean that] obsolescence would mean entitlement.”

The main beneficiaries of entry regulations to restrict competition have been the taxicab licence owners. They are now the ones to feel the pain when the system that created this artificial gain is swept away by technological progress that creates a competitive environment.

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2 (Caution – the numbers appeared on the website and keep changing) It is interesting to note that one article described the taxi industries in the major cities as monopolies.
5 Annual Report, Director of Combines Investigation and Research, Competition Act, 1979, p. 3.
7 Annual Report, Director of Combines Investigation and Research, Competition Act, 1985, p. 36.
9 For the regulated conduct defence to apply in the criminal context four conditions must apply. First, the relevant regulatory legislation must be validly enacted (i.e., must be intra vires the responsible legislature). Second, the activity or conduct in question must not only fall within the scope of the regulatory legislation, but must be specifically authorized by the relevant body. Third, the regulator’s authority must be exercised for the defence to be applicable, mere passive acquiescence or tacit approval will not suffice to displace the application of competition law. Fourth, before the defence will apply, a court must be satisfied that the activity that has raised concern will not frustrate the exercise of authority by the regulatory body.
10 Submission by the Commissioner of Competition Provided to the City of Toronto Taxicab Industry Review, February 18, 2014, www.competitionbureau.gc.ca
12 Modernizing Regulation in the Canadian taxi industry, November 26, 2015, www.competitionbureau.gc.ca
14 Court Upholds Freedom and the Fifth Amend. in Taxi Cartel Case, Adelman, 10/10/2016, www.thenewamerican.com