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Don Cayo: Vancouver confronts the Uber dilemma

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By Don Cayo, Vancouver Sun columnist

The on-demand car service company Uber is shaking up the taxi markets around the world.
Photographed by:
QUIQUE GARCIA, AFP/Getty Images

VANCOUVER — Industry insiders are grumbling that the value of Vancouver taxi licences is being eroded by Uber-riding fear — the mere prospect of competition from the $40-billion, app-based cab company that is breaking taxi monopolies around the world.

In newspaper reports this week, Carolyn Bauer of the Vancouver Taxi Association noted the trading price for taxi licences, estimated by industry analysts to be about $800,000, has plunged, although she wouldn't say to what level.

Even before this claim was made, however, questions were being asked about compensation for licence-holders who will lose their near-monopoly if the tight restriction on the number of taxis allowed to operate in the city is loosened.

My Vancouver Sun colleague Peter O'Neil noted in an insightful story last fall that the legal issues are far from clear. The Organization for Economic Cooperation and Development, he reported, finds no precedent in the economies it analyzes for compensating licence-holders when an industry is deregulated.

SFU marketing professor Lindsay Meredith doesn't see it that way. He fears the licence-holders will cite — and the courts may accept — a costly precedent set in the 1990s when Ottawa decided to pay market prices to buy out commercial salmon-fishing licences.

Certainly the players who dominate their industry both here and in other cities are not averse to using the courts to maintain their lucrative exclusivity. For example, taxi licence-holders in Chicago and Boston are suing their city halls for compensation on the grounds that allowing Uber to operate has undermined the value of their licences. Here, Vancouver cab companies have gone to court both to block a bid by 38 suburban taxi cabs to compete for weekend business, and to attempt to forestall Uber's entry into the market.

And certainly if the fishing-licence precedent were to be followed, it would cost a lot. The 588 taxi licences in the city, each worth $800,000 if the published estimates are confirmed, would add up to almost $500 million — although they would no doubt retain some value, so a settlement could be prorated.

I won't try to second-guess what the courts might decide. But the case could be made — and, judging from the comments on the Internet whenever the subject is written about, I think a lot of Vancouverites would agree — that licence-holders who suddenly have to compete to stay in business don't deserve anything at all.

For one thing, all the city or the province ever got out of it is a few hundred dollars a year for cab licences — it's the fact that such limited numbers of licences are granted that has allowed the owners to spin them into six-figure assets. Meanwhile, taxis have been able to charge a premium — to gouge passengers, many would say — so they have already extracted full value from their licences.

Meredith doesn't dismiss this argument, but he says the taxi industry would be sure to counter with sob stories. They would no doubt showcase in the media hard-luck cases such as widows living solely on the returns from leasing the licence left to them by their late husbands, or young family men up to their ears in debt to pay for a licence that lets them put bread on the table.

To be sure, there are fairness issues at stake — both fairness for cab customers, who are disproportionately old or poor or disabled, and for workers in the industry whose livelihoods may be undercut if the rules suddenly change.

Fairness for passengers implies — nay, demands — allowing competition to get rid of inflated capital costs and monopoly pricing.

Fairness for licence-holders might involve a more nuanced kind of solution like one suggested by the Conference Board of Canada to compensate dairy and poultry farmers if/when the plug is pulled on their supply management sinecures. It's to treat licences like any other business asset — something that depreciates over time as value is extracted from it. In other words, pay compensation amounting to what the Conference Board calls book value — the price paid, less reasonable depreciation over the time period the asset was held.

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