

UBERISATION: A New Business Model Based on Ride Sharing: A Critical Review of Competition vs. Local Regulation

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Introduction: The sharing economy, indeed it is not about sharing at all!

- The rise of the sharing economy has been rapid and transformative.
- It has changed the way we commute, shop, go on holiday, and borrow. Sharing has become mainstream. What happened?
- It has also disrupted long-established industries, from taxis to hotels
- It has confused the mind-sets of policymakers whether or not or how to regulate these new markets.
- There is no unique definition of the sharing economy. There are many names given to those start-ups like Uber, Airbnb, Lyft et al.
- And above all, the sharing economy isn't really a sharing economy at all; it is an "access economy".
- **REACTION: Incumbents firms** in the taxi, hotel, and other industries as well as consumer protection, labour and neighbourhood activists have **pushed for regulations stifling or banning** new sharing economy entrants.

No universally accepted definition of the sharing economy

- Sharing economy?
- Collaborative economy?
- Matchmakers?
- Peer-to-peer economy?
- Peer production economy?
- Two-sided platforms?
- Whatever the name or definition is the rationale behind these start-ups is that they connect one group of customers (demand) with another group of customers (service/goods providers; supply).
- Matchmakers are called multisided platforms; they provide physical/virtual platforms for multiple groups to make commercial activities.
- Consumers are paying to Access someone else's goods or services for a certain time.

The most famous sharing economy start-ups are Uber and Airbnb

- Uber is a marketplace connecting drivers offering rides and passengers seeking them through its mobile application. The service is meant to allow private drivers to transport ppl in their cars.
- A potential passenger who has downloaded the software on his smartphone and set up a user account can, when clicking on the application, see Uber drivers near his location and on that basis submit a trip request which is then routed to the drivers.
- The passenger is given an estimation on how long his car will take to show up at his location.
- Uber charges are based on a combination of time and distance parameters and all payments are handled automatically by the Uber service, which will charge the passenger's business card on file.
- Once destination is reached, a receipt is sent automatically to the passenger's email address.
- On average 80% of the fares will go to the driver, the rest being kept by Uber

The advantages of Uber and Lyft

- Like other sharing economy companies, Uber and Lyft considerably reduces search costs for drivers and passengers.
- **No fixed price!** When available cars are scarce (e.g., Friday and Saturday nights), Uber incentivizes drivers to take the road by increasing their fees (a process referred to as “dynamic” or “surge” pricing).
- **No cash! No credit cards!** All you need is a smartphone.
- Prices increase will at same time increase supply as drivers will be incentivized to take the road to earn higher fees, but also reduce demand as price-sensitive users are incentivized to consider alternatives, such as take their car or public means of transport.
- **Uber, Lyft does not directly employ its drivers.**
- **No taxi license payment.** It costs €230,000 for a taxi license in Paris, €430,000 in Nice, A\$500,000 in Melbourne, US\$600,000 in New York, €120,000 in Rome .
- Passengers can rate drivers, which gives them an incentive to perform. Below 4.4 out of 5 stops working. **Drivers also rate customers!**
- **The downside: no hailing or queueing on the streets**

UBER: "Better, faster, and cheaper than a taxi"



LYFT: "We're your friend with a car"



UBER & LYFT: San-Francisco-born companies

- Uber is a global company. As of August 2016, 66 countries, more than 507 cities mainly in the U.S.
- First Uber permanent water taxi (UberBoat) launched in Istanbul (previously seasonal attempts in Boston and Stockholm)
- UberX (low-cost) or UberPop : non-professional (amateur) drivers
- Uber Taxi (regular service)
- Uber Black (Stylish)
- UberSUV (6 ppl)
- Uber Lux (luxurious)
- Uber Boat (Istanbul and Bodrum)
- Lyft runs only in the U.S.A.
- As of August 2016, Lyft runs around 200 U.S. cities.
- Lyft offers three classes of service, and all of their drivers are ordinary people trying to make some extra money, not professional drivers.
- Original Lyft cars can hold up to four passengers. Lyft Plus uses larger vehicles that seat up to six passengers. Lyft Line is a ridesharing service currently only available in New York, Los Angeles, and San Francisco.

Key Differences Between Uber and Lyft

- Because of the **pink fury** mustaches and the lack of upscale vehicles and professional drivers, Lyft will probably be too casual if you need a ride to a fancy event or are traveling for business.
- Another key difference between the two companies' cultures is that Lyft passengers are encouraged to sit in the front seat and engage in conversation, while Uber operates more like a traditional taxi service, where passengers sit in the back seat and mind their own business
- Uber drivers are a combination of professional drivers and non-professionals who have passed driving record and background checks.
- Lyft cars must be no older than model year 2000;
- Uber cars tend to be newer than this

Other Car/Ride sharing companies

- Zip Car (now part of Avis): is an asset-hub; the firm owns a large vehicle fleet which it loans to drivers on a per-hour basis. The system is based on a yearly enrolment payment. A card allows you to unlock the car, the key is inside the car.,
- Car2Go: another asset-hub. Car-sharing company (owned by Daimler Chrysler): a one-way car rental does not require returning to its initial parking space. Smart cars
- Hertz: offers short term car rentals in a challenge to ZipCar
- Ridesharing firms: Uber, Lyft

Car2Go



ZipCar



BlaBla Car: sharing the cost of the journey



- BlaBlaCar connects drivers and passengers willing to travel together between cities and share the cost of the journey. BlaBlaCar has more than 25 million members across 22 countries. It is a French firm.
- Members must register and create a personal online profile, which includes ratings and reviews by other members, social network verification, and rate of response.
- Profiles of members show how much experience they have of the service, meaning those with more – known as "ambassadors" – attract more ride shares and, importantly, each user's profile includes a "BlaBla" measurement, which indicates how much they are willing to chat during a trip

Is Uber (or Lyft) bad news for taxi drivers?

Average monthly number of trips per cab (San Francisco)



Taxis and Accessible Services Division report by SF Municipal Transportation Agency, 2014

Why and how have ride-sharing companies become so popular?

The rapid growth of the Internet and smartphones paved the way to platforms. The scarcity of taxis, quality and high prices, inconvenient methods of reserving a service

They gave an opportunity to use others' cars

- They bring together drivers and customers easily over Internet (smartphone)
- They lower the cost of searching, making commerce; they cut transaction costs and are available without booking in advance
- By making reviews of past customers available, they diminish the problem of asymmetric information between customers and producers
- As a result, they improve consumer welfare by offering new innovations, more service differentiation, better prices, higher-quality services

Anti-Uber protests –Toronto, Canada Sept. 2015

Uber protesters in yellow shirts listen to city council debate over new taxi regulations in Toronto, Canada, on September 30, 2015. Toronto City council is set to vote on changes to taxi regulations that could regulate Uber



Anti-Uber protests –Sao Paulo, Brazil, on September 9, 2015



Anti-Uber protests –central Brussels, Belgium, on September 16, 2015;
Taxi drivers from all over Europe line a street during a protest against
online ride-sharing company Uber



Anti-Uber protests -Taxi drivers block roads in central London during an anti-Uber protest on September 16, 2015



Anti-Uber protests -Taxi drivers protest against Uber in Rome on September 10, 2015



Anti-Uber protests - Jakarta, Indonesia, March 2016



Anti-Uber protests - San Jose, Costa Rica - August 2016



Anti-Uber protests – Paris June 2015



- Taxi drivers blocked roads, burned tires and attacked drivers who they thought were working for Uber; that disrupted Paris and slowed traffic to a crawl.
- “We are against the government, If Uber is doing some **economic terrorism**, the government has to react.”
- In France, UberPop is illegal. Other Uber services are permitted under strict conditions, and the company is contesting the constitutionality of parts of the law limiting UberPop.

Anti-Uber protests – Paris June 2015



- Rocker Courtney Love (the widow of the Nirvana frontman Kurt Cobain) got caught in the violent anti-Uber taxi protests at the airport. She and her driver were held hostage on her way from the airport until she was rescued by passing motorcyclists.
- Love wrote on Twitter protesters were whacking vehicles with metal bats. “ambushed our car and are holding our driver hostage,” “Is this France? I’m safer in Baghdad.” “François Hollande where are the f..police??? is it legal for your people to attack visitors?”

Anti-Uber protests- Torino

In February, 2016 over 2,000 taxi drivers converged in Turin for a protest against the mobile app. Taxi drivers from Genoa, Milan, Rome and Naples have joined the march, which kicked off at Piazza Arbarello, where the city's council is based, before heading to the headquarters of Italy's transport regulator in Lingotto



The roots of the tension between old industries (incumbents) and new innovative companies

- New platforms simply ignore legal requirements; claiming that they offer an alternative, cheaper, superior service
- Old regulations designed for old type of industries.
- Taxi industry is a classical example of a heavily-regulated old-style market. Uber-type firms are technologically loaded companies. But are they taxi firms? Uber defends itself as being a platform, an intermediary between drivers and consumers....it says it is not a taxi company. thus, taxi regulations (commercial insurance, tax, safety checks, price and route limitations, limitations on the number of cars etc.) should not apply to it.
- Taxi companies claim Uber is a taxi company, it engages in unfair competition

Uber - Germany

- March 2015, German court banned Uber using **unlicensed** cab drivers and it set stiff fines for violations of **each** local transport by online taxi firm.
- Each violation of the German court order covering violations of local passenger transport licensing laws by Uber and its UberPOP online service will be subject to a 250,000 Euro (\$264,825) fine
- The case was, of course, brought in the regional court by German taxi operator Taxi Deutschland against UberPop.
- In May, launched a new service, UberX, uses drivers who have obtained a special license for commercial passenger transportation. UberX drivers will also return to their company's headquarters after each trip, a requirement for chauffeur services
- the requirement to return to their home base after each trip means they will have to drive additional distances while at the same time getting lower fares due to the low price of the service
- June 2016, Frankfurt court upheld Germany's ban on UberPop. Berlin also banned the running of Uber in April. **UberPop banned in Germany nationwide.**
- The only German cities in which Uber operates are Berlin and Munich

Uber - Belgium

- Uber is banned in Belgium, but operating under the alternative name UberPop, continues to offer residents of Brussels a cheaper alternative to traditional taxis.
- (May 2015) An **Uber driver** in Belgium was **found guilty of breaking taxi laws**, in the first case to land in a Brussels court. The driver was shown leniency with an unspecified suspended sentence, but **his car, was confiscated**.
- **Uber drivers would be liable for tax on their earnings but would be free to operate so long as it was not their main job.**
- Uber filed official complaints with the European Commission against France and Spain, where its ride-sharing service is banned. Uber said efforts by national governments to shut it down breached EU laws on competition and the single market. Several departments in **the Commission are now working together in examining the complaints as they struggle to decide whether Uber is a tech or transport company.**
- As of August 2016, UberPop is banned in Belgium

Uber – France (distortion of competition)

- Regulatory change 2009, made registration of private car service companies easier; gave rise to the spread of Uber.
- February 2013, French government prohibited the display of any distinctive taxi signs of taxi-alikes, imposed stricter qualification and ‘honourability’ requirements for their drivers. Criminal sanctions were instituted for illegal hail and ride
- November 2013 a decree was drafted to introduce a **mandatory 15-minute waiting period between the reservation of a taxi and the effective use of the car by the passenger.**
- Prior to the adopting of the decree, the government nevertheless sought the opinion of the French Competition Authority.
- (December 2013) The non-binding opinion of the FCA was negative. The 15-minute delay imposed on Uber between the time of booking and the picking up of the customer is discriminatory since traditional taxis are not subject to such a constraint. Constitutes a distortion of competition hampering the development of a very dynamic new market.
- FCA pointed out Uber actually had a more flexible price-setting model which allowed them to compete aggressively. Tax, tariffs on the other hand are regulated. They cannot adjust to the demand.

Uber- France

- Uber Executives Detained by Police in Paris, June 2015
- The two Uber executives are being questioned for alleged violations of a new transportation law in France that bans operating a service like Uber's low-cost offering, UberPop, which matches passengers with drivers who don't have professional licenses, prosecutors said. The new law makes operating such a system punishable with a fine of as much as €300,000 (\$334,971) and two years in prison
- June 2016, Paris court ordered Uber to pay € 400,000 with the other half of the fine suspended. The court also found 2 executives of Uber, France guilty of deceptive commercial practices; illegal transportation services, violating privacy laws.
- UberPop has not been running in France.

Uber – France (distortion of competition)

- FCA's solution: 1- to introduce more flexibility in taxi pricing, particularly for advance booking, in order to allow traditional licensed cabs to compete more efficiently with online-enabled cars.
- 2- Either to abandon the new 15-minute rule or to redesign the exceptions in a way that covers booking requests from customers who have already subscribed to the services of the online-enabled cars.
- 3- To create a statistical tool for monitoring and surveying taxi business in order to measure the supply and demand of taxis, to document more seriously impact studies advocating changes to the profession's rules.
- Despite the opinion, the decree was adopted. And as expected, online-enabled car companies reached out to the supreme administrative court (Conseil d'Etat) requesting interim measures at suspending the decree's implementation.
- Conseil d'Etat had an interim order: the protection of the lawful exercise of the taxi profession does not justify the administrative police (i.e. regulatory) measure introduced by the decree. The fact that a vehicle may simply accept, while in the public domain, a booking by phone or through the Internet for the immediate pick up of a customer, is not part of and does not encroach on the activities legally reserved for taxis. Therefore, it is doubtful that the introduction of a waiting period specific for online-enabled cars can be justified by the need to protect the lawful exercise of the taxi profession.

Uber – France

- French president, Hollande declared UberPop's presence a problem of "unfair competition". "Non-compliance with tax and competition rules is illegal. UberPop should be dissolved and branded illegal and cars should be seized."
- His socialist government has also passed a law that in effect declared UberPop illegal in January, but the law has proved difficult to enforce and the service has continued to operate.
- The law is currently being reviewed by the constitutional court.
- (July 2015) French **police raided Uber's Paris offices** and confiscated 1,200 cell phones, some computers and documents as part of an investigation begun in November into the UberPOP service and questions of whether Uber illegally retained customers' personal data.
- Two **Uber bosses were arrested** and will go on trial in September, charged with "**misleading commercial practices, complicity in the illegal exercise of the taxi profession and illegal use of private data**"
- Uber suspends its controversial low-cost UberPOP service in France, six months after it was banned.

Uber - Italy

- According to a 1992 law, for hire car services have to be booked in advance by users that request a specific journey for a specific time. Hire cars are prohibited from stationing in public areas and are obliged to return to the parking area after providing the service. Their number is restricted and cannot pick up clients outside the municipality that granted authorisation.
- (May 2015) An Italian court banned unlicensed car-sharing services such as those offered by Uber across Italy.
- The court in Milan said the Uber POP service created "unfair competition".
- The ruling, triggered by a petition from taxi associations, said using Uber POP was forbidden, as was the offering of paid car-ride services by unlicensed drivers in any other way.
- Uber was given 15 weeks to comply with the ruling or face a fine of 20,000 euros for each day's delay in meeting the court ruling.
- The UberPop application for mobile devices is shutdown in Italy even if the company has appealed the decision.

EU backs sharing economy

- UberPop banned in Germany, Italy, Spain, France.
- Appeals are pending in Belgium and Netherlands.
- In June 2016, the European Commission issued Guidelines (A European Agenda for the Collaborative Economy) for sharing economy companies:
 - The Commission warns governments to think carefully before cracking down on sharing economy firms
 - Absolute bans and quantitative restrictions should only be used as a measure of last resort.
 - Stricter regulations on sharing economy companies could cost Europe.
 - Europe needs a coherent approach if we want our dynamic startups to flourish or they will go somewhere else. Europe's next unicorn could stem from the collaborative economy.
 - We want to keep up and keep Europe as open as the US for new innovative business models
 - Companies in sharing economy should not be subject to sector-specific rules- such as regulations aimed at hotels and taxi firms- unless they own assets and set the price of the service.
 - Such businesses should not become a parallel informal economy operating free of regulation. It is clear that the collaborative economy cannot be a way to abuse labour or to avoid paying tax.

Latest situation on the other side of the Atlantic

- **Canada, Ottawa:** Uber is being legalized as part of an effort to create a dual licensing system in the capital city, which comes into effect on Sept. 30, 2016.
- The ride-sharing company will operate illegally until that day.
- The system requires both cabbies and Uber drivers to obtain \$2 million in insurance coverage, after the city's legal department had recommended minimum coverage of \$5 million.
- But it's the requirement that taxis — and not Uber drivers — have cameras in their vehicles that has proven to be a point of contention for cabbies.

Latest situation on the other side of the Atlantic

- In the United States, around fifty cases were filed against Uber in U.S. Federal Courts in 2015 alone, but Uber is still operating in every major U.S. city.
- California: Uber convinced state regulators to classify it as a transportation network company allowing it to operate in Exchange for requiring driver background checks and increased insurance coverage.
- Washington D.C., Houston, and some other cities: have passed ordinances explicitly permitting Uber to operate imposing only limited rules about pricing, insurance and taxes.
- N.Y.C.: regulators have forced it to change business models by requiring even amateur UberX drivers to get a taxi license
- Pennsylvania: Public Utility Commission gives Uber temporary license to operate in the state except in Philadelphia
- Las Vegas, Miami: made services like Uber effectively or actually illegal.

Uber – U.S.A (California and D.C.)

- 2013. the Washington D.C. Taxicab Commission issued a notice according to which a digital dispatch service shall be exempt from Regulation by the Commission, other than rules and regulations that are necessary for the safety of customers and drivers or consumer protection. Legislation was promptly enacted in D.C. so as to make sure (Uber and other online-enabled car) drivers have proper insurance and a proper criminal background.
- The California Public Utilities Commission (CPUC) created a specific regime to apply to companies that provide prearranged transportation services for compensation using an online-enabled application or platform to connect passengers with drivers using their personal vehicles.
- This regime establishes 28 rules: they must obtain a license from the CPUC to operate in California; require each driver to undergo a criminal background check; establish a driver training programme; implement a zero-tolerance policy on drugs and alcohol; hold a commercial liability insurance policy that is more stringent for limousines; conduct a 19-point car inspection...

Uber U.S.A (New York City)

- NY Mayor de Blasio and Uber (and Lyft) reach deal (July, 2015)
- After a weeks-long battle between ride-hailing companies and New York City Mayor Bill de Blasio, an agreement between Uber and the city has been reached to not cap for-hire vehicle company growth in New York while a study on their impact in the municipality is conducted.
- de Blasio has withdrawn a bill to put a one-year cap on the growth of transportation network companies like Uber.
- The proposal that has been tabled would have temporarily capped the growth of Uber and other for-hire vehicles in New York City through April 2016. Instead, a bill is expected to be voted that would authorize a study on how these cars have impacted traffic, air quality, noise and public health. As part of the agreement, Uber will provide data for the study.
- Uber released its data: During a 24-hour period on July 19, there were 3,198 Uber drivers in NYC, however that number pails in comparison to the 13,400 taxis in NYC, of which anywhere from 67 to 85 % of those on the road at one time. In June there were 3,492,389 pickups in NYC, which is not even a quarter of the 14,000,000+trips provided a month by NYC yellow cabs. Uber is most busy during the hours of 9p.m.-12 a.m.

Uber U.S.A

- (June, 2015) A ruling from the California Labour Commission was made public because popular ride-sourcing company Uber appealed it. A San Francisco-based driver named Barbara Ann Berwick brought a case alleging that she is an employee, not an independent contractor as Uber claims. It emerged that the commission ruled in her favour, saying the company owed her \$4,152 in expenses.
- 22,000 Uber drivers in San Francisco. Uber and rival Lyft are facing separate lawsuits in federal court in San Francisco that seek class-action status by drivers who say they should be classified as employees.
- If a court makes a sweeping ruling that allows workers to retroactively claim expenses, that could result in a large hit. But that would likely hurt valuations of weaker sharing-economy companies more. The benefits of treating workers as contractors rather than employees are more important in a start-up's early days and less so now that Uber and many similar companies have grown. Smaller companies need more flexible work forces and contractors solve that problem. Larger companies with more predictable demand for their products or services can benefit from having employees scheduled to work regular shifts.

Mexico City Embraces Smart Regulation for Ridesharing

- July 2015. What started with an open discussion where citizens spoke and their government listened ended with Mayor Miguel Mancera's decree providing a legal framework for ridesharing in the world's largest city.
- The rules include a mandatory 1.5 percent ride levy, meaning Uber and the others will have to contribute that percentage of their revenue to an as-yet non-existent fund for public transit, roadways and pedestrian traffic.
- Uber drivers will have to pay a yearly permit fee of 1,599 pesos. That will add to the currently estimated 150,000-peso start-up cost for new Uber drivers. It may go up further with another regulation imposed - Uber cars will have to have an initial sticker price of at least 200,000 pesos.
- There are also a number of requirements for the vehicles — such as air conditioning, air bags and seat belts — and limitations on the company operations, such as not accepting cash or prepaid cards and not using taxi stands.
- most significant is a proposed regulation that will not be applied. **There will be no limit to the number of vehicles Uber and the others can deploy.** That's an invitation to growth for Uber, which now has 500,000 customers and 10,000 drivers in Mexico City. Cabify (rival of Uber) claims 300,000 riders.

They call unfair competition — and what we would call competition

- **Anti-Uber protests: Taxi industry demonstrates powerful lobbying skills, with regulatory capture being widespread.**
- Anti-Uber protests by taxi drivers are part of a long tradition of established suppliers challenging new technologies that would cost them their jobs. But when, the Luddites of the early nineteenth century protested against newly developed textile machinery by smashing it, the authorities did not intervene to limit new technologies. As a result, the Industrial Revolution ultimately led to an unprecedented increase in living standards around the World.
- The rigid European reaction to Uber shows Europe's governments are not flexible and as a result European economy suffers. The problem is that entry into any market depends on the perceived opportunities for profit from new initiatives at a particular point in time. Regulations can delay market entry, but technology cannot be stopped forever, new entrants eventually will break through. However their business model may no longer be profitable or may be less profitable than they would have been.

Why is Uber illegal in many cities?

- Taxi services are subject to fairly intrusive regulation:
 - Limitation on the number of taxis (e.g., there is a maximum of 15,000 taxis in Paris, 13,600 yellow cabs in NYC, 17,000 in Istanbul,)
 - Price and route control.
 - Safety and quality regulations.
- In some cities, even the colour of taxis are regulated (usually yellow) which makes it impossible for companies to differ their services- everything in a taxi is regulated!
- Uber drivers do not comply with these requirements, which are usually incompatible with Uber's business model.
- Uber pays no tax. No social security for Uber drivers
- Taxi drivers would like Uber to be subject to the same regulatory requirements or be declared illegal.
- While some of these requirements are designed to protect users, others **amount to barriers to entry.**

A brief history of taxi regulation

- Taxi services are basic in nature (transporting passengers from point A to point B); do not require much capital or skill, subject to detailed regulation.
- During Great Depression, people jumped at the opportunity to drive unlicensed taxis at the absence of stable jobs → increase in accident rates, poor insurance coverage, road congestion
- 1970s, early 1980s → deregulation Atlanta, Indianapolis, Milwaukee, Kansas City, Phoenix, San Diego, Portland, Seattle ... → removed regulations on fares, licensing, accessibility requirements → A decade later these cities re-regulated the taxi market because:
 - Prices for taxi riders increased
 - Vehicle quality decreased
 - Average age of vehicles increased
 - Fares become confusing; unpredictable to passengers
 - Taxi rides in low-density areas neglected; 7/24 transportation became difficult
 - Living standards of taxi drivers decreased due to over supply
 - Accidents increased due to inexperienced drivers
 - Traffic increased
 - Pollution increased

Why is taxi market regulated?

- 1- in the absence of control of entry, there would be too many taxis in the streets, this would create congestion.
- 2- If taxis were in excessive numbers, they would engage in ruinous competition, which would lead to low quality of service.
- 3- To correct information asymmetries, as in the absence of rate control, consumers would have no guarantee the fares they pay are fair and reasonable.
- 4- users have no means to know whether they will be driven in a safe vehicle.

Regulation of taxi services typically involves:

- Control of entry (with local authorities, for instance, setting the maximum number of vehicles that can be used to provide taxi services) → theoretical arguments based on externalities (pollution and congestion) → why not impose a tax that would internalise such negative effects instead of restricting taxi numbers???
- Licensing and performance requirements (for the drivers and the taxi companies) designed, for instance, to ensure safety standards for both drivers (who need to receive proper training) and vehicles (which must be inspected on a regular basis)
- Financial responsibility standards (such as compulsory insurance)
- The setting of maximum rates based on various methodologies

Problems of regulation of taxi services that lead to the deregulation! And then to re-regulation!!

- The insufficient availability of cars during peak hours or in certain areas (seen as less profitable by drivers. A good example is the unwillingness of Istanbul (Turkey) taxis to go to the other side of Bosphorus (European or Asian sides). In many instances efforts to prevent the oversupply of taxi services effectively led to an undersupply of such services leading to user discontent.
- With the prices and quality standards set by public authorities, taxi regulations did not incentivise taxi companies to innovate or provide superior quality of service. This led some countries to deregulate taxi services (Netherlands, Ireland, France, USA)
- In most cases the number of taxis increased but this did not translate into lower waiting time and cheaper services. In the States service performance decreased after deregulation which led to re-regulate!

Regulatory flexibility

- The Regulation of any economic activity should be flexible enough to accommodate all developments of supply and demand that are in the public interest → economic growth → an adaptable Regulation provides incentives for innovations to the market → if firms fear an innovation slightly questions existing rules would be stopped how is it possible to encourage innovation?? → a flexible regulatory structure in itself is in public interest
- Regulatory flexibility? Let the law identify the very general principles and leave the application of those general rules to the (local) enforcer

Vicious circle: Regulation-deregulation-re-regulation

- The important point is these deregulatory efforts did not lead to major innovation as new entrants essentially use the same business model as incumbents.
- The restrictions placed on Uber's activities are undesirable as they deprive users of an attractive and innovative alternative to regular taxi services.
- But Uber should not be allowed to operate in a legal void.
- Regulatory framework should be adapted to allow Uber to operate legally, as well as to compete on a level playing field with taxi services. However legalization of Uber's services raises a number of complex issues.

The Reasonable Solution: Level the Playing Field

Incumbents argue that they face various regulatory burdens that new entrants are evading. These are: -licensing requirements,

-price controls,

-service area requirements,

-marketing limitations,

-technology standards.

These could, in theory, place incumbents at a disadvantage relative to new sharing economy start-ups (since they escape from those regulations). But those regulations could at the same time be used to keep smaller start-ups out of the market → entry barriers.

The solution is not to punish new innovations by simply Rolling old regulatory regimes onto new Technologies and sectors. The better alternative is to level the playing field by deregulating down to put everyone on equal level, not by regulating up where the incumbents are.

Questions

- Is Uber a taxi company or a platform?
- If it is regulated like other taxis, will it still be attractive in terms of price, convenience, routes?
- If it is regulated, should it buy medallions?
- If all the taxi industry is deregulated, who will pay the loss of the taxi drivers (medallions costing thousands of Euros)
- Are Uber drivers employees or contractors?
- Are they abused in terms of labour law (no overtime payments, no holidays, no retirement plans etc.)
- If Uber (especially UberPop) is banned, what will happen to those who are unemployed or underemployed? Social welfare?
- Congested cities, traffic, parking problems...
- Data protection?

Conclusions

- Uber has introduced dynamics in a typically static sector.
- Investors believe that Uber will succeed.
- Because it provides an innovative service that is attractive to users, Uber should be allowed to compete legally.
- The question is of course which regulatory framework should apply to Uber.

Requirements that are needed to protect users (insurance, safety, etc.) should apply

Barriers to entry and other unnecessary regulation should be removed.

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