SHARING ECONOMY AND SMART CITIES: COMPETITION AND REGULATION PROBLEMS

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The sharing economy: definition

- 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.
- 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."

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

- What is sharing?
- Many platforms advertise their services as ”sharing”
- Airbnb says its service lets hosts ”share their homes with guests ”
- Lyft says it offers ”ridesharing ”
- Sharing is a form of social exchange that takes place among people known to each other without any profit
- When sharing takes place in a market and has a value, it is no longer sharing at all.
- 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

Ride-sharing: Uber, Lyft and others

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- 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**

The sharing economy

- The sharing economy allows underutilised resources to be monetised.
- Empty rooms can be rented out, empty vehicle space can be used up.
- It provides entrepreneurs or service proveiders with new opportunities to work as Uber drivers, TaskRabbit runners, Airbnb hosts…
- Sharing economy provides environmental benefits such as reductions in smog and emissions
- In the case of Uber, Lyft and others a study found that every car sharing vehicle removes between 9 to 13 other vehicles from the road.
- Airbnb reduces carbon emissions by allowing pre-existing housing to be used more efficiently and reducing the need for more commercial hotels.
- Much of what drives the popular demand for the services in the sharing economy is **"trust".** In one survey, **64% of the consumers** claimed that in the sharing economy peer-regulation (**ratings) was much more important than government regulation** and **69%** said they will **not trust sharing economy companies unless they are rated by someone they trust**.

Efficiencies of the sharing economy services

1. Reduction of transaction costs (thereby reducing the prices of the goods and services exchanged)
2. Improved allocation of resources
3. Information efficiencies
4. pricing efficiencies

- Since 1980s liberalisation in markets from transport services to telecommunications. Majority of the liberalisation was structured with markets being opened in steps following government action.
- What is new with Uber and online platforms like Airbnb is that these companies did not wait for approval before launching their services.

Efficiencies of the sharing economy (cont.)

- Regulations in the markets where online platforms are present stem from various reasons: to address market failures, such as externalities (accidents caused by drivers), information asymmetries (that can result in price gouging), and public goods, health and safety concerns.
- Businesses subject to regulation like to complain about the burden it imposes on their activities but they also like regulation when it creates barriers to entry and immunise them from competition.
- As new technology is **accelerating** the emergence of **new forms of economic activity**, regulators must **adopt quicker measures** in order to remain relevant.
- As **innovation** is a **moving target**, **a successful regulatory strategy** will require **flexible and responsive** regulations in order to keep up with the pace of technological innovation.

Current regulatory problems:

- The current regulatory problems that prevent effective regulation of the sharing economy are outdated and sticky regulations
- Outdated regulations allow new entrants within the sharing economy to exploit gaps and loopholes which leave governments with many unanswered questions on the rights of and safety for workers and consumers.
- Regulatory bodies seek to regulate the sharing economy because the danger of inaction may result in endangering the health and/or the safety of the public.
- Incumbents lobby governments for fair rules and new regulations on ride sharing companies such as Uber, Lyft and others which would constitute further barriers to entry for new competitors. Thus, **misguided government regulation can be the barrier to innovation that never falls**.
- But innovation cannot be stopped it can only be slowed down

How to regulate the sharing economy:

- Public authorities should allow online platforms so that consumers can benefit from their efficiencies while maintaining regulatory requirements needed to ensure the correction of market failures: (Prof. Geradin)

1. Sharing economy should be subject to the same type of regulatory frameworks as traditional services? (May 2017: Opinion of the ECJ suggesting Uber to be treated as traditional transport companies)
2. Rules creating barriers to entry, e.g. caps on the number of taxis. Check whether the reasons behind establishing a cap on the number of licensed taxis (oversupply) still hold and if they do, whether the objectives sought can be achieved by less restrictive alternatives. If found that the number of the licensed taxis need to be capped, it should be determined whether the number of licensed vehicles is set at an optimal level (not for taxi companies but to satisfy consumer needs) and whether licences should be available for regular taxis only or extended to online platform operators.
3. Review the regulatory framework so that the rules that seek to address market failures effectively accomplish their goals. For instance, background checks on drivers and regular inspection of vehicles are useful but with increased competition, questionable whether taxi fares should still be subject to regulation. Rate regulation may be needed for taxi that are hailed on the street, but for vehicles that are e-hailed, price regulation no longer seems justified as users usually have the ability to request a fee estimate and thus to be informed of the expected cost of their planned journey.

How to regulate the sharing economy (cont.)

4. Old regulatory frameworks cannot be redesigned quickly > a transition is needed. When regulatory approval cannot immediately be granted, there are advantages in granting temporary licences to online platforms. In a sector where data is critical, it is wise for regulators to take market data into account when revisiting existing regulatory framework.
5. It is important to adopt regulatory rules that are flexible enough to accommodate further innovation. (e.g.driverless cars)

How to regulate the sharing economy: Too big to regulate?

- Airbnb lists more than 1 million homes (by 2014)
- Uber with 250,000 drivers in 633 cities
- Eliminating incumbent protectionism
- **Peer-regulation:** created largely by platforms' review systems
- **Self-regulation**: re-allocation of regulatory responsibility to parties other than the government. **It does not mean no regulation or deregulation!** Uber eliminating any driver less than 4,6 starts out of 5; Airbnb eliminating its hosts who do not seem to be perfect

Competition Issues

- Should the sharing economy be blamed/banned/suspended for failing to comply with regulatory requirements or are they pioneers which paved the way to innovative services and be applauded?
- **CLAIM: Sharing economy companies engage in “unfair competition” by failing to comply with the regulatory requirements that burden traditional hotel, taxi, and restaurant businesses.**
- The efficiencies brought by the software platforms are also available to incumbents. Hotels have already implemented modern IT and used electronic reservation systems before Airbnb. Some hotels now even advertise rooms on Airbnb.
- Similar benefits in transportation. Taxi companies can use technology to improve dispatch of drivers. With GPS, it is easy to follow where the taxi is, and electronic messaging systems allow dispatchers to send drivers more quickly and more accurately than by radio. Many taxi companies have implemented Uber-like tech. Some Taxi companies share common tools for customers to request taxis (

Competition Issues (2)

- Airbnb may be useful but when it does not comply with zoning rules and short term occupancy taxes, detractors are inevitable. Similarly Uber or Lyft may offer low cost, polite, and reliable service but if drivers are underinsured or committing insurance fraud, anyone harmed would protest
- Both Uber and Airbnb are closing these gaps, including Uber's ending of the insurance gap and Airbnb remitting tax in increasingly many cities. To truly prove their excellence these services should compete on a level playing field which means foregoing advantages grounded in ignoring the law.
- Rationale for a level playing field

Competition Issues (3)

- The sharing economy seems to trigger few competition law concerns and even where certain software platforms have come to dominate their respective sectors, little sign of market structure that prevents entry or prevent incumbents from providing similar services in the ways they see fit.
- In many high-tech markets, a single firm enjoys a monopoly (stemming from technical compatibility, switching costs or contractual reasons). Such barriers are not seen in the sharing economy markets.
- Many “Ubers” are operating in many countries, especially in Asia.
- Barriers resulting from scale: a new transportation platform may struggle to match Uber’s number of vehicles (reducing dispatch efficiency and increasing customer wait times) or a new short-term booking platform may struggle to match Airbnb’s choices. In theory this could impede entry though this alone would not support a competition case.
- The sharing economy is competitive. Uber is famous but Lyft has already become number two in many U.S. Cities. Airbnb has competitors.
- No barriers for taxi companies to use technologies of Uber and Lyft and they have done so in some cities. Similarly Airbnb faces VRBO and Homeaway and others. In principle both consumers and service providers can use multiple services (multi-homing): multiple services should remain viable over time. Competition among diminish some of the profits that would otherwise accrue to a dominant platform.

Smart cities and the sharing economy

- In 2009**,** more than half of the World population lived in cities.
- In order to become smarter, cities need better regulation. Regulations can impede the implementation of smart cities. Private companies are hesitant to invest in new Technologies and infrastructure where there is policy uncertainity, and limited integration.
- **What is a smart city?**
- Definition: No universally agreed definition.
- **Characteristics of a smart city:**

1. A smart economy
2. smart mobility
3. smart environment
4. smart people
5. smart living
6. smart governance

Smart cities and the sharing economy (2)

- **“the desire to be world-class city” “put a city on the map:”**
- **Sharing firms are crucial markers of on the mapness.**
- The sharing economy is a big opportunity for smart cities.
- American Planning Association: **67%** urban residents; **73%** young millennial generation saw access to sharing services important to them.
- Being on the map might offer 2 types of benefits. First being world class raise a city’s profile for industries like tourism. Second being on the map might make cities more attractive or exciting to live drawing in new residents and keeping existing ones from needing to leave for a real city. This concern is particularly salient as applied to mobile and well-educated workers. A city’s prosperity is increasingly tied to its ability to attract well-educated and highly skilled human capital.
- Sharing firms reduce urban congestion. The density and prosperity of cities is ultimately limited by congestion, factors like traffic and land costs. Sharing firms frequently bring the positive externality of reducing such congestion by reducing demand for space for goods like cars or closet space for consumer goods.
- Cities which welcome “bigness” and “smartness””, cities which are after competitive markets where one sharing firm has gained too much market power, or in places where being “tech-friendly” is the target, sharing firms will bloom.

Smart cities and the sharing economy (3)

- Smart cities feature deep (digital) markets with many buyers and many sellers. Market depth offers many benefits. For workers moving to a dense city brings opportunities to specialise, incentives to invest in human capital, easier matching with employers. This labour market dynamic is equally true of consumption.
- Sharing economy remove limits. By offering standardised pricing systems, web-hosted exchanges, searchable databases and smart phones, services like Uber, AirBnB connect a city's buyers with sellers. They **substantially deepen already-deep urban markets**. At the same time sharing firms reduce congestion by permitting the borrowing and reuse of goods and reducing the need for costly space. These dynamics reduce urban congestion.

Smart cities and the sharing economy (4)

- Similarities: both smart cities and sharing firms are

1. characterised by sharing
2. driven by connectivity
3. improve quality of life
4. work best in a localised community
5. require online platforms
6. improve the use of assets
7. result in environmental care
8. require higher degree of trust (trust, rating, reputation)
9. use data that needs to be protected

Smart cities and sharing firms (5)

Smart cities need sharing economy to be smart. By creating a sharing-economy-friendly environment, a city may signal it is open to businesses and innovation. This would contribute to the economic growth of the city.

Moreover, cities are the natural places for sharing economy services. Indeed this is the essence of online platforms. Online platforms work best in a defined, localised community and within short distances. Think of bike-sharing, food-sharing etc.

Problems stem from the relationship between traditional service providers and sharing economy (online platforms). How to assure a level playing field among competitors and who are the actual competitors?

Taxi companies and Uber drivers? Or the platform and the drivers?

Airbnb hosts and hotels? Or the platform and the Airbnb hosts?

Smart cities and sharing firms (6)

- Good examples:
- U.S.: Cleveland, Austin, Chicago, New York, SanFrancisco encourage urban-scale sharing.
- Seoul, the sharing City: Mayor kicked off a plan to help Seoul residents share. The plan is to fund start-ups, to promote sharing enterprises etc.
- Turin masterplan for Smart City: 2013 set up a plan and organsied Workgroups adressing 5 of the city’s main areas of development: mobility, inclusion, life&health, energy, and integration.

Sharing economy protests: Brazil

Sharing economy protests: Torino

Sharing economy protests: Venice ('Mi no vado via', 'I'm not leaving‘)

Sharing economy protests: Barcelona

Sharing economy protests: New York City

Sharing economy protests: Canada

Smart cities and sharing firms, how to regulate them?

- Smart cities need smart regulation. First of all regulations favouring incumbents should be eliminated. How?
- Smart city-sharing economy often blurs boundaries between the personal and professional line. Most Airbnb hosts are not Professional hoteliers. Majority of Lyft and Uber drivers are active on the platform fewer than 15 hrs per week. Applying a regulatory regime developed for full-time or large scale professional providers to smaller semi-professional providers could create barriers to entry.
- Thus regulation needs to be flexible enough to cover the ever-changing feature of the online markets (e.g.driverless cars)
- Better include stakeholders when redesigning rather than solely professionals
- Online platforms: ratings, trust, reputation
- **Data protection**: still a big issue, needs to be adressed