

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE****Working Party No. 2 on Competition and Regulation****Taxi, ride-sourcing and ride-sharing services - Note by the Russian Federation****4 June 2018**

This document reproduces a written contribution from the Russian Federation submitted for Item 3 of the 65th meeting of Working Party No 2 on Competition and Regulation on 4 June 2018. More documents related to this discussion can be found at [www.oecd.org/daf/competition/taxis-and-ride-sharing-services.htm](http://www.oecd.org/daf/competition/taxis-and-ride-sharing-services.htm)

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**JT03431407**

## *Russian Federation*

1. In 2017, the FAS Russia approved the merger of Yandex.Taxi and Uber (conclusion of an agreement on joint activities)<sup>1</sup>.
2. When conducting market analysis, the FAS Russia was guided by the Procedure for conducting an analysis of the state of competition in commodity markets, approved by the FAS Order No. 220 of 28.04.2010.
3. This Order in accordance with the Federal Law No. 135-FZ of July 26, 2006 "On Protection of Competition" provides for quantitative methods for determining the dominant position of an economic entity in the commodity market. That is why the correct conduct of market analysis has become the most difficult aspect of considering the merger of Yandex.Taxi and Uber.
4. It turned out to be impossible to identify all taxi aggregators in the territory of the Russian Federation, because local taxi carriers have their dispatch services, drivers and consumers databases, and information about routs.
5. Narrowing the product boundaries to taxi aggregators that do not carry out transportation will be unreasonable, since according to the Procedure for conducting the market analysis, the list of economic entities should include all economic entities that provide goods (service) within the Russian Federation and the time interval of the analysis.
6. Taking into account the identified market leaders (Yandex, Uber, Gett, Fasten), the FAS Russia found that the market for taxi aggregators is quite young; there are significant changes and modernization in this market. There are currently no dominant companies in this market, but Yandex, Uber and the Fasten group have signs of dominance that may arise in the future, as market shares were subject to significant changes and there was more than a twofold increase in the market volume in the first half of 2017.
7. Survey of participants of the market of taxi aggregators showed that the administrative barriers to entry this product market for new participants are low, but it requires significant investments with small payback periods.
8. The investments of the company include staff, equipment (office equipment), software (application for mobile devices, site development), rental of premises.
9. At the same time, access to the resources necessary for organizing the activity of the taxi aggregator is free with a multitude of offers.
10. In the course of the research, the majority of the surveyed participants said that the organizations providing taxi cab service do not have advantages over potential participants in this market. Therefore, the presence of vertically integrated business entities among the participants does not lead to the creation of barriers to entry in the

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<sup>1</sup> The FAS Decision of 24.11. 2017 No. АГ/82029/17: <http://solutions.fas.gov.ru/ca/upravlenie-regulirovaniya-svyazi-i-informatsionnyh-tehnologiy/ag-82029-17>

market for taxi aggregators; there are no restrictions imposed by public authorities and local self-governing authorities.

11. Overcoming barriers to entry in the market by new market participants is assessed as possible, provided that there is an effective strategic planning.

12. One of the characteristics of most digital markets is the fact that their functioning is determined by the turnover of intellectual property rights. If this fact is significant for a specific market, the issue of the use and (or) alienation of intellectual property rights should become the object of close attention of a competition authority.

13. When considering the transaction, the FAS Russia carefully examined the conditions for using applications that are significant for the functioning of the taxi market. In this case, threats to competition have not been revealed, inter alia, because there are many applications of similar functionality on the market, and entry to these markets is not difficult.

14. When considering the merger, the FAS Russia analyzed the impact of network effects and consumer behavior in order to find out whether the merging company could determine the conditions for the circulation of goods and gain the opportunity to abuse its position in the market.

15. The market for taxi aggregators' services is a classic example of a market with prominent network effects: the consumer value of a product is growing as the number of both consumer groups and passengers increases. That is, the more drivers use a particular application, the higher is the value of the application for the passenger, as this ensures a fast arrival of a car. Simultaneously, the more passengers use the application for ordering a taxi, the higher is the probability for the driver to receive an order and reduce the downtime.

16. Very significant impact on competition in all markets for software (applications) has the ability to switch between applications.

17. In case of the market for taxi aggregators' services under consideration, the key role plays the ability to switch from one taxi aggregator application to another and, importantly, the consumers' inclination to switch.

18. A study of consumer behavior has shown that switching applications of taxi aggregators occurs without any difficulties. During the survey passengers said that at the slightest inconvenience (lower quality, higher prices, etc.), they immediately switch to another aggregator, including those without applications, that means they order a taxi by phone; drivers use several applications of aggregators at the same time, independently determining the selection order.

19. Such easy switching makes network effects a powerful tool for suppressing attempts at anticompetitive behavior in the market: as soon as the aggregator worsens conditions for at least one group of consumers, the result will follow immediately - consumers whose interests have been infringed will switch to another aggregator, and this immediately results in the withdrawal of the second group.

20. The impact of both identified factors - ease of switching and network effects - is also increasing because the market of taxi aggregators' services in the Russian Federation is at a stage of rapid growth. The increase in the volume of the market per year is more than 100%, and this growth is expected to maintain due to the increase in the use of

smartphones by consumers and the penetration of mobile communication services in the UMTS and LTE standards.

21. Along with the results of the market analysis, which showed that there are at least 4 federal taxi aggregators and a lot of local taxis in the territory of the Russian Federation, the FAS Russia concluded that the transaction itself does not lead to restriction of competition at the present time. At the same time, the FAS Russia considered it necessary to ensure the preservation of competition conditions in the future, and to issue a ruling to the participants of the transaction. The conditions of the ruling were developed taking into account the features of the market in order to preserve the existing possibility of switching for passengers and drivers, so the companies received a requirement to prohibit the introduction of any restriction of both groups of consumers in the selection and use of third-party aggregators, as well as to fully and most accessibly inform users about a legal person carrying out transportation with preservation of the history of trips.

22. Thus, the key concern in the market for taxi aggregators is the difficulty of establishing the dominant position of the players. Therefore, if the taxi aggregator behaves in an unfair manner, the antimonopoly bodies are faced with new challenges related to establishing the fact of dominance and its abuse, for example, through price discrimination of consumers.

23. With the creation of the market for taxi aggregators, the average cost of a trip by the example of Moscow from 2014 to 2017 decreased by almost 35%, so a positive effect for consumers was achieved.

24. In the future, the behavior of taxi aggregators can be quite aggressive. Some market participants expressed concern that Yandex and Uber had previously behaved "aggressively" when entering the market by dumping prices at the expense of additional payments to drivers, which led to a mass solicitation of customers (taxi passengers). Market participants expressed a concern that the merging taxi aggregator can also set monopolistically low prices in order to squeeze competitors.

25. Another area for a possible conflict may be the policy of taxi aggregators in relation to drivers in the related market - taxi market (the provision of driver and car services in accordance with the public charter contract, used for the transportation of passengers and luggage). The control of taxi pools (agents) over working time is not always carried out faithfully and can lead to a social conflict, since driver pay a portion of the money received for working shifts to the taxis aggregator, car rent, commission of the company that performs the role of a taxi pool, agent.

26. At present, the FAS Russia requested large tax aggregators on price-setting for their services; the research has not yet been completed.

27. Beforehand, it becomes clear that the taxi aggregator shows to the taxi pools how to set an approximate cost of the trip, analyzing the economic and traffic situation in the region, the demand and the number of available cars.

28. From the point of view of concluding anticompetitive agreements, the actions of taxi aggregators on "averaging tariffs" were not considered, since the FAS Russia believes that the market in its current form functions in such a way that the rest of the companies go whenever the large companies lead them. In this regard, today the most reasonable is to enable the market to develop and create permanent indicators on trip rates, market shares.

29. Perhaps, later there will be a question of the statutory regulation of the activity of taxi aggregators in the Russian Federation and the establishment of federal legislation.