

**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 United Kingdom****4 June 2018**

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More documents related to this discussion can be found at www.oecd.org/daf/competition/taxis-and-ride-sharing-services.htm.

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United Kingdom

1. The framework on quotas / quantity restrictions in the UK

1. In the UK, local authorities in England and Wales, with the exception of London,¹ and Scotland can impose quotas on the number of "ply for hire" traditional taxis (in the UK, so-called "*Hackney Carriages*") that can be licensed and operate within their area. In London and Northern Ireland, there are no quantity restrictions on taxis.
2. Around one third of local authorities in England and Wales use their power to impose quotas on the number of taxis. There is no such equivalent power to impose quotas on private hire vehicles (*PHVs*), however there have been some calls for such caps to be introduced in London.²
3. The OFT looked at quota restrictions as part of its 2003 market study into licensed taxi and PHV services in the UK.³ At the time of the market study, 45% of local authorities imposed quotas on their local taxi markets, with several authorities having removed quotas over the previous years. This enabled the OFT to make direct comparisons of how well consumers were served in districts with and without quotas, and what the effect of removing them would be.
4. The market study found that quotas cause harm to passengers in the following ways:
 1. reduced availability of taxis;
 2. increased waiting times for taxis;
 3. reduced scope for competition between taxis to exert downward pressure on taxi fares and upward pressure on service quality;
 4. reduced choice – lower availability of taxis reduces the transport options available to passengers; and
 5. risks to passenger safety – reduced availability encourages the use of illegal taxis.⁴
5. In its 2007 evaluation of the market study, the OFT found that many local authorities had removed quotas between 2003 and 2007 and that this had led to significant benefits for passengers through shorter passenger waiting times and an increase in availability and hence journeys taken.⁵

¹ Taxi licensing in London is governed by TfL.

² See <http://www.bbc.co.uk/news/uk-england-london-40566072>.

³ OFT, "[The regulation of licensed taxi and PHV services in the UK](#)" (OFT676, November 2003).

⁴ Ibid, paras 1.12 and 4.21-4.47.

⁵ OFT / Europe Economics, "[Evaluating the impact of the taxis market study](#)", paras 1.14-1.18, 6.3-6.16, E18 (OFT956, October 2007).

6. The 2007 evaluation also found, however, that removing quotas had produced some negative effects, in particular a loss of productive efficiency in the taxi industry.⁶ Essentially, the OFT found that when quotas were removed, lots of new providers entered the market and accordingly the total quantity of taxi services supplied increased. The effect of this was that the amount of time queueing by drivers at taxi ranks also significantly increased and hence reduced the average proportion of time during which taxi drivers had a fare versus “dead time”.

7. In most markets, competition would be expected to bring down prices, increasing the number of passengers using taxis and thereby reducing this wasted waiting time of taxi drivers. Taxi passengers are however in a weak bargaining position as it is not practical to negotiate when hailing in the street, or at a rank. Accordingly, taxi fares are most commonly regulated, and taxi drivers are, as a practical matter, effectively unable to compete on price below the regulated fare leaving little or no price competition between taxi drivers. To put it another way, hail-and-rank taxi drivers are unlikely to increase significantly the demand for their services by cutting their fares, as it is difficult to communicate this cut, and so there is often no incentive for taxi drivers to do so.

8. The 2007 evaluation found that drivers were prepared to wait significant lengths of time between journeys because the high level of fares made up for that dead time.⁷ Taxi drivers were therefore using their time less productively; a fall in productive efficiency which may be equal to or even greater than the benefits to passengers in terms of reduced waiting times.

9. When looking at how to mitigate any reduction in productive efficiency, the OFT found that if the regulated fare remains too high after the removal of quotas, this is likely to encourage excess entry and prevent all the benefits to passengers from removing quotas from being realised. Ensuring that the fare cap is not set at too high a level, therefore, may help to address the productive inefficiency problems, increase consumer benefits, and reduce over-ranking and other externalities. As the OFT’s 2007 evaluation expresses it: “*it is possible that where de-restriction leads to excess entry and higher costs, then reduction in regulated price could lead both to decreased cost per journey and increased consumer welfare*”.⁸

10. The OFT’s and CMA’s work in this area has also identified a few other risks that could be associated with removing quotas, including:

- an increase in local authority enforcement costs and a reduction in safety;
- an increase in externalities such as congestion and emissions; and
- an increase in potential “social” externalities, such as worsening pay and working conditions for taxi drivers, as well as drivers choosing to work longer hours in order to make up for lost income (which in turn can lead to tiredness, with adverse consequences for safe driving).

⁶ Ibid, paras 6.29-6.30, E44-E45, F58.

⁷ Ibid, paras 1.23-1.24, 6.31-6.32.

⁸ Ibid, para 1.24.

11. On enforcement costs and a reduction in safety, the OFT and CMA have considered the theory that the risk of losing a licence with a high value increases the deterrent against non-compliance by taxi drivers (with, for instance, regulation on vehicle quality), and thereby reduces enforcement costs.⁹ The OFT and CMA have also considered whether a larger vehicle fleet is likely to result in higher enforcement costs for a licensing authority. The CMA has not however found evidence which strongly supports these theories. Furthermore, there are arguments that, were the cost of enforcement to rise owing to a larger fleet of vehicles, there could in principle be a case for recouping this from the now larger base of licence fee payers.

12. On externalities such as congestion and emissions, the CMA considers that such concerns would only be serious if removing quotas resulted in more cars on the road, and that this therefore in turn has an appreciable effect on emissions or congestion levels.¹⁰ In the OFT and CMA's experience however, where quotas have been removed, although more drivers acquired taxi licences, this only resulted in a very small increase in the total number of licensed vehicles on the road. In addition, more taxis might be expected to displace private car journeys.

13. Further, the CMA has also found that alternative policies could potentially be used to address problems linked to congestion and emissions that are likely to be less damaging to the interests of passengers than quotas, for example stricter age and environmental standards on taxis (or indeed all vehicles), and congestion policies applied to all road users.¹¹

14. Finally, on "social" externalities, it has been claimed that removing the lack of quotas leads to overcapacity, which in turn can lead to issues such as poorer pay or working conditions for drivers (many of whom are vulnerable people and often immigrants) and drivers feeling the need to work longer hours in order to earn a reasonable income, causing tiredness and jeopardising the safety of passengers and other road users. The OFT did look at these claims as part of its 2003 market study, however in that study the OFT found that there was little difference in the number of taxi accidents between areas where quantity controls existed and areas where they did not.¹²

2. Ride-sharing

15. In 2015, TfL developed a series of proposals for changes to its private hire regulations and invited interested parties to submit comments on those proposals as part of a consultation.¹³ One of TfL's proposals was to explore measures to ensure that PHVs could not be used for ridesharing purposes unless there were "*very clear controls in place*

⁹ OFT, "[The regulation of licensed taxi and PHV services in the UK](#)" (OFT676, November 2003), paras 4.54-4.61.

¹⁰ Ibid, paras 4.72-4.74.

¹¹ Ibid, paras 1.18, 5.14.

¹² Ibid, para 4.64 to 4.66.

¹³ TfL, "[Private Hire Regulations Review: Response to consultation and Proposals](#)" (September 2015).

to protect the safety of passengers and drivers”. In particular, TfL specifically mentioned concerns in relation to the potential for disputes in ridesharing between “strangers” and issues about splitting fares.¹⁴

16. The CMA responded to TfL’s consultation, highlighting concerns that TfL’s stance could have the potential to unduly harm the emergence of new business models, and hence ultimately deny consumers the benefits of innovation.¹⁵ The CMA advocated that TfL consider the potential benefits to consumers that ridesharing could provide, and to balance the competition implications of any proposed regulation against the public safety objectives that TfL rightly sought to pursue, as well as to consider whether those objectives could be achieved by less restrictive means.¹⁶

17. With the rapid rise of new and innovative market entrants, such as the app-based taxi providers, the CMA understands the need for effective regulation to protect legitimate aims such as consumer safety, as well as ensuring compliance in other relevant areas such as tax structuring and financial regulation. The CMA however noted in its response to TfL that licensing authorities elsewhere in the world had found regulatory approaches which achieved their aims without eliminating ridesharing.¹⁷

3. Multi-homing

18. In England and Wales, local authorities (or councils) prescribe the conditions under which PHVs are licensed locally, within an overall statutory framework. The CMA has found existing or proposed licensing conditions which could directly or indirectly restrict the number of operators that a private hire driver is able to work for. Such conditions include restrictions that forbid a driver to work for more than one operator as well as requirements that make it in practice difficult for a driver to work for more than one operator. The latter includes requirements that the operator’s contact details are printed on the side of the car in a permanent and non-tamperproof format (and restricting the use of magnetic signage), or in a format that means that it would in practice not be realistic for a driver to switch the sign mid-shift. Such conditions by their nature make it difficult for firms to enter the market or expand by recruiting existing drivers on a part-time basis.

19. The CMA understands that such requirements may be motivated by the legitimate consumer safety aim of preventing drivers working unsafe hours. However, the CMA has urged local authorities to consider the harm these restrictions may cause passengers in terms of potentially reduced competition leading to higher fares or lower service quality, and to work with taxi operators to consider other ways of achieving this objective. It is also worth noting that many local authorities in the UK do not impose such requirements.

20. In 2015, the CMA responded to TfL’s proposal to require that licensed PHV drivers can only work for one operator at a time, with TfL’s main concern being the risk

¹⁴ Ibid, page 20.

¹⁵ CMA, [Response to TfL’s private hire regulations proposals](#) (2 December 2015).

¹⁶ Ibid, paras 25-26.

¹⁷ Ibid, para 26.

of drivers working excessive hours for a number of different operators.¹⁸ The CMA asked TfL to consider whether the proposal was suitable or necessary to meet the stated objective, given that it only appeared to address excessive hours among drivers working for multiple operators and not the risk of excessive hours among PHV drivers working for a single operator.¹⁹

21. In addition, the CMA also raised the point that “multi-homing” (i.e. the ability of drivers to work for multiple platforms) could allow drivers to switch their supply to where it is needed in the market.²⁰ The CMA noted that mandatory single-homing, on the other hand, can create a strong network effect as it gives drivers the incentive to only work for the platform with the most customers. The consequence could be fewer PHV operator platforms, or even a single dominant platform, with the potential for all the consumer harm that platform dominance might bring.

22. In September 2016, the CMA also provided input to Sheffield City Council in relation to its consideration of a new private hire operator and vehicle policy which included proposals to prevent vehicles being operated by more than one operator and to include the name of the operator on the side of the vehicle.²¹ The CMA flagged that the requirement was likely to mean that drivers who own their vehicle can only work for one operator and reiterated the points made in the response to TfL (mentioned above). In particular, the CMA flagged that the ability of new operators to employ part-time drivers already working for the main PHV operator was considered a critical factor in providing sufficient competition to the business being created by the merger of Sheffield City Taxis and Mercury Taxis (see below).²²

23. For both the TfL and Sheffield City Council consultations discussed above, the CMA was successful in persuading the authorities to consider the necessity of such conditions in light of their effects on competition. In both cases the authorities decided not to include such requirements in their updated licence conditions.

24. The CMA has also liaised with a number of other local authorities outside of the public domain on similar issues relating to licence conditions which could have exclusionary effects.

4. “Out-of-area” driving

25. As mentioned above, in England and Wales, local authorities (or councils) prescribe the conditions under which taxis and PHVs are licensed locally and these authorities have considerable autonomy to set their own standards. Generally, traditional taxis are permitted to take passengers from within the area in which they are licensed to anywhere in the country, however such taxis cannot ply for hire at a rank or in the street

¹⁸ CMA, [Response to TfL’s private hire regulations proposals](#) (2 December 2015).

¹⁹ Ibid, para 23.

²⁰ Ibid, para 24.

²¹ CMA, [Taxi and private hire regulation: CMA letter to City of Sheffield](#) (28 September 2016).

²² Ibid, pages 3-4.

outside their own licensing areas.²³ For PHVs the rules are considerably less strict, however some restrictions do exist as to out-of-area driving.²⁴

26. In practice, it is likely that a taxi will be hired to take a passenger to a neighbouring licensed area, but will then not be able to accept a fare that wishes to go from that neighbouring area back into the area in which the taxi is licensed,²⁵ for example a taxi licensed in Sheffield may take a passenger to Leeds but then cannot bring a different passenger from Leeds back to Sheffield.

27. The CMA considers that there is a difficult balance to strike when looking at whether, and to what extent, to permit a licensed taxi or PHV operator (or driver) to provide services out-of-area. The CMA recognises the arguments, on the one hand, for restricting the ability of taxis to offer services out-of-area given the differences between regulations on quality standards, topographical knowledge and fare levels between authorities and the subsequent difficulties in enforcement of such conditions.²⁶ Further, there is also the potential for issues with drivers abusing the system by registering in an area with lower quality standards and then working full time in an area with higher quality standards.²⁷

28. On the other hand, however, restricting the freedom to drive out-of-area arguably has an adverse effect on consumers' freedom to hire taxis and taxis' ability to meet consumer demand,²⁸ as well as reducing competitive pressure to innovate and keep fares affordable.

29. An alternative option might be to harmonise regulations across local authority boundaries, in order to facilitate out-of-area driving without creating the enforcement difficulties or incentives to abuse the system described above. This option may not be practical if differing social or economic conditions in different local authorities necessitate significant differences in local regulations.

5. Mergers in the UK taxi / PHV sector

30. As mentioned, the CMA has rarely considered consolidation within the industries of taxis, ride-sourcing or ride-sharing. In 2015, the CMA investigated a merger between two PHV companies in the city of Sheffield,²⁹ however in that case the CMA had few

²³ OFT, [“The regulation of licensed taxi and PHV services in the UK”](#) (OFT676, November 2003), para 7.19.

²⁴ See ME/6548-15, [Completed acquisition by Sheffield City Taxis Limited of certain assets and business of Mercury Taxis \(Sheffield\) Limited](#) (29 October 2015), paras 90-94.

²⁵ OFT, [“The regulation of licensed taxi and PHV services in the UK”](#) (OFT676, November 2003), para 7.20.

²⁶ Ibid, para 7.21.

²⁷ Ibid, para 7.22.

²⁸ Ibid, para 7.20.

²⁹ ME/6548-15, [Completed acquisition by Sheffield City Taxis Limited of certain assets and business of Mercury Taxis \(Sheffield\) Limited](#) (29 October 2015).

concerns in relation to the market for the supply of taxis for private account or cash customers. This was because the CMA believed that the merged entity would remain subject to significant constraints from mid-sized private hire operators, traditional taxis and recent entrants such as Uber and Gett.³⁰

31. There were more concerns in relation to tender services due to the closeness of competition between the parties, however the CMA found this to be more of a niche market which also fell within the CMA's *de minimis* exception.³¹

³⁰ Ibid, para 95.

³¹ Ibid, paras 96-104.