

**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 Denmark****4 June 2018**

This document reproduces a written contribution from Denmark 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

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JT03432175

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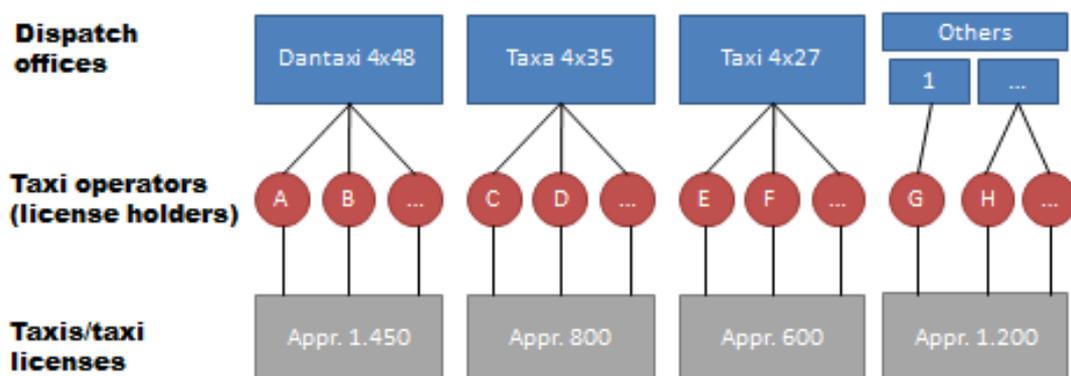
1. Commercial road transportation, e.g. taxi services, is tightly regulated in Denmark, whereas private car sharing is not regulated and therefore does not require a licence.

2. For a ride to be characterized as private car sharing, it is required that only the expenses of that specific ride are shared between the driver and passenger(s). That means that the driver cannot make a profit on the ride. The last couple of years ride sharing has become more popular in Denmark and different platforms have emerged, e.g. the Go More-app that connects private drivers going from A to B with passengers going from A to B. Since the ride – in order to be characterized as private car sharing – can only be priced depending on the specific expenses, the price for the ride is determined by the driver, and not by the platform. As payment for their services, e.g. Go-More charges a fee of 12.5 per cent for using the app.

1. Brief introduction to the Danish taxi market

3. A new law adopted in 2017. The new law puts the dispatch-offices at the center of the regulatory framework. Three different types of businesses will operate in the Danish taxi market, see figure 1.

Figure 1. Three “layers” in the value-chain of the Danish Taxi market



- **Dispatch offices** are the only legal sellers of taxi services. A permission to run a dispatch office is needed from the Danish Ministry of Transport, Building and Housing. The cost of the dispatch offices is 7 to 10 per cent of the total costs.
- **Taxi operators** (license holders) are the only legal provider of taxi services (but cannot *sell* taxi services). There is no direct hinder in the regulation for a taxi

operator itself also to run a dispatch office, however, in practice, a dispatch office is usually established by a (larger) number of taxi operators that then jointly own the dispatch office.¹ A permission to become a taxi operator is needed by the Danish Ministry of Transport, Building and Housing.

- A taxi operator can then apply for *taxi licenses*; one license for each taxi, and then hire drivers. The cost of a driver is 71 to 74 per cent of total costs. Some taxi operators only have one license, and some have many.² The number of taxis therefore depends on the total number of licences of the taxi operators. In 2017, there were about 4.000 taxis of which about half is in the Capital Region of Denmark.

4. Since it is only the dispatch offices that are allowed to sell taxi services (e.g. set prices and distribute rides among drivers), the competition in the taxi market is primarily set out between these companies, and to a lesser extent, if any, directly between the taxi operators or drivers.

5. In January 2017, the two biggest dispatch offices in Denmark, Dantaxi and 4x48 TaxiNord (now Dantaxi 4x48) merged, and now accounts for about 1/3 of all taxis in Denmark, and about 50 per cent of the taxis in the Capital Region.³ There are a couple of other large players (but still much smaller than Dantaxi 4x48), mainly centered around the Capital Region, and then a number of smaller players placed all across the country. The revision of the regulation, as described below, has offset a consolidation of the dispatch offices, which will probably continue for a while.

2. Revision of the Danish regulation of commercial road transportation, e.g. taxi services

6. Traditionally the Danish regulatory framework of taxi service has been complex, expensive and old fashion. There have been restrictions on the numbers of licenses, which have made it hard to obtain a license, and at the same time it was not possible to sell or transfer licenses. There have also been maximum prices, geographic restrictions and a 24 hour service-obligation regardless of demand.

7. The regulation practically eliminated price competition, restricted entry, and severely restricted competition in the market

8. The development of digital companies, which made car sharing and other forms of services regarding transportation available, pushed the demand for a change in the regulatory framework of taxi services. Especially the entrance of Uber into the Danish market in 2014, and its immediate success among customers, made it clear, that there was a demand for other business models in Danish commercial transportation, and thereby a need for reviewing the regulation.

¹ After the dispatch office is established, taxi operators often also have the possibility of joining the dispatch office without becoming an owner. This is probably the case for less than 10 per cent of the taxi operators.

² In 2015, about 75 per cent of the taxi operators in the Capital Region had only one license, and the one who had most, had 35.

9. In 2017, a revision of the Danish regulatory framework of taxi services was adopted by the Danish parliament, entering into force in January 2018. The changes in the regulation mainly regarded the requirements for established taxi drivers and companies, but also made it easier for everyone to obtain taxi licences/establish taxi companies (both dispatch offices and taxi operators).

10. The main changes to the regulation were:

- A simpler license system with only one type of license (instead of four types in the former regulation) for all kind of commercial transportation of passengers in vehicles with up to 9 passengers including the driver.
- An abolishment of the restriction on the numbers of licenses – everyone who satisfies certain criteria regarding code of conduct, no criminal record etc. can obtain a license. There is a three years transition period; until the end of 2020, the number of additional or new licenses granted each year is limited to 650 in 2018, to 500 in 2019 and to 500 in 2020, and distributed in each quarter. The licenses are granted on basis on a lottery among the applicants.
- An abolishment of the geographic restriction and the obligation to be available.

11. The changes in the regulation promote competition between established taxi service providers. With an unlimited amount of licenses it will be easier to enter the market or to expand. The abolishment of the geographic restriction and the requirement to be available let taxi service providers run their service *where* the demand is, and *when*.⁴ This will potentially make the taxi service providers compete on price (under the price cap) and service.

12. There are also some main restrictions, which have not been changed:

- There are still technical requirements e.g. taximeter and seat sensors, both to protect consumers and to prevent tax evasion.
- There is still a price cap to protect consumers from “hold up” situations, where the costumer does not know the price or service when hailing a taxi.

13. The Danish Competition and Consumer Authority advocated for a two-tiered system where there could be a different set of requirement for the taxi service provider depending on a) whether the ride was pre-booked and the customer had agreed on the price in advance, or b) whether it wasn't e.g. where the taxi had been hailed. In the first situation, there would not be the same need for maximum prices or technical requirements, e.g. taximeters, and the abolishment of these restrictions could lead to even better conditions for competition and to easier entry for more innovative products. Even though this was part of the original law proposal, it was not passed in the Danish Parliament.

⁴ One of the main concerns regarding abolishment of the geographic restriction and the obligation to be available was the political desire to secure taxi services for every part of Denmark at any time. The regulator has tried to meet this concern by making it easier and less costly for taxi service providers to operate in parts of Denmark where the demand for taxi services is low.

3. Development after the revision of the regulation – new technology in and out of the taxi market

14. In April 2017, shortly after the new regulation was adopted, Uber left the Danish market.⁵ Uber publically blamed the shortcomings of the new regulation, especially the continued restrictions regarding technical requirements. At that time, Uber had about 2,000 drivers and 300,000 users connected.

15. In the end of 2016, right before the new regulation was adopted and before Uber's departure, the taxi-app MOOVE was launched by the largest established and only nationwide taxi-company in Denmark, 4X48 TaxiNord/Dantaxi (now Dantaxi 4x48). According to the CEO, the launch of MOOVE was only made possible because of the following change in the regulation, especially the abolishment of geographic restriction and restriction of number of licenses.

16. The app is very similar to Uber. It is based on fixed prices in the sense that the price is agreed on when the ride is ordered instead of using the taximeter. Thereby, the customer knows the price before hiring the taxi, and not upon arrival, which potentially make it easier for the customer to choose the right transportation. The price is calculated based on the shortest route at the given time through Google Maps. The payment runs through the app, and it is not possible to pay directly to the taxidriver. Moreover, when a customer orders a taxi, the customer will be informed of the name and photo of the specific driver in order for the customer to rate the specific taxi driver. If a driver continuously gets poor ratings, then the driver will be excluded from MOOVE. Furthermore, MOOVE offers more flexible way to order taxis, e.g. from airports by making it possible for customers to order the taxi only by informing the flight number and arrival time.

17. As opposed to Uber, MOOVE *only uses licensed taxi* drivers and thereby meets the requirements in the regulation for commercial road transportation.

18. It seems like MOOVE quickly became very popular among customers, reaching 100,000 downloads during the first six months, probably picking up many of Uber's former users. And MOOVE is continuously expanding its geographic reach – now serving a large number of cities all across Denmark. When MOOVE was launched, it was announced that all taxi companies that comply with the regulation could join MOOVE, however, so far, it seems like only companies affiliated to Dantaxi 4X48 are part of MOOVE.

19. Dantaxi 4x48 – and also other taxi companies, e.g. the other two large players 4x35 and 4x27 – also have apps for “regular taxi services” – some of them also offering fixed prices,

20. Although it seems like the taxi market has found a way to develop innovative solutions that at the same time complies with the new taxi regulation, there are still some challenges regarding competition, efficiencies and development of the market.

⁵ In August 2017 the Danish city court ruled that Uber drivers violated the taxi-regulation. And this judgement was upheld in the High Court in January 2018. The new regulation coming into force in January 2018 would not have changed these rulings.

21. First of all, MOOVE (and the other apps in the market) are linked to the dispatch offices that also offer “traditional” taxi services (e.g. hailing, and payment by meter) thereby making a kind of omnichannel business. Since the taxi operators still have to pay a fee to their dispatch office that also has to cover the costs of the traditional taxi services, there seems to be some extra costs that a “pure” app-based business model, like Uber, did not impose on the drivers. This potentially makes the cost-effectiveness of MOOVE inferior to e.g. Uber’s business model.

22. Moreover, the three-years transition period regarding the number of licenses can be a barrier to entry for new players and new business model. The main problem with the transition period is that it is very difficult to enter the market “full-scale”, when licenses are granted in small portions over a long time period. As an example, Uber had about 2.000 drivers connected, when it departed the market, and only 650 licenses would be granted in 2018 – divided in each quarter – some of them expectedly going to some of the established taxi operators, leaving only a very limited amount for e.g. potential Uber-drivers. Taxi services are to a large part exposed to “scale effects” and “network effects” in the sense that it can be crucial to have a certain number of taxi drivers connected, before the services will be an attractive alternative to customer (especially in the large cities) – alternatively, it is necessary to cooperate with other taxi companies. The transition period thereby gives established players a competitive advantage to position themselves during the transition period and adopting new technology like an app, and thereby potentially making it more difficult for entrants after the transition period.

23. Furthermore, experiences from the first round showed that the system is exposed to “hoarding”. There were examples of some taxi companies, especially the large established players, submitting bids for a very large number of licenses thereby increasing their chances of winning, and at the same time knowing that they could transfer excess licenses to other applicants afterwards. This could also limit competition.

24. On the other hand, Uber has announced that it will re-enter the Danish market. This time Uber promises to be 100 per cent compliant with all Danish laws. It remains to be seen how this will affect competition in the market.