

**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 Finland****4 June 2018**

This document reproduces a written contribution from Finland 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

Please contact Mr Chris PIKE if you have any questions about this document
[Email: Chris.Pike@oecd.org]

JT03431147

Finland

1. Introduction to the Finnish taxi market

1. The Finnish taxi market has been so far heavily regulated. The maximum fares for taxi trips and the number of taxis in each municipality has so far been strictly regulated by the legislator and public authorities. The taxi market will be liberalized when the new Act on Transport Services (320/2017)¹ will enter into force on 1st July 2018. Then, the quotas set by the authorities will be removed, free entry will be possible and maximum prices will be removed. Taxi entrepreneurs are then also free to operate anywhere in the country.

2. The following text describes the features of the Finnish taxi market so far and key changes in the legislation on taxi transport. In addition, the text describes competition concerns in the taxi market as well as the active role of the Finnish Competition and Consumer Authority (FCCA) in amending the legislation. At the end of the text, there are some scenarios as to what will happen in the taxi market in the future.

2. Current features of the Finnish taxi market

2.1. The Finnish taxi market is heavily regulated

3. The Finnish Taxi Transport Act (217/2007)² entered into force in 2007. However, the Finnish Taxi Transport Act, the Government decree of maximum fares for taxi transport (403/2017)³ and the Act on the professional competence of taxi drivers (695/2009)⁴ are currently valid and regulate the price, quantity and quality of the Finnish taxi transport until the new Act on Transport Services (320/2017) will enter into force on 1st July 2018.

4. Regional authorities, the ELY Centres (the Centres for Economic Development, Transport and the Environment), set the maximum number of taxi licenses (quotas) per municipality in each year. The taxi licenses are granted in a specific order to those applicants that meet the general criteria laid down in the Taxi Transport Act. To meet the criteria, all applicants must successfully complete the training for taxi transport operators and must have no criminal background. Since in many areas, especially in larger towns and cities the number of applicants is usually a lot higher than the number of licenses granted, the Finnish Taxi Transport Act contains specific provisions on the order of priority to be used to determine which applicants are granted a license. As a rule, taxi licenses in Finland are not assignable or otherwise transferrable. The issuance of new

¹ <https://www.finlex.fi/fi/laki/ajantasa/2017/20170320>

² <http://www.finlex.fi/fi/laki/ajantasa/2007/20070217>

³ <https://www.finlex.fi/fi/laki/alkup/2017/20170403>

⁴ <https://www.finlex.fi/fi/laki/ajantasa/2009/20090695>

licenses is based on an assessment of demand, customer needs and other market data regarding the municipalities.

5. Maximum taxi fares are set out by the Government decree of maximum fares for taxi transport. The price of the journey comprises principally a basic fee, a travel fare and a fare charged for waiting time. The travel fare rises gradually on a kilometer basis, as indicated by the meter, and depending on the number of passengers. At night from 20.00 to 06.00, on Saturdays from 16.00 and on Sundays there is a higher basic fee. A single taxi entrepreneur can determine its own fares below the maximum fares set out by the Government decree. However, the entry is controlled through a license system and the lack of competition leads very often the actual fares to be equal to the maximum permissible.

6. Majority of the taxis are affiliated to a dispatch centre, which operates so called call system. It means that when a typical customer wants a taxi to himself, he usually phones to a dispatch centre which transmits the nearest taxi car to the customer. Commencing the activity of dispatch centre services requires a notification to the ELY Centre. The main regulatory requirement imposed on dispatch centre is that it must be capable of providing services round-the-clock and take advance orders. Dispatch centres have typically dominant position in their own operating areas and they are typically companies owned and ran by taxi license holders. Majority of all taxi trips are transmitted by the dispatch centres. Operating a dispatch centre for taxis does not require a taxi license.

7. Taxis are not free to operate in the whole country, because there is an obligation concerning the area of operation for every taxi. Although, a taxi is allowed to carry its passengers where they request the taxi is then obliged to return immediately to its own municipality. In practice, every taxi is tied-on its own municipality and its own dispatch centre.

8. The ELY Centres must regularly check that the license holder still meets the requirements set for issuing the license and that the taxi services are still provided in accordance with the license conditions. The police control that taxi services are not provided without a taxi license; that a taxi is not driven without taxi driver's license and that the drivers meet the requirements for driving a taxi. The properties of the car used in taxi traffic must stay suitable for the purpose and the car must be technically in good condition. The Consumer Ombudsman supervises the compliance with the Consumer Protection Act (38/1978)⁵ and other laws protecting consumers.

9. If the customer wants to take the taxi in the line on the street, the customer is not obliged to choose the taxi that is first in the line. Generally, the driver cannot refuse a customer's transport request when waiting at his base station. However, the refusal is possible in cases of illness, malfunction of the vehicle or a risk to driver's professional safety (e.g. drunken and aggressive customers).

10. There are approximately 9,500 license holders who have about 10,000 taxi cars in Finland. Consequently, one license holder typically operates only one car. As confirmed by The Finnish Taxi Owners Federation, most of the taxi companies have one license. However, there are companies that have accumulated multiple licenses and cars.

⁵ <https://www.finlex.fi/fi/laki/ajantasa/1978/19780038>

Cabonline Finland and Kajon are one of the largest companies providing taxi transport services in Finland.

11. The Finnish taxi market is still at the moment heavily regulated, with a maximum number of licences, rules for the precedence across the applicants, and maximum fares set out by the Government decree. Due to the maximum limit on the licenses, their number has been stable (about 10,000 taxi licences) for many years. Demand varies throughout the year, with higher peaks in November and December, and, during the week, in the morning and weekend nights. Since 1st July 2018, the new Act on Transport Services (320/2017) will remove the quantitative restrictions and regulated prices, and it will probably increase the number of suppliers with a decrease in fares due to a more competitive environment.

2.2. Competition concerns in the Finnish taxi market

12. In most municipalities, the taxi entrepreneurs are members of local taxi association. Very often the leaders and other active members of local taxi associations are also active shareholders of local or regional dispatch centres. Some taxi associations have been at the origin of price cartels where taxi operators co-ordinated their bid for municipal public procurement contracts for transport services. Most cartel cases have occurred in the late 1990s and early 2000s.

13. There has been also many dominance cases in taxi sector where a single taxi entrepreneur has complained that a dispatch centre has applied discriminatory practices. Typically, a taxi entrepreneur has complained that a dispatch centre has determined discriminatory affiliation fees and discriminatory continuous monthly service fees to taxis. For instance, a dispatch centre has put higher affiliation fees for new entrants or has given discounts regarding the monthly service fees to the taxi firms which are members of The Finnish Taxi Owners Federation. The FCCA has also received complaints that the dispatch centre did not distribute orders made by consumers equally to all taxi entrepreneurs. In some cases, a taxi entrepreneur has complained that a dispatch centre has in practice prevented the taxi entrepreneur to affiliate to dispatch centre.

14. It is the task of the FCCA to investigate competition restraints both on its own initiative and on the basis of complaints. The intention is to intervene with major competition restraints as regards the performance of the national economy, harmful to sound and effective economic competition. In principle, competition authority intervenes all cartel cases. The FCCA also prioritizes its cases and may also declare a case inadmissible on certain grounds.

15. In the above-mentioned dominance cases regarding dispatch centres, the FCCA has often used its right to prioritize and declared a case inadmissible. FCCA's argument for prioritization has been that the FCCA has the right to concentrate on the most important cases of the national economy. The FCCA has drawn attention to the fact that supply and pricing are regulated, which means that normal market mechanisms are not functioning in taxi transport.

16. However, the FCCA has initiated *ex officio* investigations in the case where at least some of the regional dispatch centers have presumably introduced exclusivity contracts to the drivers accessing their services. There have emerged allegations that they have an aim to deter new rival dispatch applications to penetrate the market. The case is pending and it is still premature to state conclusions of alleged abuse of dominance and/or prohibited horizontal actions.

17. Uber taxi drivers started to drive their own taxis in Helsinki at the end of the year 2014. From the competition viewpoint, Uber taxi transport system promotes competition in taxi market. However, the operation of taxi traffic is still subject to the license granted by the ELY Centre in Finland. Uber drivers didn't have any licenses and the Helsinki Court of Appeal ruled on 21 September 2016 Uber drivers for fines for unauthorized taxi transport. In 2017, Uber announced that it would cease operating taxi transport in Finland and return again to carry out taxi transport when the new Act on Transport Services comes into force. It should be noted that operating taxi traffic is still at the moment subject to the license but the dispatch service is free to set up.

2.3. Public procurement contracts for taxi services

18. The total turnover of taxi transport services in Finland is about one billion euros. Public procurement contracts for taxi services have big importance for the Finnish taxi sector. Public demand comprises about 40 % of the total turnover of taxi transport. Taxi travel costs to be reimbursed from sickness insurance account for a significant proportion of all taxi travel costs paid by the public sector.

19. The Finnish Social Insurance Institution Kela provides reimbursement for part of the cost of trips made to public or private health care providers. The reimbursement of the travel expenses is specified by the rules of the Health Insurance Act (1224/2004) and the Act on the Rehabilitation Benefits and Rehabilitation Allowance Granted by the Social Insurance Institution (566/2005). Reimbursements for travel costs are provided for trips from the customer's permanent address to the nearest treatment provider where the necessary treatment is available. Usually this means the main municipal health centre. Travel costs are reimbursed on the basis of the lowest-cost means of transport. Usually this will be the train or the bus. Taking into account the traffic connections and the customer's medical condition, the customer can also get a reimbursement for part of the taxi costs. In that case, the customer must always phone to certain taxi dispatch centre. That way the customer will be reimbursed directly in the taxi and will avoid a higher copayment.

20. On 4th April 2016, the Finnish Supreme Administrative Court gave a decision concerning the aggregation of contracts between the Finnish Social Insurance Institution Kela and taxi companies. The question was about the framework agreement between the Finnish Social Insurance Institution Kela and the Finnish Taxi Owners Federation concerning an electronic scheme for direct reimbursement of transport costs of insured persons and a system of booking journeys. The Supreme Administrative Court stated that the aggregation of contracts was a service concession that should have been put out to tender according the rules of the Act of Public Contracts (1397/2016). The Supreme Administrative Court also stated that the sanction was to order the contracting authority to pay compensation to a party who would have had a genuine chance of winning the contract if the procedure had been correct. However, because in this case the contract had not been put out to tender at all, there were so many uncertainties concerning the results of the procurement process, that the prerequisites for ordering compensations were not fulfilled.

21. The Finnish Social Insurance Institution Kela has subsequently tendered out the dispatch centres. The tendering procedure was carried out in such a way that only one dispatch centre was chosen as an intermediary for taxi trips reimbursed from sickness insurance in each health care district. Kela has not tendered out the prices of taxi transport

services and so the prices of the taxi trips reimbursed partly from sickness insurance have been equal to the maximum prices set out by the Government decree.

2.4. FCCA's initiative regarding taxi market

22. On 14th April 2014, the FCCA published an initiative regarding taxi market. In its initiative, the FCCA advocated that the quotas regarding maximum number of taxi licenses should be removed. The experiences of countries that have finished quotas and allowed free entry show that the availability of taxis has improved. In those countries, waiting times have also been shortened and customer satisfaction improved. The finishing of quotas does not, however, mean a reduction of qualitative regulation.

3. Central elements of the legal reform regarding taxi sector

23. Transport regulation has been under review in Finland and the new Act on Transport Services (320/2017) will enter into force mainly on 1st July 2018. Legal provisions on transport market will be brought together under the Act on Transport Services. It will cover all transport modes. The reform aims to support new service models and better respond to the needs of transport users. The Act on Transport Services will make market access easier and promote the interoperability of the different parts of the transport system.

24. The reform will bring about essential changes in the taxi system. The Act on Transport Services facilitates entering the taxi sector. As taxi quotas will be given up, any operator that fulfils the conditions for a license laid down in the act can offer taxi services in future. A taxi license will be operator-specific. After the reform, a taxi can remain waiting for passengers also outside its registered zone of operation, and taxis from other localities can come when demand is high in another locality. This will make the system more flexible and efficient and make the operations easier particularly in sparsely populated areas.

25. The regulation of taxi price ceilings will be discontinued and the market will determine the prices in future. Clear and understandable information about the price of the trip and the grounds for its determination must be made available before the trip. If prices begin to rise unreasonably, the Finnish Transport Safety Agency Trafi can impose a maximum permissible price.

26. The Act on Transport Services obliges the personnel transport services and brokerage providers to open their ticket and payment system for open sales interface. In the taxi sector, the aforementioned obligation applies, in principle, to those who have an information system-based brokerage system and the range of services includes the possibility to reserve the trip in advance. The obligation therefore concerns only dispatch centres. The obligation therefore does not apply to small taxi firms where bookings are received, for example, by phone or by email.

27. The FCCA has supported and promoted the reform of transport legislation. The current legislation regulating passenger transport has restricted competition and categorized different transport modes. As a result, the interoperability of the different parts of the transport system has been modest. In particular, the FCCA has supported the introduction of open information interface and interoperable digital ticket and payment systems, which can lead to new service models in the near future.

28. During the preparation of the new Act on Transport Services (the Transport Code) in 2016-17, the Ministry of Transport and Communications organized several workshops for interest groups. The FCCA has been active in those workshops. On 30th May 2016, the FCCA issued its statement regarding the proposal for the new Transport Code to the ministry. On 12th October 2016, the FCCA gave its expert statement regarding the government proposal for Transport Code to the Finnish Parliament. The FCCA has supported the liberalization of the taxi market in its statements, as a rule, in line with the guidelines presented by the ministry. The Finnish Parliament decided that the name of the Transport Code changed to the Act on Transport Services. The FCCA also issued statements in 2017 on the amendment of the Act on Transport Services. Those statements focused on consumer law issues.

29. On 18th September 2017, the FCCA issued a statement on the provisional amendment of the Health Insurance Act (1224/2004)⁶. On 10th January 2018, the FCCA issued a statement on the draft decree regarding the maximum price for a taxi trip in the case when Kela provides reimbursement for part of the cost of the trip. Both abovementioned statements are connected to the aims of the new Act on Transport Services. In its abovementioned statements, the FCCA has considered problematic, that the taxi trips reimbursed from sickness insurance are centralized in each health care district for the delivery of only one dispatch centre. The FCCA's view is that this centralization is a factor that props up the position of those dispatch centres and may prevent the development of competition in new dispatch services. The FCCA also criticized the fact that Kela had not tendered out the prices of taxi services but only the dispatch centers.

4. What will happen in Finnish taxi market since 1st July 2018?

30. The dispatch centers typically have strong market position in their own territory in Finland. This situation may not change very quickly. The taxi trips reimbursed from sickness insurance are centralized in each health care district for the delivery of one dispatch centre. That centralization is a factor that can prop up the position of those dispatch centres. In sparsely populated areas, the taxi trips reimbursed from sickness insurance, are lifeblood for taxi entrepreneurs.

31. Kela has recently tendered out new service providers in each health care district. In practice, the aforesaid service provider must act as a dispatch centre for taxi trips reimbursed from sickness insurance. Since the tender is held before the entry into force of the new Act on Transport Services, this can lead to a situation where new taxi entrepreneurs entering the market after 1st July 2018 cannot get themselves taxi trips reimbursed from sickness insurance. This may slow down the development of competition especially in sparsely populated areas.

32. In the biggest urban areas, taxis are not so much dependent on taxi trips reimbursed from sickness insurance. It is expected that the highest number of new taxi services and dispatch services are generated in those biggest urban areas. On the other hand, the new law also permits the practice of taxi transport on a part-time basis. This in

⁶ <https://www.finlex.fi/fi/laki/ajantasa/2004/20041224>

turn can increase the number of part-time taxi entrepreneurs in both cities and sparsely populated areas.

33. It is possible that new entrants will be affiliated to existing dispatch centers. It is also possible that new entrants will set up their own dispatch system. However, for a new dispatch center to function efficiently, it must have enough taxi cars to provide to customers. This is the reason why setting up new dispatch centres can be difficult at first. In Sweden new dispatch centers have been created so that some of the taxi firms have left the former center and set up a whole new one. It remains to be seen whether this can happen in the future in Finland as well.

34. It is possible that in the long run, dispatch centers with their taxi cars will form chains that start to compete with each other. For competition between the various chains to be effective, certain internal competition restrictions inside each chain may be considered acceptable. In addition to chains, there will probably be independent non-chain entrepreneurs in the market.

35. It is also possible that new applications based on smartphones will become more common when ordering a taxi. This can significantly change the status of traditional dispatch centers. On the other hand, traditional dispatch centers can also introduce new smartphone applications. The Finnish Taxi Owners Federation has already introduced its own dispatch application 'Valopilkku' to be utilized by the regional taxi centres.

36. According to news, new low-cost taxi services will be introduced. Taxi company Kovanen is preparing for the upcoming competition by launching a new fixed-price taxi service FixuTaxi. Its purpose is to provide a taxi trip in the Helsinki city district for around 10 euros. The new FixuTaxi service will be introduced first in the Helsinki area and later its purpose is to expand to other big cities as well.⁷

37. Taking a taxi on the line, the consumer may be in a situation where taxi cars of different prices are available. In this situation, the consumer is not obliged to take the first taxi in the queue, but the consumer has the right to choose the taxi he/she wants. There must be a text on the rear window of the taxi, which clearly indicates the basics of pricing. The taxi entrepreneur should ensure that the customer is always aware of the cost of the taxi ride on the trip. The taxi driver must agree clearly with the price in advance with the customer if the fare exceeds 100 euros.

38. The liberalization of taxi market does not necessarily mean that new cheaper taxis will take customers from traditional taxis. It is more likely that new taxi users will come to the market when cheaper taxis enter the market. This is because, at present prices, some people do not use a taxi at all. The task of the new law is to allow the development and introduction of completely new types of taxi services, which will benefit consumers.

⁷ <https://www.uusisuomi.fi/kotimaa/239984-nyt-tulee-kiinteahintainen-halpataksi-10-eun-pirssit-aloittavat-helsingin-keskustassa>