

**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 Latvia

4 June 2018

This document reproduces a written contribution from Latvia 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]

JT03432337

Latvia

1. Legislative framework for ridesharing¹ and taxi services

1. The first legislative initiative that included proposal for introduction of ridesharing amendments of Road Transport Law was submitted to the Latvian parliament (Saeima) in August 2016. Ridesharing providers were active in the market already before these amendments but such commercial activity was not recognized as fully corresponding to the legislation in transport field due to the operation without the license and also according to taxation legislation.

2. There were different opinions between sectoral ministries. Those against indicated that such amendments allowing ridesharing will substantially negatively affect taxi service market providers and will increase tax evasion that was already recognized as very high. Those supporting these amendments for ridesharing also supported review of taxi service legislation (for example, geographical fragmentation of licensing and fees applied). Representatives from ridesharing, including both Taxify and Uber, and stakeholders from taxi sector was participated during discussion of the amendments of Road Transport Law in the parliament and also later during the elaboration of draft secondary legislation adopted by the Cabinet of Ministers (CM). Competition Council of Latvia (CCL) was also involved in discussion supporting regulation of ridesharing. In view of CCL some liberalization for taxi regulation in the market could have been beneficial not disrupting competition with taxi sector and minimizing artificial switching of companies and individuals previous active in taxi services market to ridesharing. Although anyway due natural competition pressure taxi services providers should be able adapt to new digital environment to stay competitive.

3. As a result, the new amendments in the Road Transport Law,² adopted by the parliament on September 28, 2017, came into force on March 1, 2018. Amendments provided partly a unified approach defining the features of both kind services in the Road Transport Law. Some restrictions in law were applied to providers of ridesharing services allowing to accept only electronical payments. The introduction of obligation to use electronic payments from the legislator was assessed as the most effective means of preventing the increase of tax evasion by introducing a regulation on ridesharing and allowing entrance of new market participants.

4. According to Road Transport Law both taxi service and ridesharing providers are obliged to receive license. Ridesharing providers are obliged to apply for one national license issued by Road Transport Administration. The procedure for obtaining a license for taxi service providers changed, minimizing the burden to get one license to conduct business in several municipalities. Rights to issue license were delegated to the planning regions what that consisted of several regional municipalities. For example, the Riga

¹ Term “ridsharing” is used in this contribution used as most common term. Term used in Road Transport Law defines such services as “*passenger carriage by car (...) offered, demanded and approved using electronic means of communication on-line only via a website or mobile application, for which payment is made only in cash*”.

² [Amendments of Road Transportation Law](#) (in Latvian).

Planning Region consist of all municipalities that are located near the Riga city but not including Riga city. At the same time, the obligation to receive a separate license for operation in the largest (Riga, etc.) cities remained. Additional common basic requirements for the drivers regardless of service provided (taxi or ridesharing) were introduced in law for receiving driver's license - 3-year driving experience, obligation registration in taxi driver register.

5. Later at secondary legislation level (regulation issued by the CM) it was planned to include more detailed requirements for both kind of services. The CM regulations separately for taxis³ and ridesharing⁴ services were elaborated. Both regulations of the CM were adopted on March 6, 2018. The basic requirements applied for both service providers for obtaining a license were absence of tax debts and obligation to pay all administrative fines. At the same time, for both taxis and ridesharing providers, the new regulation stated obligation to register in the Enterprise Register as enterprise (a commercial merchant or company) that automatically means that person (also company) is obliged to provide complete accounting for it business.

6. From January of 2018 the CCL also was involved in evaluation of these legislative proposals submitted to the CM. CCL challenged the imposition of excessive requirement for the ridesharing services providers to register Enterprise Register, obligation to store data of mobile app providers on servers in Latvia and others. CCL view was that although both kind of services are similar and competing but the business models introduced should be different. The ridesharing should be adapted more for motivation of use of private cars to facilitate the mobility and to make more efficient the use of private cars. The provision of taxi services should remain as main model for those who conduct passenger transportation by car as business individually or through company.

7. CCL indicated that potential ridesharing providers should be differentiated and given the option of choosing less burdensome forms of economic activity, which according to actual taxation legislation are allowed in particular occasions when economic activity is not regular or level of annual incomes is low (for example like regulation for flat renting, etc.). These who rent the flat are obliged to pay fix income tax with substantially less obligation for accounting.

8. One of the considerations of CCL was that already the existence of an obligation to accept only electronic payments significantly reduced the possibility of tax evasion. Additionally, the CLL, in assessing the supply and demand factors in the market, noted that it should be taken into account that the provision of ridesharing services will mostly be chosen (as opposed to taxi) by natural persons who have their personal car and are willing only to share their car in some occasions for the provision of services (usually when demand for such services considerably increases – in the morning, evening hours or in case of special events). Providing passenger transportation service (regardless by taxi or ridesharing), the speed of service provision is most significant (compared to public transport) for the quality of service and the consumer's expectations is likely to be

³ [Requirements for obtaining a special permit \(license\) from the planning region and the republic city and the procedure for the carriage of passengers by taxi.](#) (Text of regulation only in Latvian)

⁴ [Procedure for passenger carriage by passenger car](#) (Text of regulation only in Latvian)

significantly reduced if waiting time becoming too long due to insufficient availability of cars.

9. Thus, the requirement by the regulation to register a permanent business will demotivate the entrance in the market of those who want to share their car and provide services only temporarily. If service is provided by companies or individuals that carry passengers (both taxi and private car) and conducting this as a permanent business (with car fleets and drivers hired), will in the result affect the quality of the service (mostly waiting time) provided in the market and also the mobility of consumers.

10. Finally it should be admitted that actual legislation although recognizes common features of both services and set similar requirements for set up of business (also the need to register enterprise) with some differences of conducting business (restriction accept only electronical payments and use of online ordering only with mobile app by ridesharing providers) it is more designed to restrict the possibility to enter for private car owner to offer ridesharing than creates less burdensome requirements for taxi service providers.

2. Previous advocacy activities of CCL in taxi services market

2.1. Taxi market inquiry⁵

11. CCL has previously conducted market inquiry in the taxi services market in Riga. Inquiry was conducted in 2014 and 2015 with publication of final report in February 2016. In parallel CCL was engaged in various advocacy activities concerning new initiatives in taxi by Riga municipality and government in taxi market (setting minimum price level, introducing special licenses in Riga Old town and etc.).

12. Starting inquiry Riga was chosen among Latvian cities due to different competition conditions, market capacity, demand and number of active market players. During inquiry, the regulatory framework for the provision of taxi services in Riga was evaluated, as well as information on market development in Riga from 2009-2015, market structure and possible restrictions contained in regulatory enactments analyzed. Also, existing market barriers for provision of services were evaluated namely existing contractual restrictions on the access of service providers to parking places (for example, located near the hotels, Riga Central Railway Station, Central Bus Station and Riga International Airport, etc.)

13. Although geographical scope of the market of provision of taxi services was pretty much clear taxi services market in Riga city the final report leaves by a large the market definition open especially narrower definition of product market (for example, based on the service demand channels – through call centers, mobile apps; by clients – business customers, etc.).

14. CCL concluded that there were no significant administrative barriers to entry in the taxi market for new entrants. There were no restrictions recognized that would harm consumers. Fragmented licensing (done by each municipality separately) created an additional burden for undertakings acting in the market. This is especially true for the

⁵ [Taxi market inquiry](#) (In Latvian)

provision of services near Riga (for example, at the airport Riga, which is located at another the municipality). At the same time, the CCL found that the amount and differences of annual license fees in municipalities near the Riga did not created significant barriers for entry in the market and are equal to all.

15. Historically in Riga city was a limit imposed by Riga municipality on the number of taxis in the amount of 1500 cars, which was canceled in 2005. During the market inquiry, there are no restrictions on the number of taxis found.

16. According to report in Riga there were different forms of business activities and forms of cooperation active at the market for taxi services in Riga: large companies with their taxi fleets more than 50 cars, small and medium-sized companies, and companies offering their own dispatch centers and trademarks to individual taxi services providers and individual carriers. Also during the inquiry in Riga one international company (Taxify) and one local company, which offer taxi service providers a new and more convenient way of reaching consumers – through mobile apps, were active. Anyway, for the period 2009-2015 the two of the biggest companies in the market of taxi services in Riga owed 15-25% of the taxis licensed in city but generated approximately 40-50% of the turnover in the market.

17. The inquiry and report revealed that despite the maximum price level set by municipality, there was significant price differentiation in the market. At the same time, the biggest taxi service providers usually provided prices closer to maximum level offering rebates to loyal customers (usually business customers). CCL also evaluated price setting inside cooperation between independent taxi providers that cooperated under one trademark to remain competitive. CCL concluded that each independent taxi service provider must act independently and they have to refrain from uniform price setting. CCL also informed taxi companies about it.

18. Contracts concluded between the hotels and taxi companies and analyzed by CCL determined non-competition obligations and certain *exclusivity* for particular taxi companies. CCL considered that these agreements were not concluded with several different taxi companies active in the market (not one). After inquiry of taxi companies, hotels and other stakeholders and analysis of customer switching possibilities CCL concluded that these agreements don't restrict competition and do not exclude others competitors from the market. There was no substantial impact on the price setting, diversity or quality of the services available to customers. Customers of any hotel were free to choose taxi company they prefer better based their decision on the price or quality and reach these taxi service providers in different ways - hail the taxi at the street, at public taxi parking, via telephone or mobile app. CCL also did not find that the exclusive rights for a certain taxi companies to operate at the railway or bus stations limit the freedom of choice for customers for the same reasons.

19. When assessing the conditions for co-operation between Riga airport and 2 taxi companies operating at Riga airport, the CCL found that certain conditions in the regulations that allow companies to qualify for cooperation with the Riga airport are not clearly understandable and unreasonably restrict competition. The CCL evaluated the excessive requirement for taxi service providers that to be allowed to provide services near the airport main entrance taxi company must have a continuous experience of at least three years and a total net turnover of at least EUR 341,916.12 for the past three years. An agreement was reached at the Riga airport on the changes to the relevant paragraphs of these regulations.

2.2. Other advocacy activities by CCL in taxi market

2.2.1. Discriminatory license's fees in Riga city⁶

20. In October 2015 Riga city Council issued regulation Nr. 171 setting restriction – to provide taxi services within the Old Town of Riga without acquiring additional license. Taxi service providers were required to obtain this license for each taxi company or individual carrier for 300 EUR fee per year regardless of the number of the cars owned.

21. In Riga, slightly more than 94% of carriers provide taxi services using one to ten cars. 5% of carriers operate with 11 to 50 cars, while less than one per cent – with more than 50 cars. The CCL didn't opposed introduction of the fee as such but to the discriminatory form fee was applied to competitors in taxi market. Such discriminatory fee created competition barriers, as well as increased the financial burden on service costs to those carriers that operated within the market with a smaller fleet or individually.

22. Ministry of Environmental Protection and Regional Development also supported the opinion of CCL and requested Riga City Council to assess whether freedom of movement and choice of the consumers within the Riga is not restricted due to this regulation. Riga municipality didn't change this regulation.

2.2.2. Intentions to regulate minimum price in taxi services

23. In 2015 and 2016 CCL were involved in discussion with policy maker (Ministry of Transport - MoT and others) that had intention to introduce restriction of minimum level of taxi fare. MoT elaborated and introduced informative report "Legislative framework for passenger transport by taxi and proposals for its improvement" and one of the proposals included setting minimum tariffs. At the same time, it was planned to abolish the maximum price limits for the provision of services.

24. This was based on intention to restrict the share of shadow economy and tax evasion in taxi services market, also to restrict misleading advertising of economically unjustifiably low tariffs and to protect consumers.

25. In the CCL view, setting the minimum price would not eliminate the tax evasion problems in any form, while at the same time such restrictions will limit competition significantly, validating and encouraging artificial price increase and harming consumers. CCL based its opinion also on OECD Competition Assessment Toolkit. Such approach setting minimum price also decreases overall effectiveness in the market encouraging less efficient taxi service providers to stay in the market. Also in CCL view price competition is the main driving force and the demand side choice is based on price very often. During the discussions, CCL send its opinion to relevant stakeholders also in written form.

⁶ [Press release](#), 01.02.2016.