



# More Choices Better Service

A Study of the Competition in the  
**Personalised ~~POINT TO POINT~~**  
Car Transport Service Market

更多選擇 更佳服務

個人化點對點  
交通服務市場競爭研究

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# Abbreviations

|       |   |
|-------|---|
| HCP   | hire car permit                           |
| HKTC  | Hong Kong Taxi Council                    |
| ICT   | information and communications technology |
| LegCo | Legislative Council                       |
| PTC   | Private Transportation Company            |
| PTSS  | Public Transport Strategy Study           |
| RTO   | Road Traffic Ordinance                    |
| TCU   | Transport Complaints Unit                 |
| TfL   | Transport for London                      |

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# Executive Summary



## Introduction

One of the major disruptive forces to economies around the world has been the acceleration in scope, scale, and economic impact of information technologies using the Internet. New business models have emerged finding new ways of providing services to consumers that are overturning the status quo of existing trade practices in different market places through utilising new technologies.

The Hong Kong taxi industry is one of many facing this challenge. E-hailing services are a global phenomenon where service providers make use of communications technology to provide more personalised and efficient services to those consumers who are seeking personalised point-to-point car transport. This is usually marketed as a “ride-sharing business” in the context of a sharing economy.

The E-hailing service providers typically call themselves transportation “network” companies because their services are based on the network they create as “matchmakers” that brings passengers and drivers together. However, the rapid growth of these network companies has raised concerns due to the market disruption caused to incumbent taxi operators, and the implications on the long standing regulatory regimes that have been introduced to address legitimate concerns on passenger safety and welfare.

In Hong Kong, the Government’s position is clear that these ride-sharing businesses fall outside the current regulatory regime and are illegal. As such there is not as yet any specific regulatory framework to govern their operation.

## Consumer Expectations

The Consumer Council’s experience through its role in conciliating consumer disputes indicates that the quality of taxi services has been a matter of consumer concern.<sup>1</sup> Complaints and suggestions on taxi services have continuously increased. In 2016, 10,357 complaints and suggestions for improvement were recorded by the Transport Complaints Unit (TCU) of the Transport Advisory Committee, representing 46.4% of the total complaints and suggestions made about public transport services, despite the fact that taxis only contribute 7.4% (0.93 million passenger trips per day) of public transport patronage per day in Hong Kong. The overwhelming majority of these related to malpractice of taxi drivers, such as failure to take the most direct and practicable route, improper driving, drivers behaving other than in a civil and orderly manner, overcharging and refusing hire or refusing to drive to a destination.

Close government regulation of the taxi industry has extensive historical origins. These have arisen due to concerns for consumer safety and welfare, in addition to recognition that maintaining efficient personalised point-to-point car transport can bring substantial benefits to the economy as an adjunct to other forms of public transport such as buses, trains and trams.

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<sup>1</sup> The Council received 28 complaints on taxi services from 2015 to September 2017.

Recent consumer surveys on taxi services reflect concerns for improvement in terms of service quality and a desire for more choices.

In 2016, the Government commissioned a telephone survey to gauge public views on a proposal it has put forward for the introduction of a franchised taxi service in Hong Kong (as an answer to the threat posed by E-hailing) to operate in competition with the current taxi industry, by offering higher standards of service albeit it at higher price than the standard fare by common taxis. This survey indicated there is support for a more personalised service at premium.

The E-hailing firm Uber also commissioned a telephone survey in June 2017 to collect public views on how to improve Hong Kong's personalised point-to-point car transport service. It claimed that a majority expressed a view that there should be more choices for point-to-point car transport services; and that the Government is not doing enough to support innovation and should provide a legal framework to regulate E-hailing.

Recently a taxi industry commissioned survey has indicated that the most highly ranked items of concern for consumers were in relation to driver's professional attitude; the use of the most efficient or passenger-specified route; compliance with taxi regulations; familiarity with the passenger destination and traffic conditions; and hospitality.

Moreover, it is to be expected that many tourists who come to Hong Kong will assume, because of Hong Kong's reputation as a "world city" and the common usage of E-hailing worldwide that they can also use E-hailing services concurrently with traditional taxi services. It is reasonable to assume that some of these tourists will attempt to use that type of service, particularly if the traditional taxi service is not available or meeting their demands; and those entrepreneurs will also continually attempt to provide the service regardless of questions as to illegality.

## Projected Demand

Demographic research indicates that Hong Kong can expect that demand for personalised point-to-point car transport services will increase in the future, given not only general population growth, but an increase in the number of seniors and disabled persons who rely to a large extent on these services. Nevertheless, current figures on taxi usage indicate that demand for taxi services is actually stagnating. This is despite the increasing population and numbers of seniors and disabled persons, in addition to the overall benefits found in this mode of transport, such as efficient transit ridership and moderate fares for taxi services; as well as increasing demand for transport services to the airport.

An argument arises therefore that the market may not be operating at an optimal level to satisfy consumer demand. Given the concerns expressed through consumer surveys, and the complaints and suggestions recorded by the TCU, it can be reasonably assumed that without addressing issues such as availability, quality of service, and price competition, the development of the personalised point-to-point car transport service will not be able to meet market demand and there is an expectation that there will be a shortfall between demand and supply, leading to general loss in consumers' economic welfare.

## Lack of Competition in Personalised Point-to-Point Car Transport Services

The market for personalised point-to-point car transport services can be classified into three broad market categories: the stand market segment, the hail market segment, and the pre-booked market segment. These three categories of personalised point-to-point car transport services are close substitutes, and their demands are interrelated. More supply in the stand and hailing segments will lower the time costs for consumers, resulting in a higher turnover. On the other hand, better services in the pre-booked market segment, that mirror benefits not found in the other segments, will attract more consumers to shift to this segment.

In Hong Kong, only taxis are allowed to operate in the stand market segment and the hail segment. Because consumers are served on a first-in-first-out basis at taxi stands or by randomly catching taxis on the street, consumers can only seldom exercise choices, and no effective competition existed between taxi operators in these segments. In addition, consumers view taxi services as one homogeneous good of supply because all taxis look alike. They form their expectations about the taxi service based on the taxi market, rather than on the individual taxi they are going to use. Under such a market environment, taxi drivers have no motivation to improve their services to build customer loyalty, and neither is there any market mechanism that allows consumers to avoid substandard taxi drivers.

Hire cars only serve the pre-booked segment and compete with those taxis serving in the segment. Call-centres provide matchmaking services for hire car and taxis in the pre-booked segment by coordinating orders between vehicles/drivers and passengers. However, their scale of operations are usually small and hardly match E-hailing platform in terms of the range of information they can provide on vehicle choice and driver, customer feedback and the route involved. Although hire cars can adjust the price and quality of their services, the supply of hire car services is too small to create competition in the wider market. Moreover, taxi fares are regulated and there is no price competition between taxis.

## The Rise of E-hailing Services

It is important to note that an E-hailing service is a “matchmaker” business and not a direct provider of taxi services. In this context, E-hailing service providers deliver many features that are attractive to consumers, such as reduction of search costs, more direct control on supply to meet demand, better choice leading to possible increased quality of services; and inducing more price competition in the market; all of which bring economic benefits to consumers. Although there are some allegations that E-hailing service providers derive their competitive advantage from exploiting loopholes in regulatory requirements and that they lower standards of consumer safety/privacy, E-hailing services provide passengers with an effective mechanism to provide immediate customer feedback. The resulting competition from this feedback is likely to drive up standards, not only amongst other E-hailing service providers, but also for the rest of the market that competes with E-hailing service providers. As such, there is an argument that governments should support and encourage an innovative and customer-centric evolution of the personalised point-to-point car transport industry. Nevertheless, from a public policy standpoint, it must be recognised that the incumbent business interests that have also evolved over many years due to past government management of the industry, and that could restrain the development of benefits for the wider society, also have to be taken into account.

Opening up the market to free competition or constructing a level-playing field and regulatory environment for both taxis and E-hailing services to compete have been adopted by different overseas governments. The Government has put forward a proposal to create a limited number of franchised taxis that will focus on improved choices and quality of service. While it is also an approach similar to that adopted in other markets, the proposal might not generate enough competition in Hong Kong to motivate taxi operators to improve the quality of their services; which is a main concern expressed by consumers.

# Personalised Point-to-point Car Transport Service Market in Hong Kong

Taxi service  
Public transport service



## Business model

Street hail, taxi stand or booking



## Vehicle

Meter installed  
Regulated design on vehicle



## Fare

Charge by meter



## Quantity

18,163 in total



## Vehicle licence

Permanent



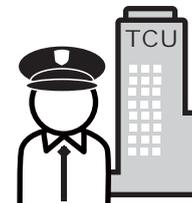
## Driver

Age 21 or above, holding a driving licence for at least 3 years and passed relevant test



## Passenger redress

Transport Complaints Unit of the Transport Advisory Committee



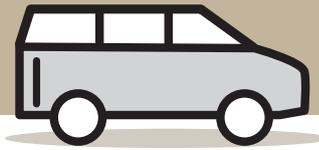
# Hire car service

Private transport service



# E-hailing service

Pre booking service using smartphone application or online platform

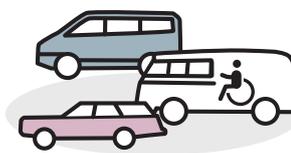


Booking only



Online Matching service

No explicit requirements on vehicle design  
Display hire car permit



General private vehicle, limousine, seven-seater, wheelchair accessible vehicle

Not regulated



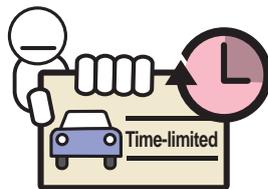
Cannot charge the fare

Number of hire car permits issued



From media report, more than 30,000 registered drivers, mostly are part-timers

Time-limited



No permit

No explicit requirements except holding the relevant driving licence



Holding a driving licence only

Online website or telephone hotline of the operator



Mobile application or online platform of the E-hailing service

## Overseas Trends

The emergence of E-hailing services has triggered changes in the regulatory framework of personalised point-to-point car service markets worldwide. The Council has examined the manner in which various jurisdictions have approached the issues that arise with regard to the services, given the incumbent interests of taxi services, and the economic benefits inherent in E-hailing technology.

Research indicates there are three ways in which E-hailing services, or elements thereof, have been allowed into various markets around the world. The first way is to create a level playing field between E-hailing services and taxi services; as found in Beijing, New South Wales, Singapore and Toronto. The second way is by attempting minimal regulatory disruption of the market through providing minor legislation changes; as in London and New York. The last way is to introduce protectionist measures for incumbent taxi service providers; as found in Barcelona, Copenhagen and Seoul.

Overall, where a more liberal attitude to market reform has been taken, it has been through either two approaches:

- A progressive approach by allowing a gradual increase in the number of hire car permits under which E-hailing service providers are required to operate. This approach may take a longer time to effect changes in the provision of taxi services leading to a gradual overhaul; or
- An open market competition approach that allows an unrestricted number of “hire car” permits to exist through the introduction of E-hailing.

No matter which approach was taken in the jurisdictions that have been examined, it is always the case that E-hailing operators are still regulated by governments and must undertake checks to ensure driver suitability and necessary vehicle conditions in delivering services.

## The Way Forward for Hong Kong

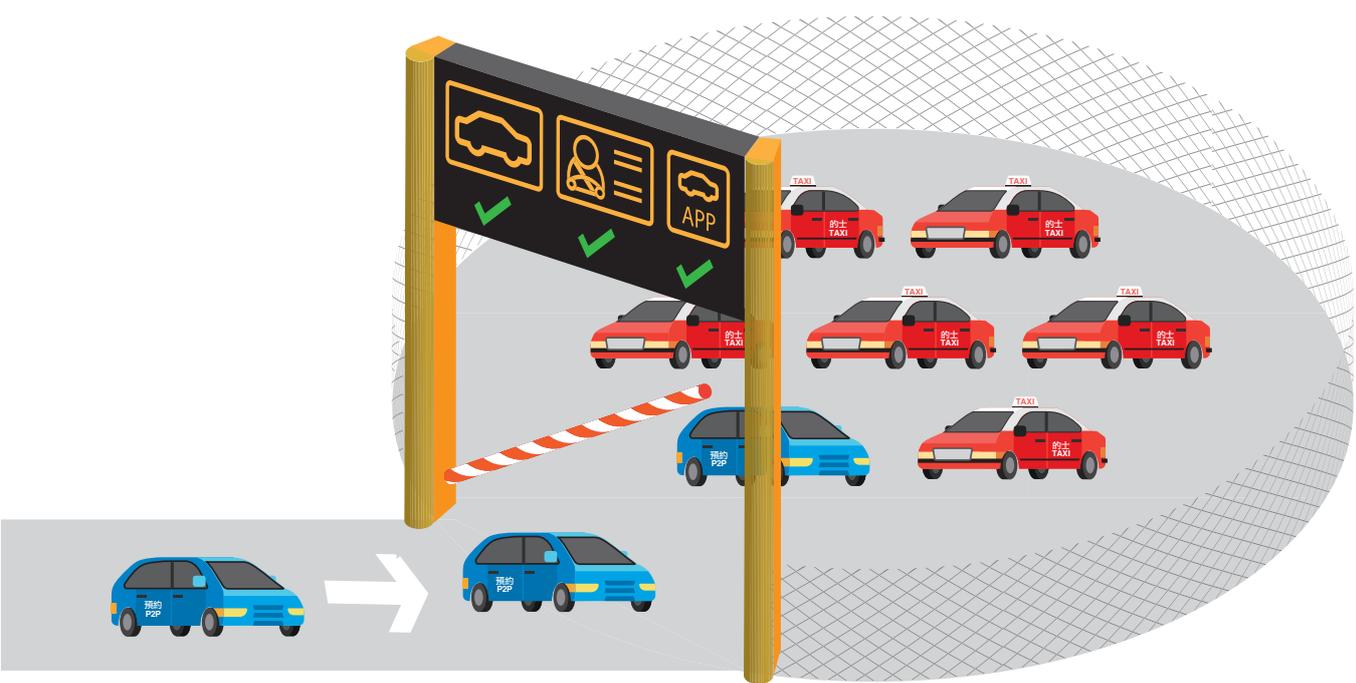
The Council welcomes the Government's desire to create a system of franchised taxis in response to consumers' desires for better quality service and a greater range in vehicle types. However, the mechanism currently proposed by the Government would not appear to fully satisfy the call for improvement from consumers and is not well suited to matching the existing E-hailing services that are popular in many countries. It would be regretful if the reforms currently being contemplated also missed the chance to introduce more competition and to embrace new offerings from the emergence of E-hailing services.

Like many markets, one of the key issues to be considered is how to minimise disruption to existing taxi drivers from the introduction of E-hailing. The Council recommends that the Government considers the Council's proposal for reform, as suggested in this study, if the Government's proposed "Franchised Taxi Services" fails to deliver its promise.

Leveraging of information and communications technology (ICT) to enhance passenger experience will continue to drive change in the marketplace, regardless of the wishes of the incumbent industry operators or the Government. The worst case scenario for consumers will be that the benefit that arises from the use of the latest technology will not reach its full potential in driving the improvement of the taxi industry, and lead to economic loss.

The Council therefore recommends that the Government takes the initiative and adopts a "progressive" and "transitional" approach to minimise disruption to existing taxi drivers from the inevitable changes that will arise due to technological developments and the impact of Big Data, as characterised by E-hailing services. This approach can begin with the application of licences/permits to E-hailing service providers; and the introduction of quotas for newly licensed operators; to control the momentum in migrating towards a more open market based system.

# Different Policies to Deal with E-hailing Services



## LEVEL PLAYING FIELD



Gradual implementation for monitoring the overall development



New requirements to safeguard passengers safety and improve service quality



Competition effect in the long run

# MINIMAL REGULATORY DISRUPTION



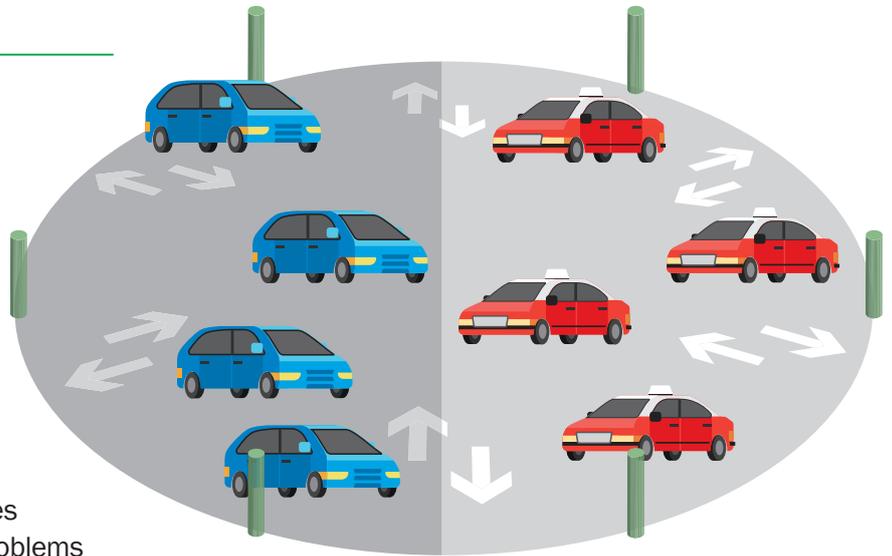
More choices for consumers



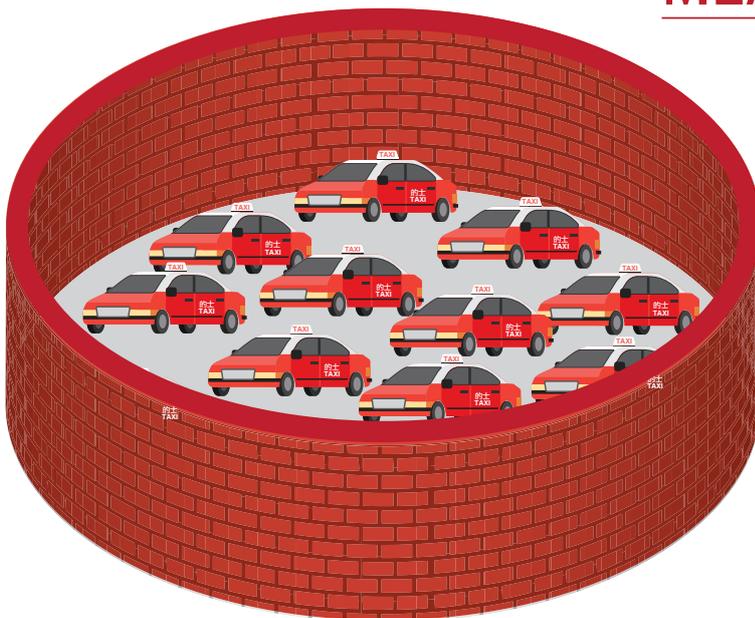
Unlimited E-hailing vehicles cause traffic problems



Direct impact on the incumbent taxi owners



# PROTECTIONIST MEASURES



Lack of competition and incentives to improve service quality



No effect on taxi business, and collapse of taxi licence premium

## Specific Council Recommendations

The Council believes that the introduction of a parallel regime consisting of both taxi and E-hailing services with resultant benefits of increasing competition, will in turn strengthen the service quality of market players. To reduce barriers of entry and to foster innovation, it would be desirable to impose fewer requirements for E-hailing services as far as possible. Ideally, the Government should focus more on those regulatory requirements that are key areas of concerns to passenger safety and operating effectiveness so that the Government is able to impose proper enforcement and traffic control.

The Council suggests that the process could make use of the existing 1,500 hire car permits (HCPs) issued by the Commissioner for Transport by relaxing, to some extent, the stringent requirements which govern that business environment, and which can embrace the features of E-hailing services. To begin with, the new system would grant three distinct permits:

- (i) Franchisees of E-hailing services – applying conditions on E-hailing platform service providers;
- (ii) Time-limited car permits – applying conditions to vehicles used for E-hailing services (no need for the Government to issue car permits if delegated to the E-hailing service operator); and
- (iii) Partner driver (PD) or hire car permits – applying conditions to the “partner drivers” (no need for the Government to issue driver permits if delegated to the E-hailing service operator).

The Council also recommends that a staged approach be implemented through transitional phases whereby:

- E-hailing platforms, vehicles and drivers all need licences, with a quota applied to the numbers of vehicles and new market entrants;
- Regulatory conditions are imposed on vehicles and drivers to safeguard passengers;
- Specific licensing requirements of E-hailing service providers are introduced to maintain price transparency, adequate customer personal safeguards and traffic control; and
- Market segregation between taxi and E-hailing services.

# Open Market in the Long Run



## Licensing of E-hailing



Franchised permit for E-hailing platform



Permit for E-hailing vehicle



Permit for E-hailing "partner" driver

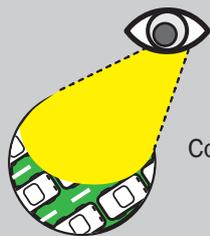
## Regulatory conditions

### E-hailing platform



Transparency control on charges and surcharges

### Passenger protection



Monitor traffic conditions to adjust service supply



Complaint handling



Record keeping

### Hire-car



New hire car permit be allowed to operate for 7 years



Adequately insured and in good condition (less than 7 years)

### Driver



- ✓ At least 3 years driving experience
- ✓ Fulfil background checks (no serious driving or criminal convictions)



Training in language and customer service

It is important that data be collected to ascertain how extensively E-hailing services are utilised; the impact on road congestion; and the extent, if any, of deleterious impacts on existing taxi drivers.

Within a reasonable period of time, the regulatory framework should be shifted to one that is more amenable to an open market. What the Council envisages is an evolutionary process that concerns the interest of the public with gradual transitions from the existing public transport taxi service model that is primarily based on the taxi industry (including the new franchised taxi service) to one that incorporates market driven E-hailing, and adjustments to the hire car segment thus builds in competition in the personalised point-to-point car transport service market.

The Council welcomes the principal of training for drivers as a requirement of the proposed franchised taxi service and the training initiatives undertaken by the industry in Hong Kong. If taxi drivers do not subscribe to the training programme by the Hong Kong Taxi Council and the number of complaints against the manner and attitude of taxi drivers keeps rising, the Government may need to consider imposing mandatory re-training of taxi drivers who have a record of complaints, when renewing their driving licences.

## Conclusion

Hong Kong has many successful stories where it has leveraged an open competition policy into reforming an incumbent dominated economic sector; for example, the liberalisation of the telecommunications sector which has transformed Hong Kong into an Asian telecommunications centre. The Council hopes the Government and the wider public learn from past experience, and adopt a forward-looking policy of enhancing consumer welfare through introducing a new E-hailing model for personalised point-to-point car transport services, in recognition of Hong Kong's aspirations as a smart city, and to be an active player in the digital world.

# 摘要



## 引言

互聯網技術不論在範圍、規模及經濟影響正急速發展，成為了扭轉全球不同經濟體系的主要力量之一。透過利用新科技，新的商業模式不斷湧現，推翻不同市場上固有的營商手法，務求以嶄新的方式向消費者提供服務。

香港的士業正是眾多面對這項挑戰的其中一個行業。網約車服務的冒起乃全球性的現象，市場營運者利用信息科技，為尋求個人化點對點交通服務的消費者提供更個人化及更有效率的服務。在共享經濟的概念下，這通常被推廣為「共乘業務」。

網約車公司將業務定位為交通「網絡」公司，因為他們的服務建基於其設立的網絡，將乘客的需要和網絡司機作出配對。然而，這些網絡公司的急速發展，引起關注，因為它給固有的士營運者帶來市場干擾，及對長久以來經已存在、為保障乘客安全及福祉而設之監管制度帶來影響。

目前香港政府的立場十分明確，認為經營這類共乘公司的業務屬違法行為，超越現行監管制度。因此，目前尚未有任何具體的規管架構監管這些共乘公司的運作。

## 消費者的期望

消費者委員會(消委會)調停消費者糾紛的經驗顯示，的士服務質素一直是消費者所關注的問題。<sup>1</sup>有關的士服務的投訴和建議不斷增加，在 2016 年，雖然的士佔本地公共交通乘客人次約 7.4% (每日為近 93 萬人次服務)，但交通諮詢委員會交通投訴組共接獲 10,357 宗有關的士的投訴及改善建議，佔公共交通服務整體投訴數字的 46.4%。當中絕大部分均與的士司機的不當行為有關，例如不服用最直接可行的路線、駕駛行為不當、司機舉止無禮和不守規矩、濫收車資及拒載。

政府對的士行業的密切監管有其歷史因素，是基於對消費者安全及福祉的考慮。除了理解到維持有效率的個人化點對點交通服務，可以為經濟帶來莫大裨益，也可輔助其他公共交通工具如巴士、火車和電車。

最近有關的士服務的消費者調查反映消費者關注其服務質素方面的改善，以及希望有更多的選擇。

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<sup>1</sup> 消委會於 2015 年至 2017 年 9 月期間共接獲 28 宗有關的士的投訴。

政府在 2016 年委託公司進行電話訪問，評估市民對它提出在港推行專營的士服務建議(以回應網約車服務所構成的威脅)的看法。有關建議專營的士的收費將會高於普通的士的標準收費，但提供較優質的服務，與現時的士行業競爭。這項調查顯示受訪者支持以較高車資換取更個人化的服務。

網約車公司優步(Uber)在 2017 年 6 月亦委託公司進行電話訪問，搜集市民對如何改善本港個人化點對點交通服務的意見。有關調查結果顯示大多數受訪者認為在市場上應該有更多的個人化點對點交通服務以供選擇；而政府對這些創新服務支援不足，應該設定合適的法律框架，規管網約車服務。

近期一項的士業委託進行的調查顯示，消費者最關注的事項都與的士司機有關，包括其專業態度、使用最有效率或乘客指定的路線、對的士規例的遵守、對乘客目的地和交通情況的熟知程度，以及好客服務。

此外，由於香港是國際馳名的大都會及網約車服務在世界各地的普及，不少來港旅客都以為可以使用網約車服務。我們可合理地假設這些旅客中部分會試圖使用這類服務，特別是當傳統的士服務無法提供或不能滿足他們的需求時；自然有營運者將法規置諸腦後，繼續冒險提供服務。

## 預計需求

人口調查研究預計香港未來對個人化點對點交通服務的需求將持續上升，這不僅是基於人口增長推算，而且未來還有更多的長者和傷殘人士在很大程度上依靠這種服務。然而，儘管整體人口增加、需要這些服務的長者和傷殘人士人數亦增加、加上有利這種運輸方式的因素，如有效率的接駁運輸、對機場的交通服務需求上升，以及的士的相宜車資，但現時的士使用率數字顯示，對的士服務之需求仍是停滯不前。

因此，有意見認為現時市場未能以最佳經濟效益運作，以滿足消費者的需求。透過消費者調查所收集到的意見，以及交通投訴組所錄得的投訴及建議，可以合理地假設若不解決供應量、服務質素及價格競爭等問題，個人化點對點交通服務的發展將無法滿足市場需求及期望，在需求和供應間出現缺口的情况下，消費者將在經濟福祉方面蒙受損失。

## 個人化點對點交通服務缺乏競爭

個人化點對點交通服務市場可劃分為三類市場：站頭市場、街道載車市場及預約市場。三類市場服務的供應及需求息息相關，亦能互相代替。例如，若站頭或街道載車服務供應充足，會減少消費者的時間成本，繼而令其市場蓬勃；另一方面，如果預約市場能提供另外兩個市場所不能提供的較佳服務，會吸引更多消費者轉用預約服務。

在香港，只有的士可以在站頭及街道載車營運。消費者不論在站頭市場按先進先出系統乘坐的士，又或在街道載車市場隨機獲得服務，都甚少能有所選擇。事實上，的士在這兩種市場缺乏有效競爭，因為每部的士從外觀上看起來都十分相似，令消費者視所有的士為同一產品，繼而把期望投射到整個的士行業，而非個別他們即將乘搭之的士。在這市場環境下，的士司機欠缺誘因改善服務，去建立長遠客戶關係，而消費者在缺乏市場機制下亦難以避免碰上較差的的士司機。

出租車只能在預約市場營運，並與的士在該市場上競爭。在預約市場上，一些電召中心為出租車及的士提供配對服務，協調它們及乘客之間的交易。然而，這些電召中心的營運規模較細，難以提供在網約車平台所能獲得的資訊，如車款、司機、客戶意見和所選道路等。再者，出租車即使能夠調整價格及服務質素，由於供應甚少，對整體市場的競爭動力影響有限；另一方面，的士車資受到規管，都無法在價格上作出競爭。

## 網約車服務的崛起

網約車服務提供者從事配對而非直接提供的士服務，其特點能吸引不少消費者，例如減低他們的搜索成本、採用更直接的方法控制供應以滿足需求、提供更佳選擇，促進服務質素和價格競爭，這些都為消費者帶來裨益。雖然有些指控認為網約車公司利用法例上的漏洞獲取競爭優勢，並降低消費者安全或私隱的標準，但其平台亦為乘客提供有效的機制，反映即時意見，這可促進網約車平台之間及其他與網約車競爭服務對手整體市場上的競爭，有助提升標準。因此，有意見認為政府應支持及鼓勵以客為本的個人化點對點交通服務的發展，儘管從公共政策角度亦要考慮現有市場既得利益者的利益，此等利益亦有可能是為整體社會帶來長遠利益的障礙。

有不同地區政府會選擇開放市場或為網約車及的士服務製造公平競爭環境，而香港政府的建議方案是透過推出有限數目的專營的士，旨在提升服務的選擇及質素。這方案與某些地區的做法類同，然而，本會認為它未必能產生足夠的競爭，驅使的士營運者改善消費者一直都關注的服務質素問題。

# 香港個人化點對點交通服務市場現況

## 的士服務

公共交通服務



經營模式

街道、的士站載車或預約



車輛

安裝咪錶，規定外觀



車費

按錶收費



數量

全港共18,163輛



車輛牌照

屬永久性質



司機

須21歲以上，  
持有駕駛執照3年或以上，  
並通過有關考試



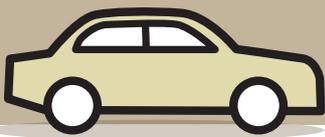
投訴途徑

交通諮詢委員會交通投訴組



# 出租汽車服務

私營交通服務



# 網約車服務

智能電話應用程式或  
網上平台預約汽車服務



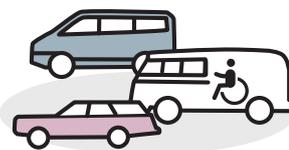
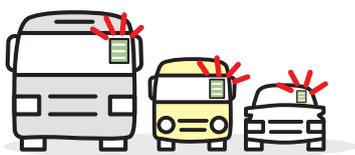
只能預約



網上即時  
配對服務



外觀沒有  
明確要求，  
但須展示  
出租汽車許可證



普通私家車、  
豪華私家車、  
七人車及為  
傷健人士而設  
的車輛

不受監管



不可收取車資

出租汽車  
許可證  
數目

私家服務

酒店服務

旅遊服務



報道指曾有  
多達30,000名登記司機，  
大部分兼職工作

有時限



沒有  
許可證

須持有有關  
駕駛執照，  
除此之外，  
沒有明確要求



須持有駕駛執照

營運者網頁或  
電話熱線



網約車手機應用  
程式或網上平台

## 其他地區的發展趨勢

網約車服務的出現，引發全球各地區的個人化點對點交通服務市場規管架構的轉變。本會審視不同地區應對網約車服務興起的過程，亦同時了解網約車服務對當地傳統的士行業的衝擊及其技術帶來的經濟裨益。

研究顯示，全球不同地區應對網約車服務進入市場的途徑大致分為三種。第一種會為網約車及的士服務創造公平競爭環境，主要地區例子有北京、新南威爾斯、新加坡及多倫多；第二種會透過輕微修例引入網約車，儘量減少對現有市場的影響，例如倫敦及紐約；而最後一種則會採取措施以保障現有的士的經營者，如巴塞隆納、哥本哈根及首爾。

總括而言，當採取較開放的市場改革時，主要分為以下兩種方式：

- 以循序漸進的方式，透過逐步增加出租汽車許可證的數目，容許網約車營運者用有出租許可證的汽車經營。這種方式下市場可能需要較長的時間才可反映出對的士服務的改變；或
- 以全面開放市場方式，對市場上的出租汽車數量不設任何限制，藉此引入網約車服務。

在本研究審視的地區中，無論採取哪一種規管方式，網約車的營運者都會受到當地政府的規管及審查，以確保服務由合適的司機及符合要求的車輛提供。

## 香港的未來路向

本會就政府為回應消費者對更優質服務及更多車輛類型選擇的訴求，建議引入專營的士表示歡迎。然而，政府現階段提出的建議機制未必能完全滿足消費者的期望，亦無法迎上現時在世界各地盛行的網約車服務趨勢。假如是次設想的改革無法有效把握機遇提升市場競爭，吸納網約車服務所提供的新元素，將錯失良機。

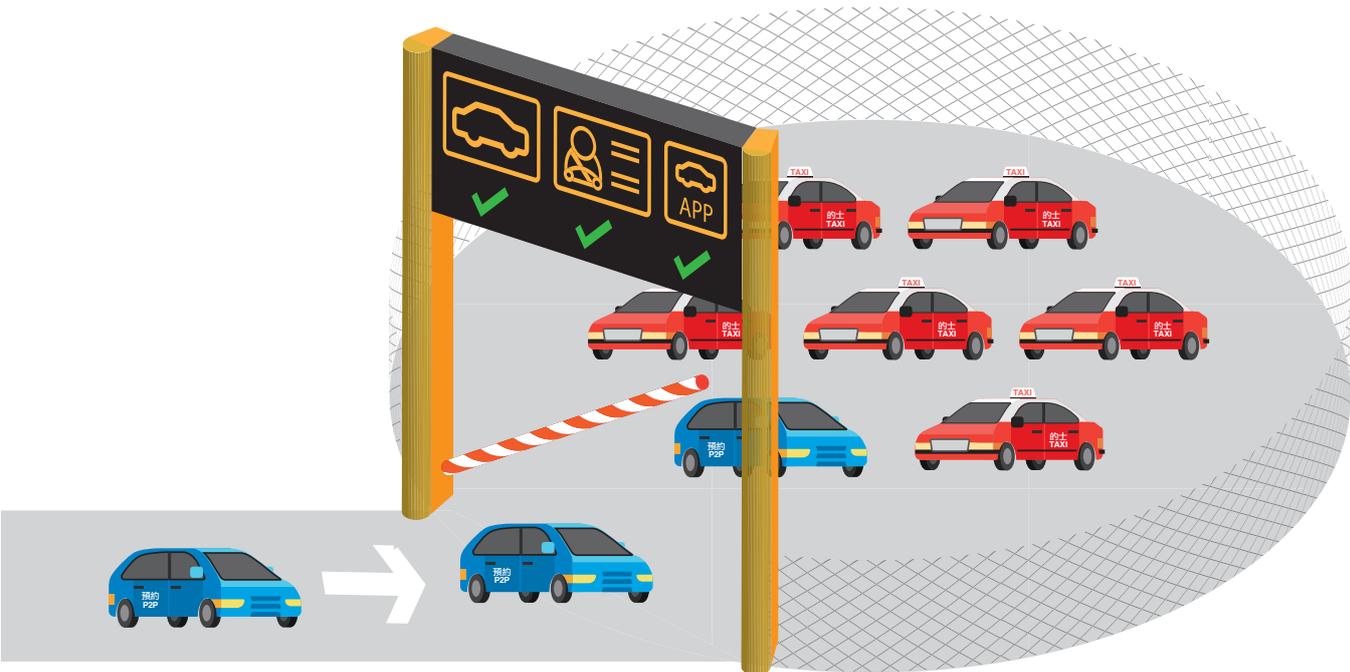
與其他市場一樣，引入網約車時其中必須考慮如何儘量減低對現有的士行業的衝擊，本會認為假如專營的士方案未能發揮預期的效果，政府應鄭重考慮採取本會的建議方案。

借助資訊及通訊科技，不但可提升乘客的乘車經驗，亦為市場帶來改變，這些發展都不會因為現有市場營運者或政府的意願而停止。對消費者而言，最壞的情況是最新科技無法得到有效的運用而的士營運者沒有改善服務，最終令整體經濟利益受損。

因此本會建議政府採取循序漸進及過渡的方式，以減低網約車在科技發展及大數據下對現有的士行業所造成不可避免的衝擊。作為第一步，政府可考慮讓網約車營運者申請牌照或許可證，在合適的限額下經營，並為市場注入可控的動力，朝向一個更開放、以市場為本的制度。



# 各地區應對網約車服務的不同政策



## 公平 競爭環境



逐步落實並  
監察整體發展



制定新的要求  
保障乘客安全及  
改善服務質素



長遠展現競爭成效

# 最小 監管干預



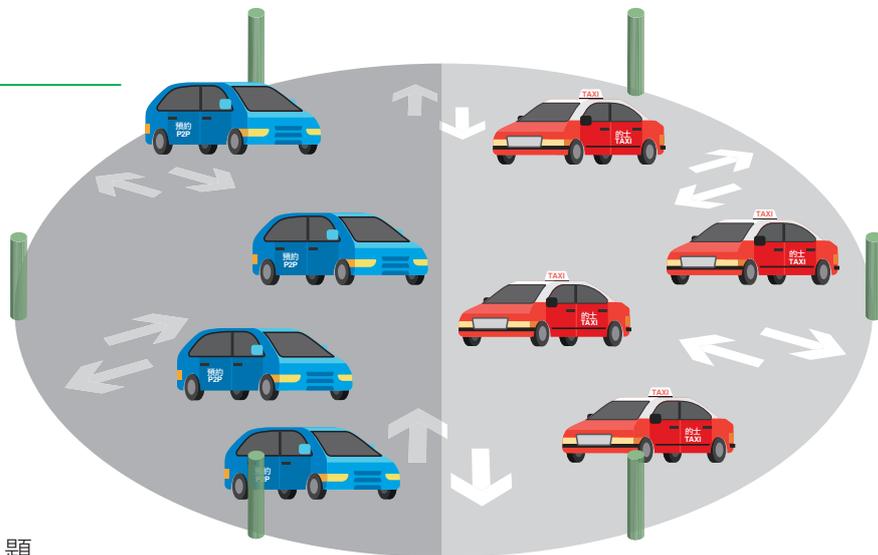
消費者能有較多選擇



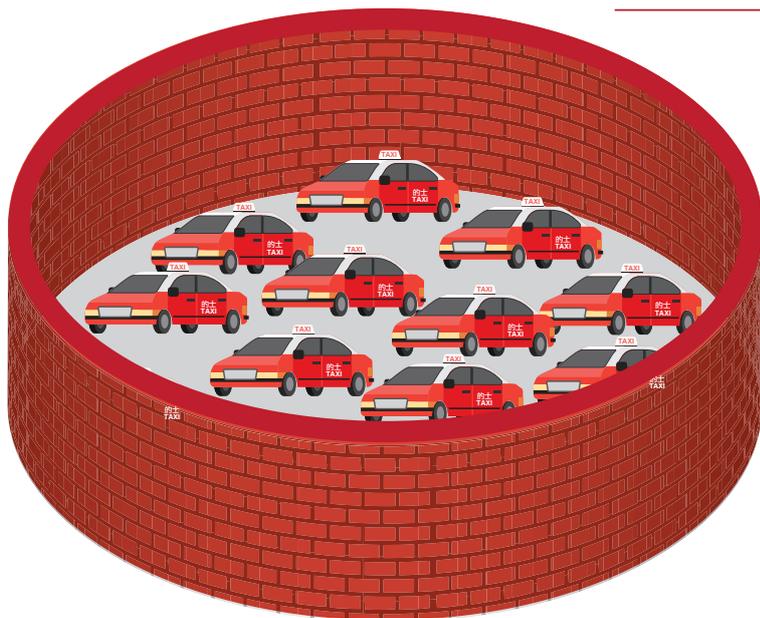
無上限的網約車數量帶來的交通問題



對的士持有人直接衝擊



## 保護性措施



缺乏足夠競爭及誘因改善服務質素



的士生意及牌價不會受到影響

# 長遠全面開放市場



## 網約車「牌照」制度



網約車平台的專營權許可證



網約車輛的許可證



網約車「夥伴」司機的許可證

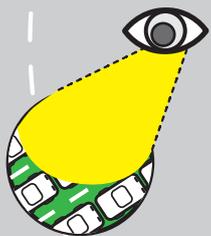
## 規管要求

### 網約車平台



收費及附加費的透明度管制

### 乘客保障



監察交通情況以調節網約車服務供應



處理投訴



儲存記錄

### 出租汽車



擁有新增發的出租汽車許可證的汽車有7年的營運時限



出租汽車持有合適保險並處於良好狀態（車齡少於7年）

### 司機



- ✓ 至少3年駕駛經驗
- ✓ 通過背景審查（例如沒有嚴重的違例駕駛或刑事記錄）



語言及客戶服務培訓

## 本會的具體建議

本會深信引進一個包括的士和網約車服務的平行體制，在加強競爭的好處下，能夠提升市場參與者的服務質素。為減少進入市場的障礙和促進創新，較為理想的是政府對網約車服務施加較少要求，規範的重點應集中於乘客安全和營運效益，以致政府可適當地執法和管制交通。

本會建議有關程序可透過利用現時由運輸署署長發出的 1,500 個私家服務出租汽車許可證為起點，在某些程度上放寬嚴厲管制，使營商環境可包容網約車服務。首先，這新制度可發出三種不同的許可證：

- (i) 網約車平台的專營權許可證 – 附有規範網約車平台營運者的條款；
- (ii) 具時限的網約車輛的許可證 – 附有規範提供網約車服務的車輛的條款(如由網約車平台營運者負責，則不需要政府發出車輛的許可證)；及
- (iii) 網約車「夥伴」司機的許可證 – 附有規範提供網約車服務的「夥伴」司機的條款(如由網約車平台營運者負責，則不需要政府發出司機的許可證)。

在這之後，本會建議分階段並以循序漸進方式落實這新體制：

- 所有網約車平台、車輛及司機必須具有營運牌照，並訂定車輛和市場新進入者限額；
- 為保障乘客安全，就車輛情況和司機訂立管制要求；
- 具體的網約車平台營運者牌照要求，以保持價格透明度、足夠的乘客個人保障和交通管制；及
- 區分的士及網約車服務市場。

此外，政府應廣泛地收集不同的交通數據，定期評估網約車服務的使用情況、其造成路面交通擠塞的影響及可能對現有的士司機所帶來不同程度的負面影響。

假以時日，規管網約車的架構應趨向更適合開放市場的框架。本會倡議以公眾利益為大前提下，把個人化點對點交通服務市場由現時只依賴的士行業作為公共交通服務的營運模式（包括建議的專營的士服務），逐漸改革成一個能同時容納的士行業及網約車在出租汽車行業發展的市場，從而促進整體市場上的競爭。

本會樂見司機培訓為政府建議的專營的士服務的主要要求，以及歡迎由本港的士業自行推動的司機培訓計劃。然而，若消費者對司機行為及態度的投訴持續上升，而的士司機亦沒有參與由香港的士業議會提供的培訓課程，政府有需要考慮強制規定有投訴記錄的司機在續領駕駛牌照時須重新接受培訓。

## 總結

香港有許多藉改革及開放傳統市場而成功的例子，譬如電訊業市場的開放，使香港成為亞洲的電訊中心。本會期望政府及廣大公眾能汲取過往的經驗，以前瞻性及保障消費者利益的角度制定合適的政策，把網約車引入個人化點對點交通服務市場，確立香港在數碼世界中智慧型城市的地位。

# Chapter 1: Market Overview, Issues and Recent Developments



## Highlights

With an average of 0.93 million taxi passenger trips per day in Hong Kong, the quality of taxi services has been a matter of consumer concern. Tracing back the history about how the personalised point-to-point car transport service has evolved in Hong Kong provides a perspective on the dominant role currently play by the taxi service in the market.

Despite the growth in population and household income, demand for taxi services remains stagnated in the past 5 years. On the other hand, the complaint figures on taxi services are on the rise and the number of registered private vehicles continue to grow, signifying a change in the market environment of transportation.

Globally the new development of a sharing economy and E-hailing services have induced competition that has triggered a response from the taxi industry in adopting new ways of conducting their businesses and has prompted measures by the Government to reform the market. Hong Kong has no exception.

Surveys conducted by the Government, an E-hailing operator and a taxi trade association, all reflected that consumers are demanding greater choices in the delivery of personalised point-to-point car transport services and better quality of services than the ordinary taxi service currently can offer.

The Government remarks that services making use of information and communications technology (ICT) can improve traffic control and enhance the quality of transport services.

E-hailing operators make use of advanced ICT providing efficient services over the taxi services but some of them also through bypassing many of the costs that traditional taxi must incur – particularly licensing, insurance and compliance costs to gain their speed to competitive advantages and market.

E-hailing, like most disruptive innovations, with its rapid acceleration in demand, has overwhelmed government's ability to regulate by relying on the traditional regulatory framework. However, an argument still exists that services, regardless of their delivery platform, should be under strong government oversight. Therefore, a review and new ways to regulate the personalised point-to-point car transport service market are needed.

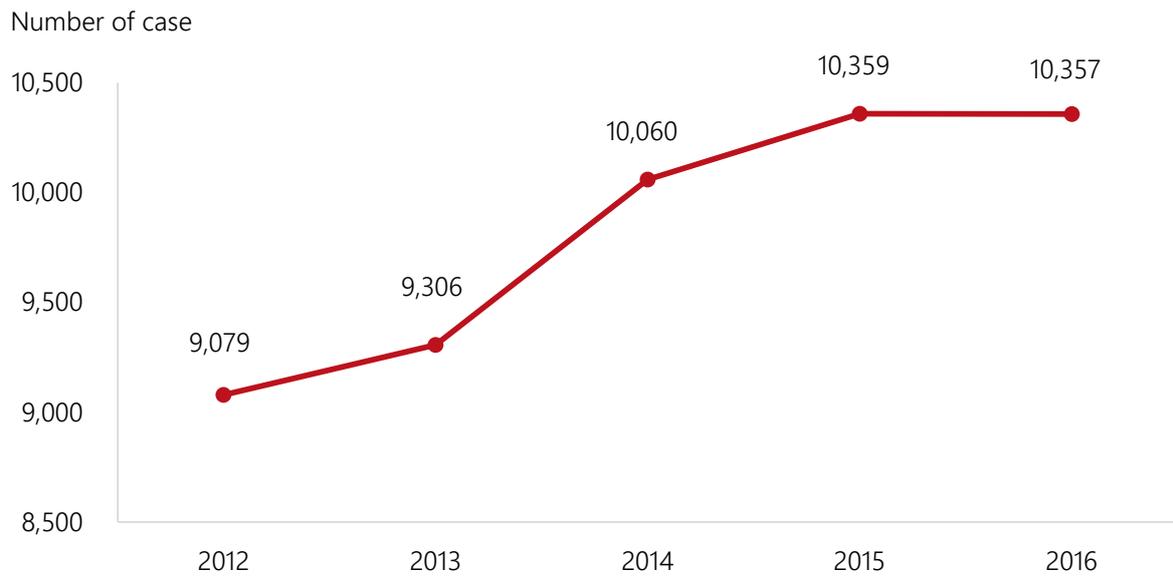
## 1.1 Introduction

Public transport services are part of the daily life of most Hong Kong people. The Government's "Public Transport Strategy Study (PTSS) Report (2017)" noted that 12.59 million passenger trips are made through different local public transport services, accounting for over 90% of the total trips of Hong Kong consumers each day, which is the highest percentage in the world. The taxi service is a public transport service that provides a personalised, point-to-point and more comfortable service at a higher fare.

At present, taxis account for about 7.4% of public transport patronage per day i.e. make 0.93 million passenger trips per day on average, which is slightly lower than 10 years ago.<sup>1</sup>

The quality of taxi services in Hong Kong is a matter of public concern. A total of 10,357 complaints and suggestions on taxi services were received by Transport Complaints Unit (TCU)<sup>2</sup> in 2016, an increase of 14.1% from 2012, as shown in Figure 1.

Figure 1: Number of complaints and suggestions received by TCU on taxi 2012 - 2016



From 2014, a number of different personalised point-to-point car transport services have been provided to Hong Kong consumers through the use of mobile phone applications. Worldwide this type of service is commonly known as “E-hailing” (sometimes it is called online hailing). E-hailing service companies, based on a transportation network service business model, make use of mobile applications to pair passengers with drivers licensed by the E-hailing service company, who transport passengers in the driver's non-commercial vehicle to make profit. Such E-hailing service is growing rapidly in the world. Examples of major players that exist in different markets are Uber (global player in many cities including Hong Kong), Lyft (U.S.), Ola (India), GrabTaxi (South East Asia) and Didi Chuxing (China and Hong Kong). Many consumers demand the service because they can exercise choices with greater convenience and better services. However, the legality of some E-hailing services in Hong Kong is in question. In particular, non-licensed drivers with non-licensed vehicles from Uber were arrested and fined<sup>3</sup> and Didi Chuxing taxis were accused of “soliciting”.<sup>4</sup> The enforcement actions undertaken by the Police served as a deterrent to a certain degree but the alleged illegal carriage of passengers for reward and operation of hire car vehicles could still be found in the market.

<sup>1</sup> Transport and Housing Bureau. (2017) *Public Transport Strategy Study*. [online] Available from: [http://www.td.gov.hk/filemanager/en/publication/pts\\_final\\_report\\_eng.pdf](http://www.td.gov.hk/filemanager/en/publication/pts_final_report_eng.pdf) [Accessed October 2017].

<sup>2</sup> Information about the Transport Complaints Unit can be found in its web site [www.tcu.gov.hk](http://www.tcu.gov.hk).

<sup>3</sup> HKFP. (2016) *HK Uber drivers fined HK\$7,000, licences suspended for 12 months*. [online] Available from: <http://www.hongkongfp.com/2016/01/22/uber-drivers-fined-hk7000-licences-suspended-for-12-months/> [Accessed October 2017].

<sup>4</sup> Apple Daily. (2017) *Report of mobile application of Didi Chuxing with the function choice of 85% of taxi fare*. [online] Available from: <http://hk.apple.nextmedia.com/financestate/art/20170620/20061993> [Accessed October 2017].

In June 2016, to address the public call for better and more personalised point-to-point car transport services, the Government proposed to introduce a franchised taxi (formerly referred to as “premium taxi”) service on a trial basis,<sup>5</sup> which aims to provide members of the public with another service choice other than ordinary taxis.

The Consumer Council (the Council) has as one of its functions, as stipulated in its Ordinance (Cap 216), the role of tendering advice to the Government on issues of concern to consumer welfare. In response to the consumer concerns and market developments described above, the Council considers it worthwhile to conduct a study on personalised point-to-point car transport services, including E-hailing services, to identify any feasible alternatives, which could introduce more competition into the market and enhance economic efficiency, consumer choices, and experience.

This report considers different aspects of the personalised point-to-point car transport service market including:

- Different service segments that taxis, hire cars and E-hailing serve;
- How the taxi, the hire car and the E-hailing services compete;
- Why there is an apparent lack of market forces driving competition on service quality;
- Whether the Government’s proposed franchised taxi service can induce competitive pressure on taxi operators to improve their services; and
- Reviewing different ways and approaches adopted in other jurisdictions to address the impact of E-hailing on their markets and how other governments have dealt with the upheaval to incumbent taxi industries to reform their personalised point-to-point car transport service markets.

The Council hopes that the study could assist in identifying which regulatory model might fit the present and future Hong Kong market.

## 1.2 History of Personalised Point-to-point Car Transport Services in Hong Kong

In Hong Kong, the Government’s transport policy is underpinned by public transport services, with railway as its backbone. Franchised buses are the primary mode of public transport for connecting areas not yet served by railways; and other public transport services such as taxis play supplementary roles. It is apparent that the Government is of the view, and is largely successful in applying a policy that the public should enjoy efficient services with reasonable modal choices, and that public transport operators should be commercially sustainable.

In meeting demand from the community for personalised point-to-point car transport services, there are currently two sorts of vehicles that provide services in Hong Kong, i.e., taxis and hire cars.

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<sup>5</sup> Transport & Housing Bureau. (2016) *Public Transport Strategy Study – Role and Positioning Review on Premium Taxis and Increasing the Seating Capacity of Public Light Buses*. [online] Available from: <http://www.legco.gov.hk/yr15-16/english/panels/tp/papers/tp20160621cb4-1124-1-e.pdf> [Accessed October 2017].

## *Taxis as a personalised point-to-point car transport service*

Taxis are key public transport service providers in Hong Kong providing the main personalised point-to-point car transport services. At present, there are a total of 18,163 taxis, among which include 15,250 urban taxis, 2,838 New Territories taxis and 75 Lantau taxis.<sup>6</sup>

Regulation of the personalised point-to-point car transport service sector has been a longstanding issue of concern throughout the world. As early as 1635, hackney carriages congested the streets in many big cities in Europe. Accordingly, the number was limited "to restrain the excessive and superfluous use coaches".<sup>7</sup> Similarly, an objective of the Government's transport policy and regulation is to reduce traffic congestion.

From 1863 onwards, Hong Kong set out rules for the regulation of public vehicles and chairs and their drivers and bearers, and licensing the hire of horse drawn coaches (personalised point-to-point public transport). The scope of regulation has continually evolved over the years, being largely concerned with public order and protecting the economic sustainability of the industry. As described in Christopher Hall's book, which documented the developments in the taxi business, including the rise and fall of the illegal taxi trade, the patterns of taxi accidents and taxi licence prices,<sup>8</sup> "these regulations set ..., fares, penalties and standards for malpractices," to address problems existing at the time.

Personalised point-to-point public transport started to be regulated at the turn of the 20<sup>th</sup> Century.<sup>9</sup> From 1919, operating a rickshaw required a licence and the outlook of rickshaws was standardised. Fares and malpractices of the services were lightly regulated. After 1924, motor vehicle taxi services entered the market and competed with rickshaw services. Taxi services met consumer's needs at the time as the economy developed and they gradually took over the major share of the personalised point-to-point car transport service market.

During 1950 – 1960, the Commissioner of the Police determined who could provide taxi services and granted licences only to a few companies. At that time these taxi licences were not transferable. Those few taxi companies could build on their brands, recognised by consumers, by providing better services and for a time competitive pressure largely drove the quality of the services. In the 1960s, the industry was dominated by a few firms. Among these firms, the four most prominent were Blue, Central, New and Star. Other operators were Shanghai and Yellow on Hong Kong Island side and Peninsula and Kowloon in Kowloon.<sup>10</sup> However, there were reports of anti-competitive conduct such as collusive agreements between eight taxi companies

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<sup>6</sup> Transport Department. (2017) *Transport in Hong Kong – Taxi*. [online] Available from: [http://www.td.gov.hk/en/transport\\_in\\_hong\\_kong/public\\_transport/taxi/](http://www.td.gov.hk/en/transport_in_hong_kong/public_transport/taxi/) [Accessed October 2017].

<sup>7</sup> Toner, J P. (1992): *Regulation in the Taxi Industry* Institute of Transport Studies University of Leeds, Leeds, UK.

<sup>8</sup> Hall, Christopher D. (1996) *The Uncertain Hand Hong Kong Taxis and Tenders*, the Hong Kong Center for Economic Research, The Chinese University Press.

<sup>9</sup> See Hall, Christopher D. (1996) Chapter 1.

<sup>10</sup> Source: <http://industrialhistoryhk.org/31957-2/> and <http://industrialhistoryhk.org/other-notable-taxicab-companies-in-hong-kong-before-1967/> [Accessed October 2017].

and speculation that "*With the ownership and control seemed to rest in the same hands (aligned)... these (taxi) companies may have used the police to help arrange (maintain) a taxi cartel (through bribery).*"<sup>11</sup>

Lack of rivalry between taxi operators, the high profits generated by their collusive market power and increasing demand for taxi services prompted illegal taxi services to emerge. Although the police were responsible for enforcing the exclusive rights of taxi licence holders, ineffective enforcement because of corruption, led to an expanded number of illegal taxis, called "*pak-pais*" in the 1960s. At one time, the number of "*pak-pais*" matched the number of taxis.

The introduction of public auctions of taxi licences in 1964 marked a paradigm shift in the market. The entire stock of urban taxi licences became transferable and they were turned into tradable assets. Taxi companies hesitated to put up substantial financial commitments to maintain their market shares<sup>12</sup> resulting in more sole proprietors and more diluted ownership of taxi licences. Since then the price of a taxi licence has continually increased.

The establishment of the Independent Commission Against Corruption in 1974 ended the protection of "*pak-pais*" by some corrupt police members. As the risk of being caught by the police and charged increased, "*pak-pais*" owners were encouraged to bid for taxi licences, and licensed taxis gradually became the major supply of personalised point-to-point car transport services.

Taxi licence owners subsequently sought the Government's help to protect their interests. The introduction of legislation in respect of hire cars was implemented in 1981 with the primary objective of legalising the "*pak-pais*" (i.e. illegal hire car service) at the time. However, issuance of hire car permits (HCPs) was not to encourage quasi-taxi operation but just to smooth out illegal taxi services without affecting the operation of other public transport services, especially taxi services; or aggravating road congestion.

### *Effect of taxi licence tender on the market development*

With a high commercial stake in place, taxi licence owners, as a group, were eager to influence taxi transport policy. For example, in 1984, the Secretary of Transport put up a Bill imposing a registration fee on each taxi vehicle similar to the first registered fee on private vehicles, resulting in a riot in January 1984. Taxi operators used their cars to block the roads. Some people later took advantage of the blockage and started disturbances in certain districts in Hong Kong. The strike was organised by many taxi licence owners fighting for the control of the industry and succeeded in having the Bill rejected and the Secretary of Transport being reassigned to another post.

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<sup>11</sup> Hall, Christopher D. (1996), page 14 – 15.

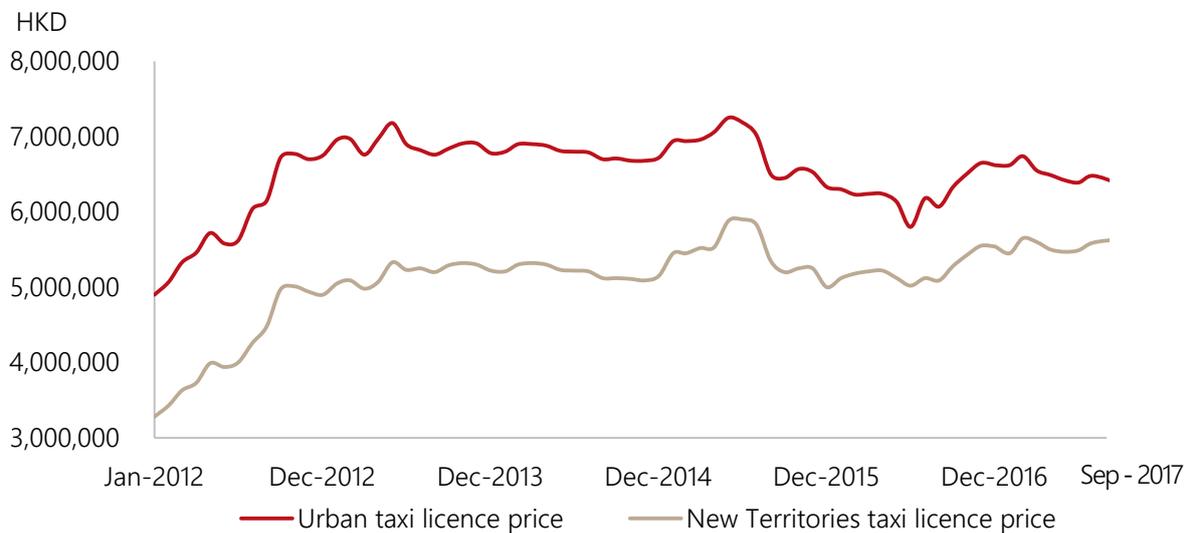
<sup>12</sup> In 1989, over 64% of taxi licences was traded in the market where the total number of licences reached 17,000. Hall, Christopher D. (1996), page 22.

In late 1970s and early 1980s, over 1000 taxi licences were issued each year. The taxi licence premium was around HK\$100,000 before the riot. It jumped up 20% immediately after the event and increased five-fold between 1984 and 1991. During 1984 – 1991, less than 300 taxi licences were issued each year. The current taxi licensing system was put in place in 1994 following a Government Tax Policy Review in that year. The policy is now that taxi licences are issued by public tender without a pre-set quota and they are issued when necessary, having regard to the demand for taxi services, financial viability of the trade and the capacity of the road system.

New supply of taxis into the market stopped from 1998 until the Government issued 25 new Lantau taxis licences in 2016.<sup>13</sup> Taxi licences are permanent in nature, and the Government has no power to revoke licences or add extra conditions such as service conditions or minimum quality standards. Currently, the ownership of taxi licences in Hong Kong is dispersed. It is stated in the Government's PTSS 2017, *as at March 2017, there are 18,163 taxi licences, of which around 60% are held by individuals, while the rest are held by companies. There are about a total of 9,000 individual and company licence holders. Among these licence holders, around 75% hold one taxi licence; around 5% hold 5 or more taxi licences; less than 2% hold 10 or more taxi licences.*<sup>14</sup>

In the last 3 years, the urban taxi licence premium has fluctuated at around HK\$6 million to HK\$7.25 million (Figure 2). Such a high taxi licence premium implicitly imposes high rental cost in operating a taxi services.<sup>15</sup>

Figure 2: Taxi licence premium Jan 2012 – Sep 2017



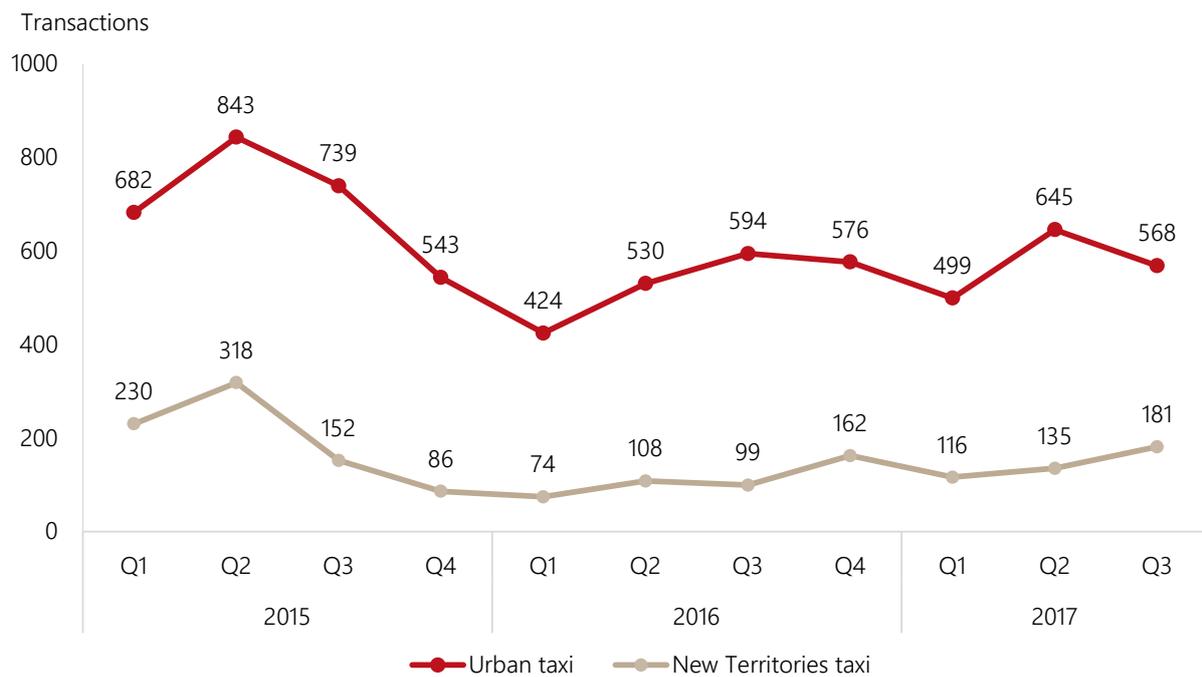
<sup>13</sup> In particular, no urban and New Territories taxi licences have been issued since 1994.

<sup>14</sup> Transport and Housing Bureau. (2017) *Public Transport Strategy Study - Role and Positioning Review Personalised and Point-to-point Transport Services*. [online] Available from: <http://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170317cb4-666-5-e.pdf> [Accessed October 2017].

<sup>15</sup> Source: <http://www.sintatmotors.com/en/price.php> [Accessed October 2017].

Under the current tax licensing system in Hong Kong, holders of tax licences are given perpetual operating rights in the taxi business. Against this background, the freely traded tax licences are often held as an investment asset. When there are active speculative activities, the tax licence premium may be affected more by the general economic conditions than the demand for taxi services and/or changes in the levels of taxi services. The economy-wide factors, for instance credit market conditions for financing tax licences and returns of other investment opportunities, would also affect tax licence premiums.

Figure 3: Number of transaction of tax licences 2015 – Q3 2017



Over the years there have been concerns over the continuous upward trend of tax licence premiums as it might affect the taxi rental level and income of taxi drivers, and subsequently the quality of taxi service. Although there was speculation on idle taxis existing in the market, the Government did not find the matter affecting the overall supply and did not see how the tax licence premium would be affected. However, the turnover of tax licences in every quarter is around 4.2% of the total, at an annual rate of 16.6% (Figure 3), which is difficult to interpret as an indication of annual rate of exit and entry into the taxi service market. It looks as if tax licence is traded as an investment asset rather than as a licence to enter the market in providing the taxi service.

### *Current regulation on taxi service*

The Commissioner of Transport under section 25 of the Road Traffic Ordinance (RTO) (Cap. 374) has the power to refuse to license or cancel the tax licence of a vehicle with regard to the conditions of the vehicle and disqualify "person driving of a taxi" if he/she contravenes some provisions of the RTO.

Taxis can pick up passengers on the street or at taxi stands, or provide pre-booked services within its licensed operating areas<sup>16</sup> and fares.<sup>17</sup> Taxi vehicle licences have not been issued with any conditions directly related to serving the purposes of service quality. Taxi services are regulated under Regulation 37 of the Road Traffic (Public Service Vehicles) Regulations (Cap. 374D) of the RTO. This stipulates the following obligations of a taxi driver that he/she shall not contravene without reasonable excuse:

- Wilfully refuse or neglect to accept a hire from a hirer whether the intention of such hirer is indicated expressly or by implication;
- Refuse or neglect to drive the taxi to any place indicated by a hirer;
- Refuse or neglect to carry such number of passengers, not exceeding the number specified in the vehicle licence in respect of the taxi, as he may be required to carry by the hirer;
- When hired to drive to a specified destination, drive to such destination other than by the most direct practicable route;
- When his taxi is hired, permit any person other than the hirer to enter the taxi without the consent of the hirer; and
- Refuse or neglect, after payment has been made by any person of any fare for the hiring of a taxi, to issue on demand by that person made at any time before the taxi is hired by any other person a receipt complying with the requirements in respect of such payment.

In addition, there are other provisions under Cap. 374D governing practices such as soliciting and general conducts of all drivers of public service vehicles, including taxi drivers.

### *Hire cars*

Over the years another licensed category of personalised point-to-point car transport services to emerge has been that of “hire car” services. These services are essentially pre-booked limousine services, the operators of which are required to obtain a HCP before operating the service. They are not strictly forms of public transport and their fares are not regulated. Under the RTO, no person shall drive or use a private car; or suffer or permit a private car to be driven or used for the carriage of passengers for hire or reward unless a HCP is in force in respect of the vehicle. Unlike a taxi licence, a HCP is time-limited, non-transferable and will be cancelled once the ownership of the concerned private car is transferred to another person. Currently, only 648 vehicles with private HCPs supplied services in Hong Kong.

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<sup>16</sup> Different types of taxis have different designated operating areas. Urban taxis operate in most areas in Hong Kong (except Tung Chung Road and roads in south Lantau). New Territories taxis mainly operate in the north-eastern part (i.e. north of Sha Tin) and north-western part (i.e. north of Tsuen Wan) of the New Territories. Lantau taxis operate only on Lantau Island and Chek Lap Kok. All taxis can provide services at the passenger terminals of Hong Kong International Airport and Hong Kong Disneyland.

<sup>17</sup> In respect of fares, taxis shall either charge according to the taximeter or be hired. The fares charged by the taximeter are regulated by the Government under the Road Traffic (Public Service Vehicles) Regulations (Cap. 374D), whereas the fare for hire-as-a-whole service will be agreed between the parties providing and receiving the service to allow for more flexibility in meeting different passenger needs.

HCPs are also issued for a restricted number of uses and at present there are three types of valid permits for these hire cars: Private,<sup>18</sup> Hotel and Tour services.<sup>19</sup> Each type of permit has a statutory maximum number that can be issued. As of July 2017,<sup>20</sup> the number of HCPs issued is as follows (Table 1):

**Table 1: Number of HCPs issued as of July 2017**

| Types of HCPs            | Statutory maximum number of HCPs | Number of HCPs Issued |
|--------------------------|----------------------------------|-----------------------|
| Private hire car service | 1,500                            | 648                   |
| Hotel hire car service   | 400                              | 162                   |
| Tour hire car service    | 400                              | 116                   |

Among the three types of permits, hire cars for hotel service or tour services can only be used for the conveyance of guests and of persons bona fide accompanying them of the designated hotels or of the designated travel agents. In contrast, a private car owner with a HCP can provide transportation services to any person.

### 1.3 Current Market Environment

#### *No shortage of taxi services*

Private hire car services are limited. While it is the case that private hire car services can be used by the public, when compared with taxi services, they have a degree of inconvenience given that consumers can only check the validity of a HCP by filling in the “registration mark” at the online checking system in advance for any booking. Moreover, there is only a list of the names and contacts of private service (limousine) HCP holders available on the Transport Department website but cannot provide further information for comparison and making choices.<sup>21</sup> As a result, the information transparency of legal private hire car services is low in the market. These shortcomings drive users of personalised point-to-point car transport services to rely mainly on taxi services.

<sup>18</sup> Such services include Private Service, Private Service (Limousine) and Private Service (Limousine) (Cross-boundary).

<sup>19</sup> Road Traffic Ordinance contains specific provisions on the permit requirements of hire cars and the assessment criteria for granting of permits. All hire car permit applications are to be considered by the Contract Hire Car Permits Selection Board (the Selection Board). The Selection Board will consider the relevant legal requirements and other factors relevant to the application; and then make a recommendation on the approval or rejection of the application to the Commissioner for Transport. Nevertheless, there are criticisms about the high application threshold and some improvement measures have been implemented since February 2017, MingPao (2017). *Media report on the improvement measures for the application of hire car permit applications*. [online] Available from: [https://news.mingpao.com/pns/dailynews/web\\_tc/article/20170127/s00002/1485453022847](https://news.mingpao.com/pns/dailynews/web_tc/article/20170127/s00002/1485453022847) [Accessed October 2017].

<sup>20</sup> Information obtained from the Transport Department through enquiry.

<sup>21</sup> Transport Department. (2017) *List of private service (limousine) hire car permit holder*. [online] Available from: [http://www.td.gov.hk/en/public\\_services/frequently\\_asked\\_questions/hire\\_car\\_permits/index.html](http://www.td.gov.hk/en/public_services/frequently_asked_questions/hire_car_permits/index.html) [Accessed October 2017].

The Government has not issued any urban and New Territories taxi licences since 1994, probably due to no apparent shortage of taxi services in Hong Kong, despite population growth and GDP growth (more detail analysis in Chapter 2). The Transport Department conducts surveys regularly on the service level of taxis to have a better understanding of the demand and supply of taxi services. Findings on the waiting times for taxi services are quite satisfactory as shown in Table 2<sup>22</sup> but the demand for taxi services has stagnated.

**Table 2: Waiting times for taxis 2012 – 2016**

|  | 2012         | 2013         | 2014         | 2015       | 2016       |
|--|--------------|--------------|--------------|------------|------------|
| <b><i>Urban Taxi</i></b>   |              |              |              |            |            |
| Average waiting time at roadside*                                    | 2 minutes    | 2 minutes    | 2 minutes    | 1 minute   | 1 minute   |
| Average waiting time at taxi stand*                                  | 1 minute     | 1 minute     | 1 minute     | 1 minute   | 1 minute   |
| % of passengers wait for more than 10 minutes at taxi stands at peak | Approx. 3%   | Approx. 2%   | Approx. 4%   | Approx. 5% | Approx. 5% |
| <b><i>New Territories Taxi</i></b>                                   |              |              |              |            |            |
| Average waiting time at roadside*                                    | 3 minutes    | 4 minutes    | 4 minutes    | 4 minutes  | 4 minutes  |
| Average waiting time at taxi stand*                                  | 1 minute     | 1 minute     | 1 minute     | 1 minute   | 1 minute   |
| % of passengers wait for more than 10 minutes at taxi stands at peak | Approx. 0.1% | Approx. 0.2% | Approx. 0.4% | 1.2%       | 4.6%       |

\*Rounded up figures

### ***Complaints on service quality***

Although findings on waiting time are quite satisfactory, there are still thousands of complaints in every year related to taxi services, and the effectiveness of enforcement to address the complaints is subject to constraints in respect to the difficulty in collecting evidence and a high threshold in prosecution.

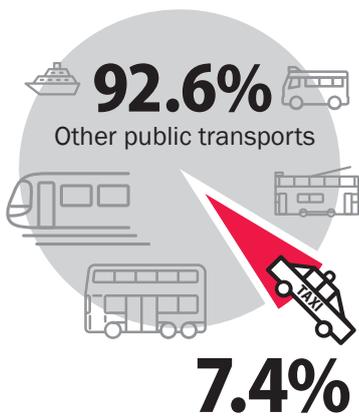
Complaints and suggestions on taxi services have continuously increased in the last 5 years (Figure 4). In 2016, 10,357 complaints and suggestions for improvement were recorded,<sup>23</sup> representing 46.4% of the total complaints and suggestions on the public transport services. Of them, 98% were related to malpractice of taxi drivers. Taxi driver malpractices included failure to take the most direct and practicable route, improper driving, drivers behaving other than in a civil and orderly manner, overcharging and refusing hire or refusing to drive to a destination.

<sup>22</sup> Information obtained from the Transport Department through enquiry.

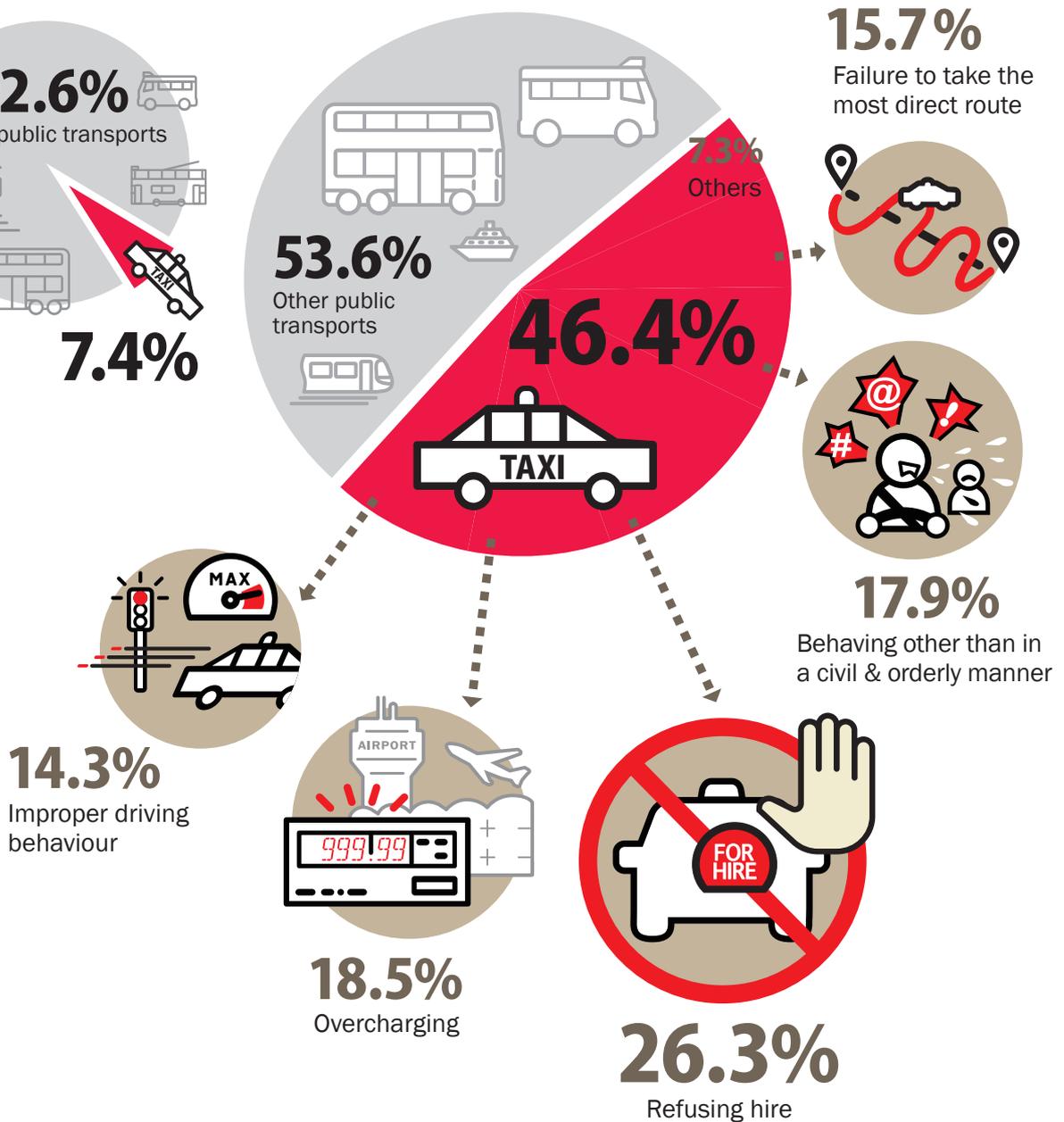
<sup>23</sup> Transport Complaints Unit of the Transport Advisory Committee. (2017) *Quarterly Report for the period 1 January 2012 – 31 March 2017*. [online] Available from: <http://www.info.gov.hk/tcu/qr/index.htm> [Accessed October 2017].

# Passengers are dissatisfied with the taxi service quality

## Daily passenger journeys\*



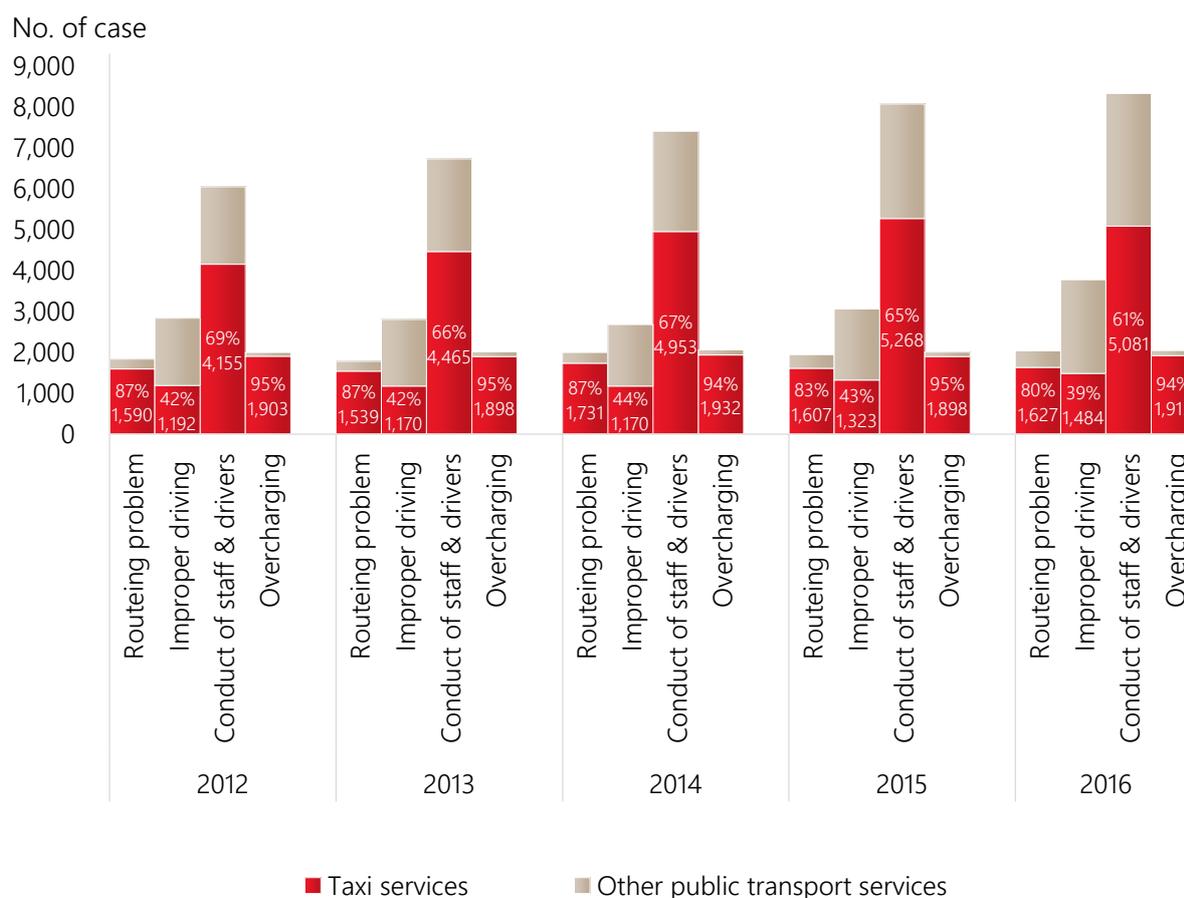
## Complaints and suggestions\*\*



Sources: \* Transport Department (2016 Annual Transport Digest)

\*\* Transport Complaints Unit of Transport Advisory Committee (All quarterly reports of 2016)

Figure 4: Complaints and suggestions on taxi and other public transport services 2012 – 2016<sup>24</sup>



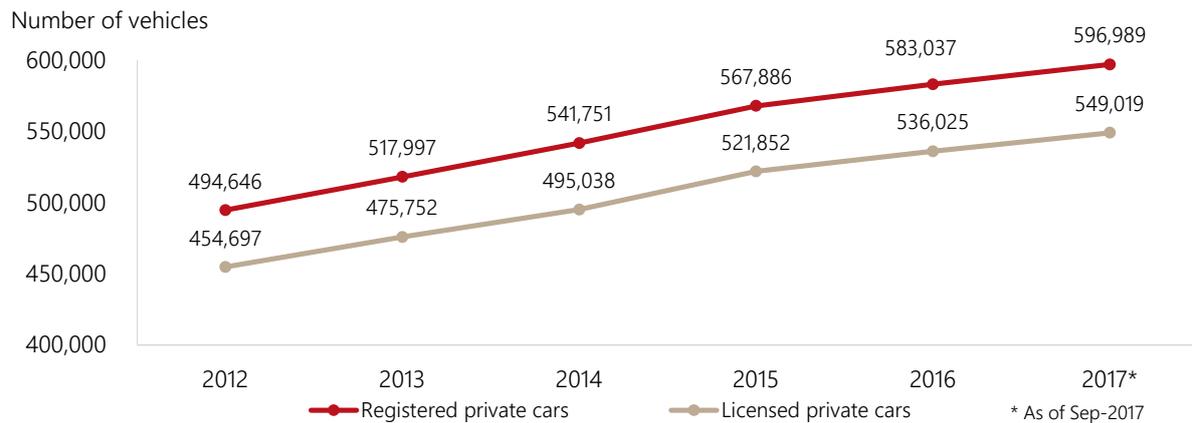
Reports on taxi driver malpractice were generally referred to the Police for further investigation if the complainants agreed to be court witnesses. Of the 8,728 cases referred to the Police in 2012 – 2016, only 8.1% were summonsed during that period. Potential penalties range from a fine of HK\$3,000 – HK\$5,000 or/and to imprisonment for 6 months.

### *Increase in number of private vehicles*

Hong Kong's private car registration grew rapidly in recent years and passed the 590,000 mark in 2017 (Figure 5). Even though the ownership rate is still well below that of other developed cities, the growth rate is about 3% which is higher than the average growth of the population and the number of households. The PTSS stated that the growth of private cars was accountable for traffic congestion, as Transport Department figures show that private cars and taxis occupying a high percentage of the road space in commercial districts, e.g. Causeway Bay, Central and Mongkok during peak hours. Such growth also resulted in more air pollution.

<sup>24</sup> Exclude "others" given its different nature in each public transport service.

Figure 5: Number of private vehicles in the period of 2012 – 2017\*



## 1.4 Recent Developments

### *Sharing economy*

Since 2010, a way of doing business has emerged under the term “sharing economy”. Such businesses have been accompanied with statements rife with notions of sharing and collaboration, as well as decentralisation, and peer-to-peer and empowerment. They are positioned as better ways of utilising various resources such as vehicles, tools, accommodation and credit arrangements. A significant proportion of sharing economy models are based on economic market exchange, where usage of goods (or services) but not the ownership, are traded or bought in online marketplaces. There is a distinction between the conception of sharing (as non-monetary) and those proposed by companies embracing ICT as monetised versions of business practices within this language of “sharing”. The latter raise significant debates and critiques in many economies.

The practice of a sharing economy has encompassed various business sectors. The well-known ones are in the accommodation sector, such as leasing of private rooms/homes to rent/sublet, free camping, and house-swapping; and in the transport sector such as ride-sharing, car-sharing, bicycle rental and private car park sharing. The rapid growth of consumer uptake in the “sharing economy” of various products and services demonstrates that some business propositions of the sharing economy have met consumer preferences, especially where they deliver a combination of lower costs, efficient access and social interaction of services.

### *E-hailing services*

As noted previously, E-hailing services have rapidly developed in the world where service providers make use of the continuous advancement in communications technology to provide more personalised and efficient services to those consumers who are seeking personalised point-to-point car transport. This is usually marketed as a “ride-sharing business” in the sharing economy. These E-hailing service providers typically call themselves transportation “network” companies because their services are based on the network they create that brings passengers and drivers together. However, the rapid growth of these network companies has raised concerns about their

legality, and their implications on the regulatory regime in different jurisdictions and the impact on traditional transport industries. In Hong Kong, the Government's position is clear that those ride-sharing businesses, including Uber, fall outside the current regulatory regime and are illegal. There is not as yet any specific regulatory framework to deal with the operation of E-hailing service operators.

## Uber

Uber, an "E-hailing" service company, began its operation in Hong Kong in 2014.<sup>25</sup> Uber is one of the major global players in providing E-hailing services that offers personalised point-to-point car transport services in more than 600 cities worldwide.<sup>26</sup> It adopts a platform using ICT that connects riders/passengers and drivers with the use of Global Positioning System (GPS). By registering with Uber, a rider can request a trip by choosing drivers/vehicles posted by Uber. Fare for the trip will be deducted from the rider's credit card and the driver gets the payment through the Uber payment channel.

Uber claims a licensor and licensee relationship with consumers, which merely facilitates the provision of information between consumers and drivers regarding transfer services through its online platform (Internet or mobile app). According to the terms shown on its website,<sup>27</sup> Uber claims that its services enable users to arrange and schedule transportation, logistics and/or delivery services and/or to purchase certain goods, including with third party providers of such services and goods under agreement with Uber or Uber's affiliates. Users are required to acknowledge that Uber is not a provider of transportation, logistics or delivery services or as a transportation carrier.

At the same time, it defines a driver making use of its service as a "Driver Partner" who acts as an independent contractor providing on-demand transportation and logistics services to riders using the Uber App under licence from Uber. It neither perceives the driver as its employee nor its agent.<sup>28</sup> Under current Hong Kong law, regardless of which type of technology or platform is used, anyone using his/her private car for carriage of passengers for hire or reward must apply to the Commissioner for Transport for a permit to operate hire car service. "E-hailing" service drivers operating passenger services for reward without a taxi licence or HCP are therefore illegal.

Since Uber entered Hong Kong in June 2014, as the number of private vehicles grew, it attracted lots of private vehicles to join its service. Uber and its partner drivers have been criticised for operating without HCPs and failing to provide third-party insurance

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<sup>25</sup> Time Out Hong Kong. (2014) *Uber has launched in Hong Kong Facebook* [online] Available from: <http://www.facebook.com/timeouthk/posts/10152475232727403> [Accessed October 2017].

<sup>26</sup> See Uber's website <http://www.uber.com/en-HK/>.

<sup>27</sup> See Uber's terms <http://www.uber.com/legal/terms/us/>.

<sup>28</sup> However, whether drivers are employees or agents of Uber depends on the content rather than the label. Case law in Hong Kong suggests that there are several factors to be considered for an employer-employee relationship, including but not limited to: (i) control over work procedures, time and method; (ii) ownership and provision of work equipment and materials; (iii) whether the person is carrying on business on his own account with investment and management responsibility; and (iv) responsibilities in insurance and tax.

protection as stipulated by law.<sup>29</sup> In August 2015, 5 Uber drivers were arrested by the Police for providing unlicensed transport services and were convicted of using cars for hire without permits and driving without third-party insurance. As of March 2017, it was reported that the company has so far served one million riders in Hong Kong using more than 30,000 drivers with 80% of them working as part-timers.<sup>30</sup> Uber told the Council that as of 1<sup>st</sup> March 2017 there were 308,000 active riders<sup>31</sup> in Hong Kong and tourists from 74 countries have used Uber.

In February 2017, Uber announced that it had signed a contract in October 2016 with an international insurance company to provide third-party coverage worth up to HK\$100 million for any ride-sharing trip in the city.<sup>32</sup> Uber claimed that the liability insurance policy applied to passengers from the moment they book a trip until the last passenger exits the vehicle. In May 2017, 22 Uber drivers were again arrested on suspicion of driving without HCPs and third-party insurance, in a three-week undercover police operation.<sup>33</sup>

### *Initiative by the taxi trade*

At the same time, various local mobile phone applications have been developed and are being used by licensed taxi operators for E-hailing. For instance, a mobile application (the Taxi app) backed by the Hong Kong Taxi Council (HKTC), a taxi trade association that comprises 17 taxi drivers' organisations, taxi owners, 8 call centres covering around 9,000 taxis,<sup>34</sup> was launched in May 2016 which allows smartphone users to book taxis; rate their journeys and review drivers' service levels. Subject to the review level, drivers with good ratings will be eligible to receive a cash prize while those who get persistent bad reviews will need to undergo training or else be removed from using the Taxi app. The HKTC has indicated it hopes that the service will be adopted by a high proportion of existing taxi drivers and will provide passengers with a convenient means of taxi hailing service. Reviews on the Taxi App are mixed.<sup>35</sup>

Furthermore, the HKTC is recently conducting a consultation on proposed industry reforms to collect views from taxi licence owners, drivers and consumers.<sup>36</sup> According to a suggestion by a Legislative Council (LegCo) member, one of the options to reform

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<sup>29</sup> Every driver is required to carry a motor third party liability insurance pertaining bodily injury and death, with a minimum policy limit of HK\$100 million. The purpose is to ensure that an at-fault motorist will have the financial ability to compensate the victim who has been injured in a traffic accident. However, the ride-share driver may have his third-party insurance policy avoided by the insurer because the policy was obtained by the non-disclosure of a material fact, or by a representation of fact which was false in material (e.g. the car is for domestic use).

<sup>30</sup> SCMP. (2017) *Hong Kong Uber drivers defiant in the face of Government crackdown*. [online] Available from: <http://www.scmp.com/news/hong-kong/economy/article/2077911/hong-kong-uber-drivers-defiant-face-government-crackdown> [Accessed October 2017].

<sup>31</sup> Unique users who took a trip in the city in the past 3 months.

<sup>32</sup> SCMP. (2017) *Uber secures third-party insurance coverage in bid to be legalised in Hong Kong* [online] Available from: <http://www.scmp.com/news/hong-kong/economy/article/2073507/uber-secures-third-party-insurance-coverage-bid-be-legalised> [Accessed October 2017].

<sup>33</sup> SCMP. (2017) *22 Uber drivers arrested in undercover Hong Kong police operation*. [online] Available from: <http://www.scmp.com/news/hong-kong/law-crime/article/2095336/21-uber-drivers-arrested-hong-kong-undercover-police> [Accessed October 2017].

<sup>34</sup> Background information of the Taxi app. [online] Available from: <http://unwire.hk/2016/05/18/hong-kong-taxi-app/software> [Accessed October 2017].

<sup>35</sup> Sources: Apple App Store, Reviews on Taxi App 13 Oct. 2017 [online] Available from: <http://www.apple.com/> [Accessed October 2017].

<sup>36</sup> LegCo Penal on Transport (Papers) (2017) *Taxi 2020 Development Road Map* [online] Available from: <http://www.legco.gov.hk/yr16-17/chinese/panels/tp/papers/tp20170421cb4-896-2-c.pdf> [Accessed October 2017].

the market is to introduce a marking scheme to regulate taxi drivers' behaviour.<sup>37</sup> Enhancing competition and improving service quality in the market through options such as introducing an accreditation system, a vehicle and driver quality evaluation mechanism and a redistribution of taxi licences are also being proposed in the consultation. It is expected that the consultation will be completed by the end of 2017 and a proposal will then be submitted to the Government.

### *Initiatives by the Government - franchised taxi proposal*

To answer the call from the public for more quality choices of personalised point-to-point car transport services, other than with ordinary taxis, the Government presented a proposal to the LegCo Panel on Transport in June 2016 to issue a separate kind of licence for franchised taxis.

In the review of taxi licensing policy in 2007, the Council supported studying alternative modes of taxi services, such as fixed-fare taxi services for specific locations or "alternative taxi services" to provide more choices for consumers. The Government believed that offering more product differentiation could lead to greater competition in the industry. However, to provide incentives for taxi drivers to invest in product differentiation, e.g. more comfortable seating, in-car entertainment, guaranteed spoken English skills, etc., some form of financial reward would have to be put in place. A flexible option would be to allow operators to charge a higher fare than regular taxis as a financial incentive to offer better services.

According to the franchised taxi proposal, the Transport Department will introduce around 600 franchised taxi licences by 2018. The vehicles will be operated by three franchised companies and each franchisee will be responsible for 200 vehicles for 5 years. The Government proposes that the franchised taxi fares can be 35% to 50% higher than current taxi fares. The franchise holders are required to propose a franchise fee when bidding for the franchise and they should pay that specified amount of franchise fee once the franchises are granted.

The Government plans to create special fleets and allow the fleets to have distinctive markings on their vehicles, it is expected that they could be singled out by consumers and provide choices that has been long called for by the consumers. The proposal will therefore segment the taxi service market into two segments, i.e., a franchised taxi service and an ordinary taxi service. There is also an expectation that franchised taxi operators will compete on service with ordinary taxis.

Regarding the proposed terms of the franchise, the Government will prescribe the service level and set service standards in respect of vehicle types that go beyond the current requirements of a taxi licence. For example, limits on vehicle age, service quality of drivers and that the franchisor must develop a mobile hailing application to provide a service via a mobile phone, etc. In addressing demand from the elderly and disabled population, there will be a requirement for the franchised companies' fleets to have at least 50% wheelchair-accessible vehicles. If the operators fail to meet the service level or standards set by the franchise, the Government will impose penalties or even revoke the franchise. It is the Government's hope that driver behavior will be

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<sup>37</sup> Subject to the mark deducted, taxi drivers who violate their professional conducts could receive a penalty, licence suspension or even revoke of licence.

improved by creating an employer-employee relationship between the franchise holder and the driver, with proper training requirements imposed for drivers. The Government also hopes that drivers will benefit through the proposal with protections offered under the Employment Ordinance and they will enjoy greater income stability through salary payment.

### *Ease of entry into the hire car market*

In February 2017, the Transport Department introduced a new administrative arrangement in the application of HCPs to facilitate new market entry. This is an optional "pre-application assessment" for any party who is interested in applying for HCPs. Interested parties may now make a request for "pre-application assessment" without the need to submit any private car registration documents. They will be informed of the likelihood of having their applications for HCP approved before investing in the purchase of a vehicle or vehicles.

## 1.5 Consumers Opt for More Choices

Three surveys about personalised point-to-point car transport services were recently conducted. One was commissioned by the Government, the other two were commissioned by Uber and a trade association. Although they could be seen to have different objectives, they all sought views of consumers about the quality of personalised point-to-point car transport services in Hong Kong.

The Government survey found that consumers opt for alternatives to the current taxi industry to address service problems i.e. attitude of drivers, refusal to hire, cherry-picking of passengers, and not using the most direct practicable route, even though these practices are regulated.<sup>38</sup> It is clear from all surveys that many consumers seek more choices either on taxi services or more personalised point-to-point car transport services, and that some consumers are willing to pay a premium for quality services, including a more spacious compartment and better equipped compartment facilities.

### *Government survey*

The Government commissioned a consultancy firm to conduct a telephone survey in May 2016 to gauge public views on the introduction of a franchised taxi service in Hong Kong.<sup>39</sup> There were some 2,000 successfully interviewed respondents. The key findings are:

- High public acceptability of franchised taxis: Even without knowing how much higher the fare of franchised taxis would be than that of ordinary taxis, over 60% of respondents indicated that they would consider using franchised taxis of a higher quality service than ordinary taxis;

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<sup>38</sup> The Road Traffic (Public Service Vehicles) Regulations (Cap. 374D) cover the drivers' general conduct and obligations, and set out the penalties for any misconduct.

<sup>39</sup> Transport and Housing Bureau. (2017) *Public Transport Strategy Study - Role and Positioning Review Personalised and Point-to-point Transport Services*. [online] Available from: <http://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170317cb4-666-5-e.pdf> [Accessed October 2017].

- Expectations on franchised taxis: The respondents indicated the most important aspects of franchised taxis included: (a) good attitude of drivers; (b) no refusal to hire nor cherry-picking of passengers; (c) using the most direct practicable route; (d) more spacious compartment; (e) better equipped with compartment facilities;
- Fare and demand: Over 70% of the respondents considered franchised taxis should charge a higher fare. Around 9% of the respondents indicated that they will use franchised taxis if the fare is 30% – 50% higher than that of ordinary taxis; and
- Expected usage: For peak hours during weekdays, about 60% of respondents indicated that they would use a franchised taxi service at least once a month. Among them, around 40% indicated that they will use a franchised taxi service at least once a week. Nearly 40% of respondents indicated that they would use franchised taxis more frequently if their income remained stable or rose in future, or that they found the service to be satisfactory after use.

### *Uber survey*

Uber commissioned a telephone survey in June 2017 to collect public views on how to improve Hong Kong's personalised point-to-point car transport service.<sup>40</sup> Among the 540 respondents surveyed, over 75% expressed a view that:

- There should be more choices for point-to-point car transport services in Hong Kong;
- The introduction of Uber can help enhance point-to-point car transport services in Hong Kong;
- The Government is not doing enough to support innovations; and
- The Government should provide a legal framework to regulate Uber.

### *Trade survey*

The HKTC commissioned an academic research institute to conduct quarterly street interviews on the quality of service in Hong Kong starting from May 2017. In August 2017, a random sample of 1,216 taxi passengers in 18 districts was collected.

Respondents were required to rate the design, professional attitudes, roadside support and 17 taxi service quality items. The August 2017 survey revealed that three taxi service items with higher ratings were "Clean Taxi Compartment", "Taxi Drivers Familiar with Passenger Destinations and Traffic Conditions" and "Taxi Driver Take Efficient or Passenger Designated Route". Low ratings were on "Taxi Facilities" (including mobile phone charging, wireless network and electronic payment) and "Wheelchair Users' Friendly". In comparison, most of the ratings for the survey of the 2<sup>nd</sup> quarter were just "fair".

Respondents were also asked to select the five most important elements in the 17 attributes of taxi service quality. Four of the highly ranked items were related to the taxi driver's professional attitude: (i) use of the most efficient or passenger-specified route; (ii) compliance to taxi regulations; (iii) familiar with the passenger destination and traffic conditions; and (iv) hospitality.

<sup>40</sup> Uber. (2017) *Uber and CUHK's Public Polling Results on "HK's Transportation Services"*. [online] Available from: <http://newsroom.uber.com/hong-kong/uber-and-cuhk-publicpolling/> [Accessed October 2017].

## *Embracing the role of ICT*

Although the survey commissioned by Uber found that those consumers who used E-hailing services considered that the services enhanced point-to-point car transport services in Hong Kong, there is very little consideration in the Government's franchised taxi or hire car proposals to fully embrace the use of ICT as a major factor in providing a more consumer friendly and efficient personalised point-to-point car transport services.<sup>41</sup>

The Chief Executive's Policy Address 2017 in October 2017 stated that "*Smart Mobility* is an important element for Hong Kong's development into a smart city. Through the application of technology, Smart Mobility aims to facilitate the public in planning their travel arrangements, enable people to make the best use of public transport services and alleviate road traffic congestion. The Government will continue to develop intelligent transport systems and integrate various existing transport mobile applications of the Transport Department into an "all-in-one" platform to facilitate one-stop search for walking, driving, public transport and real-time traffic information by the public."<sup>42</sup>

The Government clearly understands that making use of information and communications technologies can improve traffic control and enhance the quality of transport services. Accordingly, the Government should adopt a transport policy incorporating the efficiency and consumer friendly features of E-hailing services, to facilitate the development of personalised point-to-point car transport services in Hong Kong.

The Council is aware that E-hailing, operating as part of the sharing economy usually gains a competitive advantage by bypassing many of the costs that traditional competitors must incur – particularly licensing, insurance and compliance cost. This has allowed these businesses to offer services more cheaply or of better service than incumbent operators. Different jurisdictions, for example: member states of European Union, have taken different ways to tackle the impact of these businesses: either (1) government control or top-down government regulation or (2) bottom-up regulation or self-regulation through reputation. Experience gained in other economies indicates that a hybrid structure of both approaches is more appropriate, which will be further analysed in Chapter 3 of this report.

E-hailing, like most disruptive innovations, with its rapid acceleration in demand has overwhelmed government's ability to regulate based on traditional regulatory mechanisms. There is also wide recognition that applying existing regulatory regimes to the sharing economy may not meet the primary objectives of efficiently maintaining a level playing field for all industry stakeholders to compete, or effectively safeguarding consumer and supplier welfare. A new way of thinking is needed.

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<sup>41</sup> The proposed franchise of premium taxi services only has clear requirements for the operation and service quality of franchised taxis, including an "E-hailing" feature and requiring the operators' fleets to be comprised at least 50% of wheelchair accessible vehicles.

<sup>42</sup> HKSAR Government. (2017) *The 2017 Policy Address*. [online] Available from: [https://www.policyaddress.gov.hk/2017/eng/policy\\_ch03.html](https://www.policyaddress.gov.hk/2017/eng/policy_ch03.html) [Accessed October 2017].

While the Council recognises there is a strong public demand to enhance personalised point-to-point car transport services, the Council supports the Government's view that any reform must be on the premise that the provision of any passenger service must be governed by a regulatory regime that provides for clear standards of operation and sanctions for breaches. Nevertheless, any new regulatory regime that is introduced should recognise that service quality must move forward and that it is able to capitalise on the benefits of new and suitable technologies to deliver high quality services to the passengers.

In establishing the Council's position in the future development of the personalised point-to-point car transport services (Chapter 4), a "relevant market" analysis, examining such features as the relevant supply and demand factors; and an explanation of the lack of a competition mechanism to improve quality of taxi services is undertaken in Chapter 2. In Chapter 3, experiences of other jurisdictions are discussed and the advantages and the disadvantages of various overseas regulatory models are considered.

# Chapter 2: Market Analysis

## Highlights

This Chapter aims to explain why 18,000 taxis on the road in Hong Kong do not compete on service quality and that the low quality of taxi service makes the demand for the taxi services stagnated despite the following five favourable factors:

- (i) Moderate price of taxi services;
- (ii) Increasing population;
- (iii) Increasing numbers of seniors and the disabled;
- (iv) Increasing demand for transport services to the airport; and
- (v) Efficient transit ridership.

The market for personalised point-to-point car transport services has three market segments:

- (i) A stand market is a designated place where vehicles can wait for passengers and vice versa;
- (ii) In the hail market consumers hail a cruising vehicle on the street; and
- (iii) In the pre-booked market consumers phone up a dispatching centre asking for an immediate or later car transport service.

The Hong Kong taxi service operates mainly in the hail and stand segment of the market where competition by far, could hardly foster enhancement in service quality.

E-hailing serves as a matchmaker facilitating transactions between car service users or car service providers, is similar to a call centre that matches a rider and a service provider, i.e., a taxi, for a pre-booked car service.

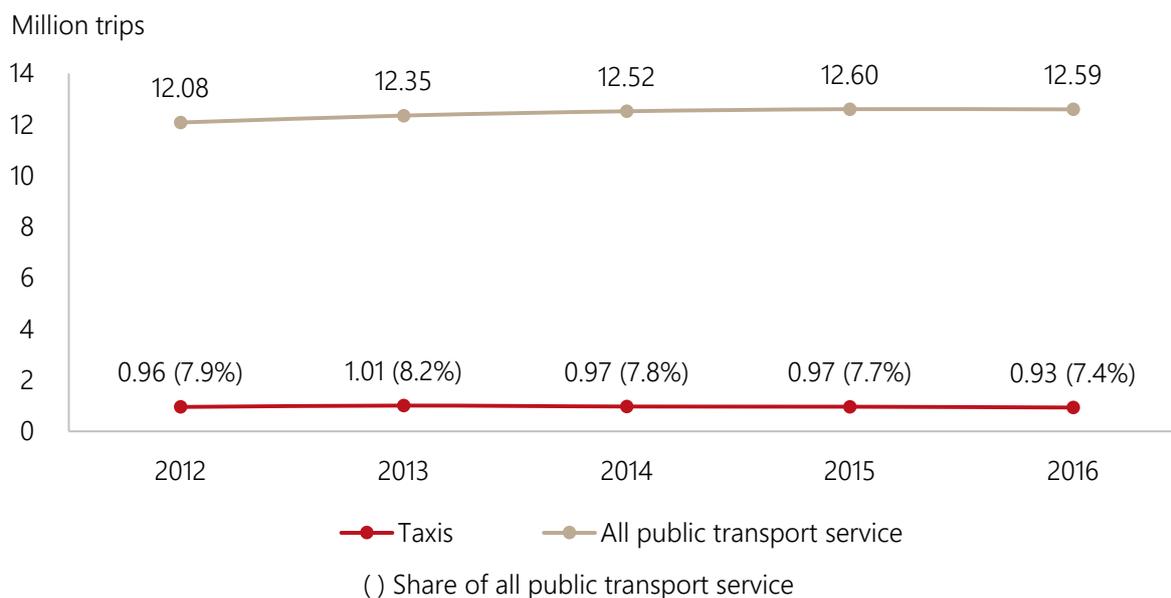
Taxi call-centres and E-hailing service providers compete to provide better services to attract customers. However, E-hailing operators, leveraging on information communication technologies, are able to attain a better economies of scale by enjoying competitive advantages over taxi call-centres. E-hailing services, which function as an efficient matchmaker, perform better than taxi and conventional hire cars in the pre-booked segment of the market; and an overseas study has indicated the availability of an E-hailing service could bring a better transport experience and play a complementary role to the overall efficiency in transportation.

Any proposal of reform that includes E-hailing services will induce a robust competitive service in the pre-booked market segment so that consumers can make use of their choices to reward those with good services and punish those with bad services. Competition in the pre-booked segment eventually affects other interrelated segments resulting in an overall improvement in personal point-to-point car services.

## 2.1 Usage of Taxi Services in Hong Kong

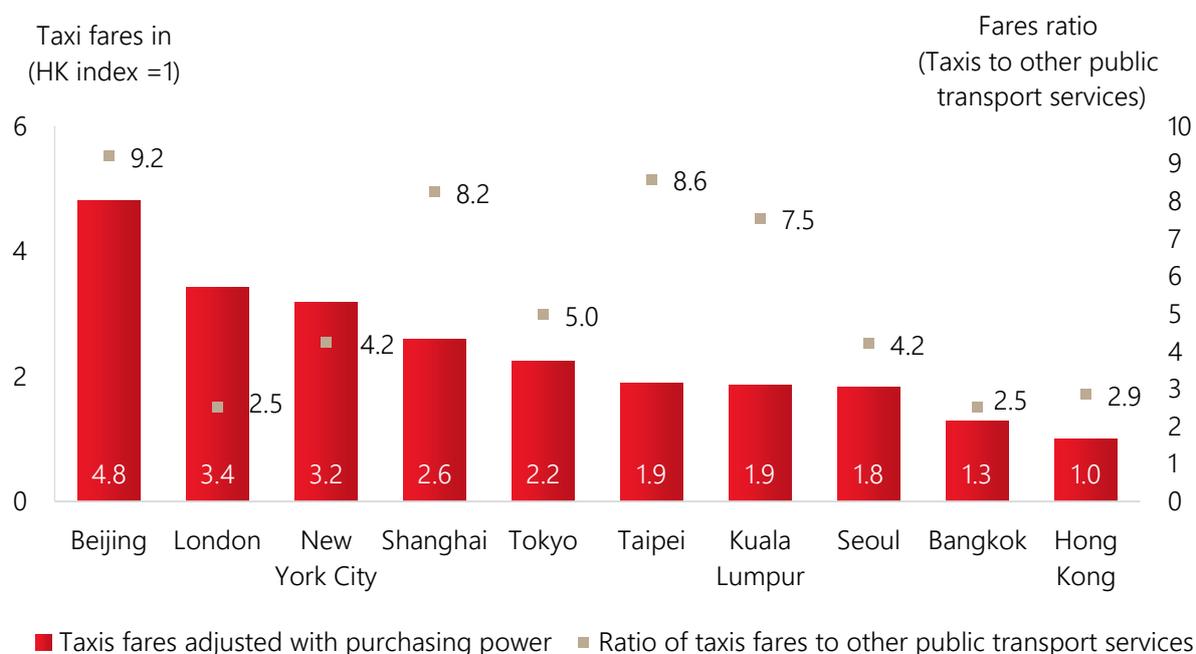
In Hong Kong, hire cars only contribute a small share of the wider market; most of the demand for personalised point-to-point car transport is by taxi service. The percentage of taxi trips of total public transport patronage slightly declined from 7.9% to 7.4% for the period of 2012 – 2016 (from 0.96 million trips per day in 2012 to 0.93 million trips per day in 2016) as shown in Figure 6.

Figure 6: Average daily public transport passenger trips 2012 – 2016



The UBS Prices and Earnings Report 2015 shows that the Hong Kong taxi service fare adjusted with purchasing power is the lowest among many metropolitan cities. Besides, the taxi fare ratio relative to other public transport services of Hong Kong is also very low (shown in Figure 7).<sup>43</sup> A question therefore arises as to why there was a slight decrease in demand for taxi services in Hong Kong as the usage of other public transport services have increased.

Figure 7: Relative taxi fares of different metropolitan cities



<sup>43</sup> UBS. (2015) *Prices and Earnings Report 2015*. [online] Available from: <http://www.ubs.com/microsites/prices-earnings/prices-earnings.html>. [Accessed October 2017].

According to a study on taxi services in US cities,<sup>44</sup> it was found that the demand for taxi services is affected by the following 7 factors:

- City size measured by population;
- Senior and disable population;
- Ride to airport service;
- Substituted by self-driving with private vehicles;
- Transit ridership (a complement to taxis or a substitute);
- Demand is affected by competing services;
- Demand is also affected by the quality of service in particular if taxi service is more reliable and more readily available;

Amongst these 7 factors, the first 3 factors are basic demand factors driven by population and income change and the intensity of transportation within the city; the fourth factor and the fifth factor depend on the substitution between personalised point-to-point car transport services and other transport modes; whereas the last two factors are related to competition between different segments within personalised point-to-point car transport services.

Despite the fact that each city has its unique profile and is at a different state of development, the above 7 factors could be made in reference to analysing the current and future demand of taxi services in Hong Kong.

## 2.2 Analysing Economy-wide Demand

### *Population size*

The Hong Kong population has increased by 2.7% from 2012 to 2016, which was smaller than the increase of 4.2% of the usage of total public transport but was larger than the percentage change of the demand (-3.1%) for taxi services of the same period (as shown in Figure 6).

It is expected that the population will increase from 7.35 million in 2016 to 8.01 million in 2031, an increase of 9%. However, according to the Government's PTSS Report 2017, the future market share of taxis in terms of average daily public transport patronage is estimated to increase by 2031 from 7.4% to 8%, i.e., from 0.93 million passenger trips per day on average in 2016 to 1.10 million passenger trips per day on average in 2031. This reflects the fact that consumers are more likely to take more taxi trips on average. If the trend for the demand for taxi services of 2012-2016 continues, the needs to expand services to meet the demand for personalised point-to-point car transport should therefore not be overestimated.

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<sup>44</sup> Schaller, Bruce. (2005). *A Regression Model of the Number of Taxicabs in U.S. Cities*. Journal of Public Transportation, 8 (5): 63-78. [online] Available from: <http://scholarcommons.usf.edu/jpt/vol8/iss5/4> [Accessed October 2017].

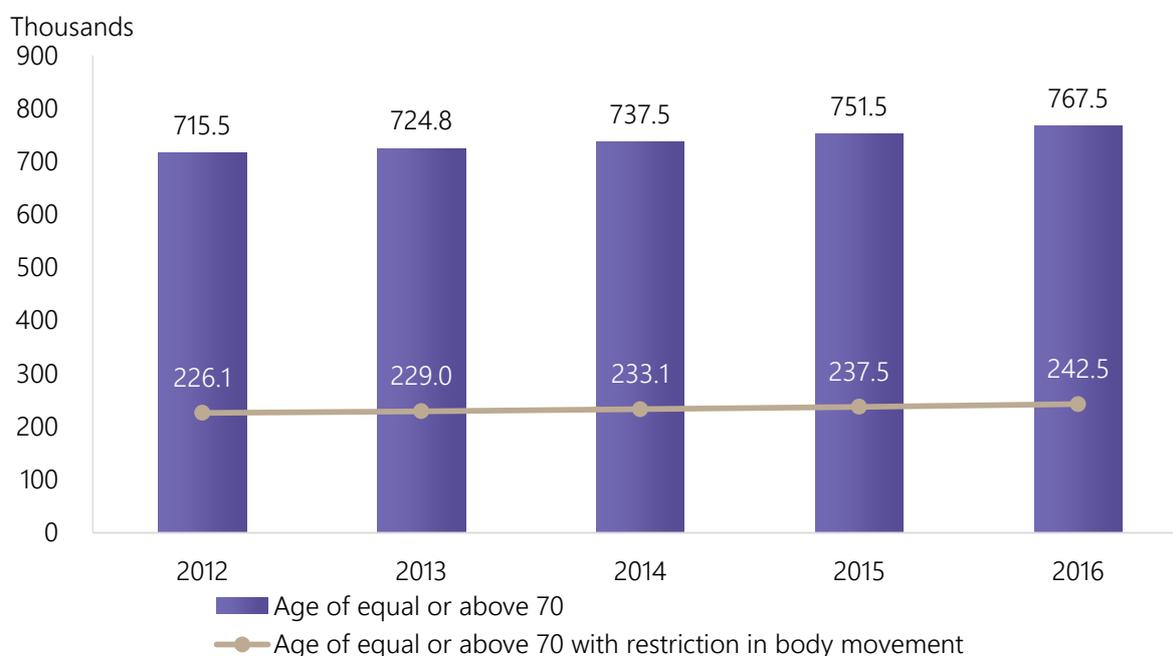
## Senior and disabled population

Hong Kong also has an ageing population. It is noted that the elderly population i.e. aged 70 or above has grown at 7.3%, much faster than the overall population at 2.7% in 2012-2016. As time progresses increasing numbers of the elderly could be considered as more affluent than previous generations. They might therefore be able to afford more personalised point-to-point car transport services and prefer these services over using other public transport.

Moreover, as population increases, demand by the elderly with some types of disabilities, in addition to those disabled regardless of age, will also most likely be increased. It stands to reason that people with a type of disability that restricts body movement will prefer to use personalised point-to-point car transport, if affordability is not a major concern. There is a high proportion of the elderly with this type of disability. According to the Census and Statistics Department, the proportion having disability problems remains at about 31.6% of the population aged equal or above 70 (from 226,100 persons to 242,500 persons) (Figure 8).

It is the forecast by the Census and Statistics Department that the Hong Kong population of persons aged equal or above 70 will increase by 26.4% from 2016 to 2021 and by another 61.7% from 2021 to 2031.<sup>45</sup> If the same proportion of disability restriction in body movement for those aged 70 or above prevails (the likely percentage may be lower due to improvements in medical treatments and preventive actions taken) the demand for personalised point-to-point car transport services, mainly a pre-booked service, will very likely to increase.

Figure 8: Population for age of equal or above 70 with/without restriction in body movement 2012 - 2016



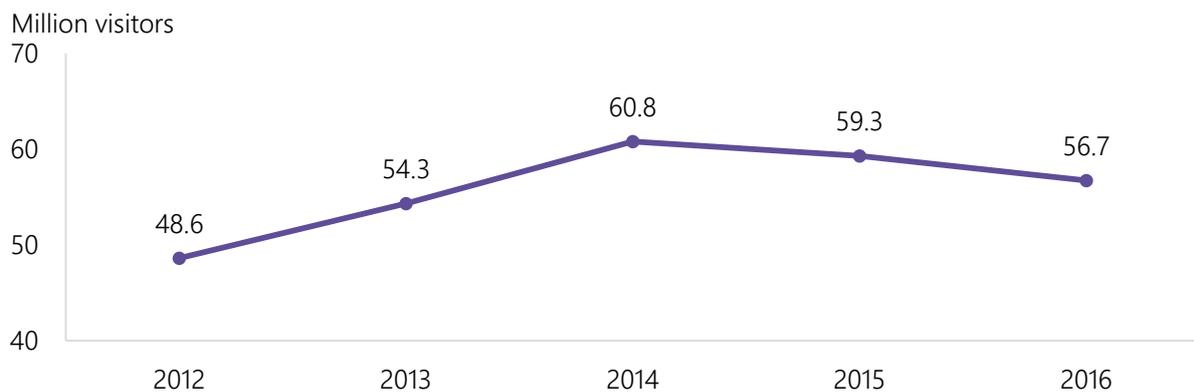
<sup>45</sup> Census and Statistics Department. (2017). *Hong Kong Population Projections 2017-2066*. [online] Available from: <http://www.statistics.gov.hk/pub/B1120015072017XXXXB0100.pdf> [Accessed October 2017].

In 2015, concerns had been raised at the Legislative Council regarding adequate taxi services for the elderly/disabled population, noting that there was a great demand for wheelchair accessible taxis to facilitate the use by persons with selected types of disability.<sup>46</sup> There were only 80 wheelchair accessible taxis in Hong Kong from several taxi operators (e.g. Diamond Cab and SynCab) but their booking fees were higher.<sup>47</sup> Under the current regulatory arrangement, there is very little incentive for taxi owners investing in facilities to meet the demand of the elderly/disabled population and there is no competitive force to drive down the fares and booking fees.

### *Tourists and airport passengers*

With the popularity of E-hailing services, personalised point-to-point car transport service has become a frequent mode of transport service used by overseas visitors. A US study of 2016 showed the availability of E-hailing services has affected respondents' use of rental car services, in that 15 percent of respondents stated that they now use rental car services less as a result of the accessibility of Uber during travels.<sup>48</sup>

Figure 9: Yearly visitor arrivals 2012 – 2016



In Hong Kong the number of overall inbound visitors increased by 16.7% from 2012 to 2016 (Figure 9).<sup>49</sup> While overall visitor arrivals increased by 16.7% as mentioned above, passenger travel (excluding transit passengers) through Hong Kong International Airport (HKIA) has also steadily increased since 2012 (Figure 10). The average daily increase was around 30,000 passengers in 5 years (total increase of 10.8 million passengers). Taxi rides to and from the airport are important component of the demand for taxi services in many US cities, e.g. New York and Minneapolis.<sup>50</sup> This shows that there should be an increase in demand on taxi services by the tourists and airport passengers but the actual usage of taxi services did not increase.

<sup>46</sup> Legislative Council Secretariat (Council Business Division 4). (2016) *Background brief on accessible public transport services for people with disabilities*. [online] Available from: <http://www.legco.gov.hk/yr15-16/english/panels/tp/papers/tp20160415cb4-831-6-e.pdf> [Accessed October 2017].

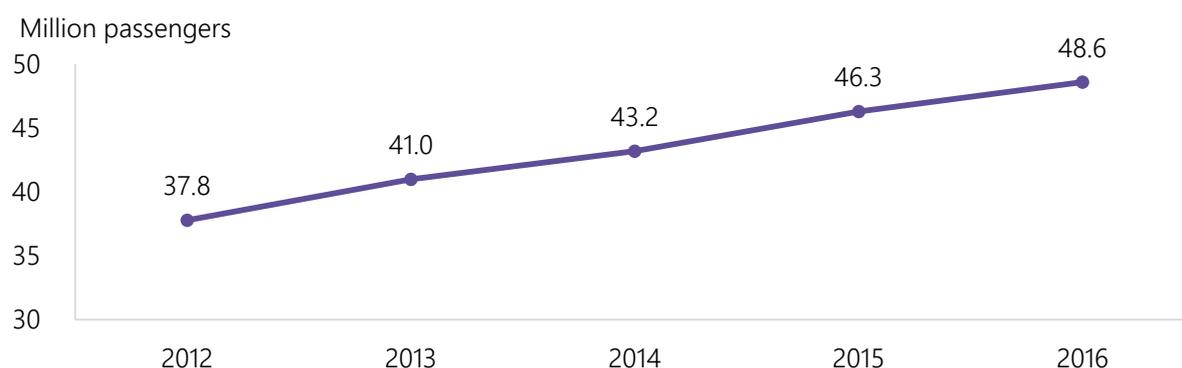
<sup>47</sup> For example, the hourly rental for booking service of the Diamond Cab is HK\$300 per hour with minimum booking of one hour. See Website of Diamond Cab. (2017) *Service charges for booking of the Diamond Cab*. [online] Available from: <https://www.diamondcab.com.hk/taking-diamond-cab.php> [Accessed October 2017].

<sup>48</sup> Statista.com (2017) *Use of Uber cars effect on rental car services in the U.S. 2016* [online] Available from: <https://www.statista.com/statistics/307101/uber-cars-effect-on-rental-car-services-us/> [Accessed October 2017].

<sup>49</sup> Hong Kong Tourism Board. (2017). *A Statistical Review of Hong Kong Tourism 2016*.

<sup>50</sup> See Schaller, Bruce. (2005).

Figure 10: Yearly passengers via HKIA (excluding transit passengers) 2012 – 2016



In 2018, the introduction of a high-speed train connected to Hong Kong could change visitor numbers from Mainland China, which will be further increased when the Hong Kong Zhuhai Macau Bridge opens in 2018.<sup>51</sup> According to the HKIA, IATA Consulting forecasts that there will be 102 million airport passengers per year by 2030,<sup>52</sup> indicating a potential increase in demand for taxi services or personalised point-to-point car transport services.

E-hailing is becoming more prevalent and popular around the world and they target at cities, like Hong Kong, that many tourists visited and facilitate them because of Hong Kong's reputation as a "world city" that they can use E-hailing services.<sup>53</sup> Notwithstanding the fact that some visitors might be aware of, or be specifically informed of the illegality of E-hailing services in Hong Kong, it is also reasonable to assume that some of these tourists will in any event attempt to use that type of service, particularly if they have used such a booking service in their home countries or if they have learned in advanced that the traditional taxi service is at risk or not meeting their demand.

## 2.3 Substitution by Other Transport Modes

### *Increase in number of private cars*

According to Transport Department's Transport Characteristics Survey (TCS) 2011, it was reported that 14.4% of the households in Hong Kong (or 340,300 households) had private cars available for use in 2011. The average total monthly expenses in operating a private car were HK\$5,400 in 2011 (at 2011 prices).

Hong Kong annual GDP per capita grew over the last 5 years (2012 – 2016) and went up noticeably by cumulative 19.2% to HK\$339,500 in 2016. During the same period, there was a significant decrease in fuel cost, which constituted 36% of the total monthly expenses in operating a private vehicle.<sup>54</sup> Both factors drove consumers to consider

<sup>51</sup> 99,000 patronages per day would be travelled by high-speed train according to the forecast in "Legislative Council Panel on Transport Subcommittee on Matters Relating to Railways" [online] available from [http://www.legco.gov.hk/yr09-10/english/panels/tp/tp\\_rdp/papers/tp\\_rdp1116cb1-503-2-e.pdf](http://www.legco.gov.hk/yr09-10/english/panels/tp/tp_rdp/papers/tp_rdp1116cb1-503-2-e.pdf) and 25,000 vehicles per day will pass the Hong Kong Zhuhai Macau Bridge according to "Transport Modelling Approach and Validation" [online] available from [http://www.pland.gov.hk/pland\\_en/misc/FCA/files\\_072010/Final\\_Report/Appendix%20C.pdf](http://www.pland.gov.hk/pland_en/misc/FCA/files_072010/Final_Report/Appendix%20C.pdf).

<sup>52</sup> Sources: <http://www.hongkongairport.com/eng/future/three-runway-system/index.html> [Accessed October 2017].

<sup>53</sup> Uber and Alipay teamed up earlier this year to offer yuan payment options for Uber rides in Hong Kong, Macao and Taiwan. The option has been expanded to more than 400 cities in 68 countries and regions in which Uber operates. [online] Available from [http://news.xinhuanet.com/english/2016-05/04/c\\_135333964.htm](http://news.xinhuanet.com/english/2016-05/04/c_135333964.htm) [Accessed October 2017].

<sup>54</sup> Transport Department (2012) Travel Characteristics Survey 2011 Final Report Table 4.4.

owning a car. Between 2012 – 2016, the number of licensed private vehicles increased by 17.9% with around 21% of households had a car in 2016. As car ownership increases, it is reasonable that consumers could decide to substitute self-driving for taxi services especially when taxi services are not reliable and are not meeting standards, to the extent that they lead to complaints and disputes.

As affordability is no longer a concern for average wage earners, and unless the Government imposes some more measures to curb the trend of car ownership or to increase the cost in operating a private car, self-driving will likely be a substitute for personalised point-to-point car transport services. The number of households with increased car ownership will have an adverse effect on the taxi industry and also worsen the traffic congestion problem in Hong Kong.

### *Efficient railway network*

Railways play a vital role in serving the transport needs of Hong Kong. They accounted for about 41% of domestic public transport and some 54% of the land-based cross-boundary passenger trips by the end of 2016. Hong Kong's railway network provides a relatively affordable, fast and reliable service; a viable substitute for personalised point-to-point car transport services.

After the completion of the Kwun Tong Line Extension and South Island Line (East) in 2016, the Shatin to Central Link in 2021, and the seven new railway projects in the planning horizon by 2031, the coverage of the network will likely make railway the dominant public transport service in Hong Kong. Apparently taxis will find it difficult to compete with railways in non-urgent demand unless they can bring much higher value by offering a comfortable, more reliable and quality service to consumers.

A recent study in U.S. used the information of transit access time to understand the relationship between the demand for taxi use and the usage of transit service. The taxi demand was categorised by pickups and drop-offs of passengers at different times of day. It was found that taxi demand changed at different times of the day because of transit accessibility. It revealed that taxi services and other public transport services, especially transport railway services, are not always substitutes and could be complement when the transit service is available.<sup>55</sup>

With the growing income per capita, ageing population and overseas visitors, these positive factors signify an increasing demand for personalised point-to-point car transport services in Hong Kong. However, it contradicts the fact of reducing usage of taxi services in Hong Kong. In the following section, the Council will explain that such a decrease in demand for taxi services is mainly due to a lack of competitive pressure to uphold the quality of the services in the market. Under the current regulatory regime, taxi drivers or vehicle owners have no incentive to provide reliable and readily available services to passengers. Unless ways can be found to introduce competition, taxi services will be difficult to improve and despite the potential growth in demand, usage of taxis for personalised point-to-point car transport services will be limited.

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<sup>55</sup> Yang C I and Eric Gonzales *Modeling Taxi Trip Demand by Time of Day in New York City*. Transportation Research Record: Volume 2429. DOI: 10.3141/2429-12.

## 2.4 Three Service Market Segments

A personalised point-to-point car transport service is defined<sup>56</sup> as a transport service where a hired vehicle takes a passenger directly from a pick-up point chosen by the passenger or a designated stand, to a chosen destination (rather than indirectly to a station or a stop close to the destination).

The market for personalised point-to-point car transport services can be classified into three broad market categories: the stand market segment, the hail market segment, and the pre-booked market segment.<sup>57</sup>

- (i) A stand market is a designated place where vehicles can wait for passengers and vice versa; for example, taxi stands where taxis and consumers form queues regulated by a first-in-first-out system. In these circumstances, price has no effect on consumer choices and consumers have to visit a taxi stand to obtain a service.
- (ii) In the hail market consumers hail a cruising vehicle, which can be easily identified as available for service, on the street. There is uncertainty about both the waiting time for a vehicle to appear and the quality of service in terms of driver attitude and features of the vehicle. In this case consumers also do not have choice because vehicles show up randomly and consumers usually pick up the first available. The service provider can exercise market power to charge a higher price when the supply is small and the passenger urgently needs the service.
- (iii) In the pre-booked market consumers phone up a dispatching centre asking for an immediate or later car transport service. It is only in this market that consumers can choose between different service providers who compete on price or on service.

These three categories of personalised point-to-point car transport services are close substitutes, and they are interrelated.<sup>58</sup> More supply in the stand and hailing segments will lower the time costs for consumers, resulting in a higher turnover. On other hand, better services in the pre-booked market segment, that mirror benefits not found in the other segments, will attract more consumers to shift to this segment.

A recent study of the time cost of a taxi driver in Hong Kong found that the estimated monetary cost of journey time and waiting time were HK\$26/hr and HK\$34/hr respectively. In addition, age, marital status, taxi ownership status and driving experience positively affect a taxi driver's preference to cruise on the roads rather than to wait for the next customer.<sup>59</sup> The finding supports the view that Hong Kong taxis prefer to serve the hail segment.

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<sup>56</sup> In many market studies, the Council is used to define the relevant market to focus the discussion and as an analytical tool to assist with identifying in a systematic way the competitive and regulatory constraints that consumers and service providers face when participating in a market.

<sup>57</sup> Josep Maria Salanova, Miquel Estrada, Georgia Aifadopoulou, Mitsakis (2011) *A review of the modeling of taxi services* Procedia Social and Behavioral Sciences 20 (2011) 150 – 161.

<sup>58</sup> Office of Fair Trade. (2007) *Evaluating the impact of the taxis market study*. [online] Available from: [http://www.rother.gov.uk/media/pdf/p/a/O.F.T.\\_EVALUATING\\_THE\\_IMPACT\\_OF\\_THE\\_TAXI\\_MARKET\\_STUDY.pdf](http://www.rother.gov.uk/media/pdf/p/a/O.F.T._EVALUATING_THE_IMPACT_OF_THE_TAXI_MARKET_STUDY.pdf) [Accessed October 2017].

<sup>59</sup> Sirisoma, R.M.N.T.; Wong, Sze Chun; Lam, William H. K.; Wang, Donggen; Yang, Hai. Zhang, Peng (2010) *Empirical Evidence for Taxi Customer-Search Model*. Proceedings of the Institution of Civil Engineers: Transport, v. 163, (4), December 2010, p. 203-210.

It is understood that if a taxi cruises on the road in the hail market segment, it cannot respond to a call asking for an intermediate taxi service if it has already taken up passengers or it is not near the pick-up point. This will therefore affect supply in the pre-booked service segment. If most individual taxis do not prefer the pre-booked business, because they can pick up passengers on the street and at stands, the availability of a pre-booked service will not be certain and consumers will lessen demand for pre-booked taxi services.

### *Competition plays no role to improve taxi services*

In previous sections, it is argued that there are a number of factors that drive the increase in taxi demand. One of the crucial factors affecting the demand is the quality of the services. Many taxis on the road are operating mainly in the hail segment and the stand segment and do not generally compete on merit. If there is any competition, it is through making decisions on when and where to cruise on the street to search for customers. They do not compete at all, or at the very least, it would be courting serious trouble with other queuing taxis, if a taxi was to compete when waiting at taxi ranks.

Moreover, when making purchase decisions on the street or at taxi stands consumers view taxi services as one homogeneous source of supply rather than services being separately supplied by an individual taxi. They form their expectations about the taxi service based on the taxi market, rather than on the individual taxi they are going to use. This is because consumers either have no idea of what if any attributes exist for a taxi they will hail on the street, or for those they are allocated (by the queuing rules) at taxi stands.

All taxis look alike. If there is no product differentiation, there will be no motivation for taxi drivers to improve their services to build customer loyalty, or any market mechanism that allows consumers to choose or avoid substandard taxi drivers. If Hong Kong still mainly relies on taxis to provide personalised point-to-point car transport services and the taxi service does not improve, there will likely be more complaints; a shift to other public transport services; consumers opt for more dubious personalised car transport services; or in self-driving by their vehicles.

Hire car service providers only serve the pre-booked segment and compete on price and quality of their services. The call service centre or customer office dispatches hire cars from a centre or on the road, which allocates the supply in response to the demand. Hire car services are usually booked by calls or by advance order in Hong Kong. Consumers can choose between hire car companies but they usually have limited choices about the driver and the type of vehicles provided. Nevertheless, the supply of hire car services is small and cannot meet any major increase in demand. Currently its overall effect on the wider market is not significant.

Groups of small number of taxis serving customers in the pre-booked segment, by coordinating orders amongst taxi members within the group using their mobile phones, can be easily found in Hong Kong.<sup>60</sup> They usually attract customers by offering

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<sup>60</sup> A LegCo Member raised the issue of "discount gang" in 2013. Source: HKSAR Government, (2013). *LCQ16: Combating the offer of discounts on taxi fares by using mobile applications*. [online] Available from: <http://www.info.gov.hk/gia/general/201311/20/P201311200259.htm> [Accessed October 2017].

discounts on fares and if they engage in soliciting, then these “soliciting behaviours” are illegal.<sup>61</sup> Notwithstanding whether these taxi groups solicit customers, they may have difficulties in managing booking orders since they need to coordinate amongst members to deliver a satisfactory service, for instance arriving punctually at the pick-up point, allocating orders fairly amongst members and at the same time maximising total number of orders. Without the assistance of an ICT system, these issues are difficult to resolve as the size of the group gets bigger and there will be limitations on the capacity to serve pre-book orders.

## 2.5 Matchmaker Economics in a Pre-Booked Market

A taxi call centre gets taxis to connect to its phone system that consumers can call in and book a taxi service, and then matches the need of the passenger with any available taxis through a first response/first serve mechanism. It is a matchmaker that brings customers and taxis together at a meeting point to make transactions. Matchmakers operate under a different set of market forces,<sup>62</sup> facilitating business transactions between two or more user groups, as in the case where a call centre matches a consumer and a service provider, i.e., a taxi, for a pre-booked car transport service.

As discussed in Evans and Schmalensee’s book, the traditional business model of firms managing their production and setting their prices to maximise profits does not apply to matchmakers. It is a fact that the demand by one group of customers (the passenger group) that is served by a matchmaker (the call centre) depends on the demand by another group of customers (the taxi group) which is also served by the matchmaker (the call centre). For a related example, in the credit card market, a company connects consumers and merchants, and consumer demand for the card therefore depends on how many merchants have decided to accept it. Vice versa, merchants’ demand for the card services in turn depends on how many consumers have decided to use the card.

Taxi call centres, like matchmakers, do not make purchases first then re-sell the service to the customers like a dealer/market-maker or a distributor. A taxi call centre does not buy/own the service supplied by the taxi and the driver then resells to passengers. Nor does it make a referral to a taxi, like an agency or sales representative of the taxi, because the taxi call center is usually not employed by the taxi owner or the driver.

To make transactions happen, taxi call centres, like matchmakers, try to attract both passengers and taxis that use their services. A successful matchmaker business needs to tackle the interdependence of matchmakers’ demands (the passenger’s demand and the taxi’s demand for the call center service) and find how to create ways and platforms that allow users (both taxis and passengers) to interact and transact. A balance between the number of passengers and the number of taxi vehicles is important so as to make the booking service satisfy demands by both groups of users in the pre-booked segment.

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<sup>61</sup> According to the “soliciting” behaviour prescribed under regulation 40 of the Road Traffic (Public Service Vehicles) Regulations (Cap. 374D), if any taxi driver or his/her representative in any manner attracts or endeavours to attract any person in order to induce such person to make use of his/her vehicle, he/she commits an offence and is liable to a maximum fine of HK\$10,000 and imprisonment for six months.

<sup>62</sup> David S. Evans and Richard Schmalensee, (2016) *Matchmakers the New Economics of Multisided Platforms* Harvard Business Review Press Boston, Massachusetts.

Since the setup cost of a conventional call center is low and there is no regulatory barrier, it is easy to start a call center. With labour costs being similar for those interested in providing call centre services, the market is very competitive. There are 30 taxi call centres in operation<sup>63</sup> in Hong Kong with some operated by taxi owners for their taxi drivers. Many call centres are very small matchmakers. As a result, call centres like to retain taxi subscribers and have little incentive to screen out taxi drivers who might engage in malpractices. In fact, the call centre with its current simple operation is not capable of doing this. Besides, conventional call centres have limited information. For example, they usually cannot verify whether the position of a taxi that first responds to a call is the one that mostly likely arrives at the pick-up point on time or is the most suitable for the passenger. As a result, taxis services in the pre-booked segment are marginally better and competition among call centres does not significantly improve the taxi service in the pre-book market segment.

In addition, taxis are less interested in taking orders from call centres (and paying the subscription fee) if demand in the other two segments i.e. stand and hail is strong.<sup>64</sup> Similarly, if passengers expect the stand and the hail segments with sufficient supply of taxi services, they will not call in to pay extra to book the service if there is marginal difference in services offered in the stand and in the hail segments. Coordinating the supply of drivers and passenger demand is one of the factors determining the success and the failure of a taxi call center service.

An E-hailing service is like a taxi call centre serving the pre-booked car service segment, because E-hailing is a matchmaker business but not a taxi service provider. By using information communication technologies and the GPS system, an E-hailing service company can use a platform presenting a choice of drivers (driver user), type of vehicles (vehicle users), locations of the available vehicle and the route directly for consumer use either through mobile apps or through the E-hailing business web site. By the same token, E-hailing can describe the feature of the passenger for driver users to choose to serve through driver mobile apps before they respond to any booking orders. Better information prompts both consumer users and driver users to get onto an E-hailing platform. Accordingly, they have a competitive edge over conventional taxi call centres and hire car services by providing better information to passenger users and driver users. In addition, E-hailing operators can also use their customer data base to track down customer travel patterns, vehicle preference and usage experience, so as to build behavioural models to offer a better transport matchmaker service to consumers.

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<sup>63</sup> There are 31 taxi call centres listed in Government web sites but only 30 centres still operate and some of them are the same company operating using different names and telephone numbers. Source: Transport Department. *Taxi Call Stations*. [online] Available from: [http://www.td.gov.hk/filemanager/en/content\\_276/taxi%20call%20stn%20\(201205\)\\_e.pdf](http://www.td.gov.hk/filemanager/en/content_276/taxi%20call%20stn%20(201205)_e.pdf) [Accessed October 2017].

<sup>64</sup> There are studies on the decision model of taxi drivers into stand, hail and pre-booked markets, for example: Sirisoma, R.M.N.T.; Wong, Sze Chun; Lam, William H. K.; Wang, Donggen; Yang, Hai. Zhang, Peng (2010) *Empirical Evidence for Taxi Customer-Search Model*: Proceedings of the Institution of Civil Engineers: Transport, v. 163, (4), December 2010, p. 203-210.

## 2.6 Competition between Personalised Point-to-Point Car Transport Services

### *Introducing competition - franchised taxi service*

The increasing demand for varied personalised point-to-point car transport services prompted the Government to study (with reference to overseas experience such as Singapore, Tokyo, Seoul, Melbourne and Macau) whether it is desirable and feasible to introduce franchised taxis in Hong Kong. Many cities mentioned have adopted new personalised point-to-point car transport services, and have been providing a variety of taxi services of higher quality than ordinary taxi services to meet the needs of different passenger groups.

As mentioned in Chapter 1, the Government will introduce franchised taxi licensing and has stated that the policy objective of introducing franchised taxis is to provide passengers with an additional choice. The proposal does not intend to affect taxis as the dominant mode for supply of personalised point-to-point car transport service.

### *Competition impact of proposed franchised taxi services*

The Government plans to introduce around 600 franchised taxis. The vehicles will be operated by three franchised companies. The proposed franchises will be granted by open tender competition. It is proposed that the permitted operating areas of franchised taxis should be the same as those of existing urban taxis, and that franchised taxis can only pick up and drop off passengers at designated taxi stands, and not at ordinary taxi stands.<sup>65</sup> It is believed that consumers will be able to identify franchised operators either by their mobile applications in the pre-booked market; by their outlook/livery in the hail market; or at separate stands.

Franchised taxis could have a positive effect by introducing competition into the pre-booked market segment. However, there will only be 600 additional vehicles and despite better services through booking, this might not provide sufficient vehicles to meet the consumer demand for pre-booking premium taxi services. In spite of better services through the use of "taxi apps", likely the demand will exceed 600; the shortage of services does not help to induce consumer demand from non-competitive street hailing segment to competitive pre-booking segment.

To maintain healthy and fair competition, the Government stated that both existing taxi operators and new entrants will be allowed to compete for the new taxi franchises, and no company will be able to get more than one franchise. Given the small number of franchised taxi operators, the potential for collusion will still exist. Competition theory suggests that tactical collusion is a possibility in a highly concentrated market and that it is difficult to detect, even when under close scrutiny of relevant competition law enforcement agencies, as the case with Hong Kong under the Competition Ordinance (Cap. 619).

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<sup>65</sup> Transport and Housing Bureau. (2017) *Public Transport Strategy Study - Role and Positioning Review Personalised and Point-to-point Transport Services*. [online] Available from: <http://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170317cb4-666-5-e.pdf> [Accessed October 2017].

In addition, franchised operators will need to commit financial sources in investing in new vehicle assets. Accordingly, this might limit their financial investment to offer a basic online/mobile ordering system and not provide gearing for a behavioural model and service tracking system that could anticipate consumer needs and potential pitfalls in service quality. Furthermore, considering taxis constitute 0.93 million trips every day, the restricted supply of franchised taxi services may well have little effect on the dominance of ordinary taxi services in the stand and hail segments of the personalised point-to-point car transport services market.

### *University of California research paper*

A 2014 study done by a group of US academics shared some evidence of the relationship between E-hailing services, taxis and public transport, and the impact of these on automobile use and overall mobility in the U.S.<sup>66</sup> It was found that most E-hailing service users said they would otherwise have used a taxi for the same trip, and the trips covered similar areas and trip lengths. The data suggest that E-hailing services and taxis are substitutes and they serve the same market demand in the US markets.

However, respondents of each service experienced very different waiting times. E-hailing service response times were generally not only much shorter but were noticeably more consistent across day, time, and location. It is suspected that with an installed advanced ICT system, the calculation of the arriving time would be more precise than ordinary taxi services. Another two studies<sup>67</sup> have found that short waiting times are essential for the demand for many transport services. There is no reason to believe that these factors i.e. accuracy, punctuality and transparency are not equally critical for users of personalised point-to-point car transport users.

Compared with taxi passengers, E-hailing service passengers who were surveyed owned fewer vehicles and travelled with more companions. E-hailing services are better than taxi services as they utilise better resources. While these findings might be a consequence of the sampling method used, there is no doubt that E-hailing services are more attractive to younger and more socially aware consumers who might be less likely to own a car and more likely to travel in groups.

The survey provided evidence that an E-hailing service both complements and competes with other forms of different public transport. About a third of respondents who said that they otherwise have used other public transports, and respondents often chose an E-hailing service to save time in travel. Most trips were accessible by other forms of public transport, but most of these forms would have taken more than twice the time taken by the E-hailing service. In the sample, 43% of E-hailing service users without a vehicle were likely to use public transport at least occasionally, and some of their E-hailing trips began or ended at a specific public transport station. E-hailing therefore appeared to complement public transport in the US.

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<sup>66</sup> Rayle Lisa, S. Shaheen, N. Chan, D.Dai & R. Cervero (2014) "*App-Based, On-Demand Ride Services: Comparing Taxi and Ride Sourcing Trips and User Characteristics in San Francisco*" University of California Transportation Centre (UCTC) Working Paper.

<sup>67</sup> Turnbull, K., and R. H. Pratt. *Traveler Response to Transportation System Changes Handbook*, Chapter 11: Transit Information and Promotion. Publication TCRP Report 95. Transportation Research Board, Washington, D.C., 2003 and Evans, J. E. *Traveler Response to Transportation System Changes Handbook*, Chapter 9: Transit Scheduling and Frequency. Publication TCRP Report 95. Transportation Research Board, Washington, D.C., 2004.

In Hong Kong, consumers rely heavily on public transport and car ownership is low compared with people living in San Francisco, where the sample was taken. The resulting complementarity between E-hailing and public transport, and the impact on car usage, should therefore be interpreted with some reservations. However, the findings illustrate the need for more studies on E-hailing services before any policy conclusion can be made on how Hong Kong consumers use E-hailing services as a complementary or a substituted transportation mode to improve their living quality and to enhance the overall efficiency of the vibrant transportation system in Hong Kong.

### *Antitrust concerns*

Although there are pro-competition effects associated with E-hailing services, their business models and ways of contractual arrangements were placed under scrutiny. In 2015, Seattle enacted a law constructed to help drivers of E-hailing companies to form unions. Some E-hailing companies, like Uber and Lyft, stated that their drivers are independent contractors. The U.S. Chamber of Commerce challenged the law, claiming it violated US federal and state antitrust law to the extent that it would allow independent contractors, i.e., the E-hailing drivers, to form a cartel/union, in order to engage in price fixing. In August 2017, a federal judge dismissed the challenge to allow drivers for E-hailing companies to unionise.<sup>68</sup> However, the U.S. Court of Appeals later stopped the requirements for E-hailing companies to disclose contact information of their drivers to union organisers until that court could evaluate the legal arguments being raised. The relationship between E-hailing and their drivers is still unclear.<sup>69</sup>

E-hailing operators do not own a vast fleet of vehicles and rely on drivers to supply their own vehicles. They form a “nexus of contracts” establishing terms among associated companies as well as between partners such as vehicle rental companies, drivers, payment companies, credit companies and third-party consumers. This market presents a challenge to the distinction between intrafirm transactions or independent contractors engaged in regulatory arbitration and related party transactions.

The agreements include terms between drivers and E-hailing companies on the price to be charged. Insofar as the price agreements between independent contractual drivers and the E-hailing service providers are treated as vertical agreements or horizontal price agreements between undertakings orchestrated by the E-hailing companies, they could be anti-competitive and could be challenged by competition authorities.<sup>70</sup>

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<sup>68</sup> Bloomberg: “Uber’s London Problem Stack Up with Employment Appeal Loss” [online] available from <https://www.bloomberg.com/news/articles/2017-11-10/uber-loses-london-appeal-over-drivers-overtime-vacation-pay> [Accessed November 2017].

<sup>69</sup> See <https://sccinsight.com/2017/09/08/appeals-court-halts-uber-union-ordinance-duration-appeal/> [Accessed October 2017].

<sup>70</sup> Meyer v. Kalanick (2016) New York [online] Available from: [https://www.bloomberglaw.com/public/desktop/document/Meyer\\_v\\_Kalanick\\_No\\_15\\_CIV\\_9796\\_2016\\_BL\\_247159\\_SDNY\\_July\\_29\\_2016\\_?1506589240](https://www.bloomberglaw.com/public/desktop/document/Meyer_v_Kalanick_No_15_CIV_9796_2016_BL_247159_SDNY_July_29_2016_?1506589240) [Accessed October 2017].

Nevertheless, various forms of efficiencies that E-hailing platforms provide, for example: reducing transaction costs; improving allocation of resources which direct supply to meet the peak demand; and information efficiencies enhancing competition, could be valid considerations for exclusion under the Hong Kong Competition Ordinance. Contracts between E-hailing companies with their drivers may need to be reviewed to ensure that the agreement by itself, and each of the individual restrictions contained in the agreement, are reasonably necessary to attain the efficiencies and do not eliminate competition in the market.

### *Competition between taxi services and E-hailing services*

Apart from competition concerns mentioned above, E-hailing without oversights could also exploit loopholes in regulatory requirements and neglect consumer safety/privacy. As such, they need to have a regulatory regime governing their operation.

E-hailing services in their current state closely resemble a taxi service in that a driver offers a ride in exchange for a fare through booking. However, E-hailing service supporters argue that, unlike taxis, E-hailing enables more efficient use of a vehicle that drivers already own, and is part of the beneficial innovation that a sharing economy transaction brings. Some also argue that an E-sharing service differs from traditional taxis due to economic efficiency. This fact, together with the efficiency and reliability of their passenger/driver matching platform and pricing mechanisms, along with the accountability of their driver rating systems suggests that E-hailing services could offer much greater efficiency advantages and are a fundamentally different business proposition.

Government policy has in the past designated taxi services as the dominant mode of personalised point-to-point car transport. However, the demand and the expectation for these services are changing and more supply, in particular regarding booking services, is needed. The taxi service operates mainly in the hail and stand segment of the market where competition unfortunately could hardly play a role in enhancing quality of services. Conventional taxi call centres cannot deliver a service that is attractive enough for taxi users and passenger users to get on board to the extent that it will facilitate competition in the pre-booked services. Besides, there is little competitive pressure on the taxi service by hire car services or the proposed franchised taxi primarily because of the limited supply.

E-hailing service because of its technological innovation enables it to function as an efficient matchmaker and generates a competitive advantage over taxis and conventional hire cars in the pre-booked segment of the market. An overseas study will be followed to see how different jurisdictions make use of E-hailing service bringing better transport experience and playing a complementary role to the overall efficiency in transportations.

# Chapter 3: Global Developments

## Highlights

In many jurisdictions around the world E-hailing service companies have triggered changes in the regulatory framework of their respective personalised point-to-point car transport services markets. There are three ways in which E-hailing services have been allowed into the markets:

- (i) Creating a level playing field for E-hailing services and taxi services; examples being Beijing, New South Wales, Singapore and Toronto.
- (ii) Minimal regulatory disruption of the market and few new legislation; examples being London and New York.
- (iii) Protectionist measures for incumbent taxi service providers; examples being Barcelona, Copenhagen and Seoul.

No matter which way is chosen, competition should play its part in ensuring consumers benefit from better quality services, and that the inherent efficiencies in E-hailing services and lower fares result from that competition.

Worldwide there are two broad approaches or road maps under which E-hailing services have been introduced in different jurisdictions with regulatory oversight:

- (i) Progressive Approach:  
Allowing a gradual increase in the number of HCPs to operate, which over time affects the demand for taxi services; and
- (ii) Open Market Competition Approach:  
Allowing for an unrestricted number of HCPs through the introduction of E-hailing. Nevertheless, E-hailing operators are still regulated by the Government and must undertake checks to ensure suitability of drivers and necessary criterion for the vehicles in delivering services.

The use of E-hailing services in overseas has provided passengers with an effective mechanism to provide immediate customer feedback, and the resulting competition has most likely driven up standards in the market. Moreover, the resultant competitive pressures have also most likely resulted in the conduct and attitude of taxi drivers improving.

## 3.1 Ways of Dealing with E-hailing Services

As E-hailing services spread worldwide, many governments have reacted to the impact on existing taxi services and have taken the opportunity to seriously review implications for the public transport system. Accordingly, they have imposed different degrees of regulatory change to embrace this form of personalised point-to-point car transport in order to meet consumer demand and to strengthen the efficiency of the public transport system.

In implementing regulatory change, some governments have adopted a gradual and balanced approach, by creating a level playing field between E-hailing services and taxi services. When legalising E-hailing services, these governments have been highly cautious about the impact these service on incumbent taxis and have ensured that demand for taxi services has not been jeopardised on a large scale. On the other hand, some governments have taken a more liberal approach in introducing E-hailing services, over a short period of time, resulting in a substantial shift of demand from taxi

services to E-hailing services. There are also other jurisdictions that have taken restrictive measures to limit the development of E-hailing services in an effort to maintain the status quo of incumbent taxi services.

## 3.2 Creating a Level Playing Field for E-hailing Service and Taxi Service

In order to create a level playing field for E-hailing services and taxi services, some governments have supported public transport system reform by enacting new legislation and requirements which stipulate that the vehicle owners and drivers of an E-hailing service satisfy similar rules to those that regulate taxis. Some governments have also provided subsidies or assistance to taxis during the transitional period, until there has been a full adoption of E-hailing services and taxi owners are satisfied with the final outcome. Reforms in some metropolitan cities are good reference to Hong Kong.

### *Beijing (Mainland China)*

Taxi drivers in Beijing usually rent a taxi with a monthly fee, of around CNY5,120 to CNY8,280 per month. There were around 200 taxi companies operating 66,648 taxis in Beijing in 2014.<sup>71</sup>

In July 2016, the Mainland Government announced interim measures along with a national policy document on broader reforms to the taxi industry, including both “traditional” taxi operators and E-hailing and ride-sharing businesses. The structure of E-hailing regulation is undertaken by the Ministry of Transport.<sup>72</sup> Operators and service providers of E-hailing services refer to companies operating an online booking platform, matching supply and demand, employing or signing up a service contract with qualified cars and qualified drivers through a system for booking services. According to the Mainland Government, using cars to deliver E-hailing services is called “carpooling” or “free riding”. Different sets of regulations by different cities, including Beijing, came into force in November 2016.

Overall, the regulation of network car hailing in Mainland China is divided into four aspects: regulation of E-hailing platform companies; regulation of vehicles for transport services; regulation of drivers; and regulations on delivering E-hailing services.

National policy states that E-hailing platform companies are responsible for providing services both online and offline and meeting the following requirements (including but not limited to):

- (i) The qualification to operate hire car services in operating areas; and
- (ii) Qualified management, certified hardware system and procedures to ensure cyber security and safety.

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<sup>71</sup> Zhang, Yifan. (2014) *How Do Taxis Work in Beijing? An Exploratory Study of Spatial-Temporal Taxi Travel Pattern Using GPS Data* UCLA Electronic Thesis and Dissertations. [online] Available from: <http://escholarship.org/uc/item/91x5p080> [Accessed October 2017].

<sup>72</sup> Ministry of Transport of the PRC. (2016) *The national policy on network car hailing in Mainland China*. [online] Available from: [http://zizhan.mot.gov.cn/zfxqk/bnssj/zcfqs/201607/t20160728\\_2068633.html](http://zizhan.mot.gov.cn/zfxqk/bnssj/zcfqs/201607/t20160728_2068633.html) [Accessed October 2017].

Regulations on cars and drivers require that cars used in E-hailing should be registered with local authorities where the cars will be used in their areas. They also require that E-hailing drivers should meet the following requirements:

- (i) More than three years' driving experience with a driver licence;
- (ii) No traffic crime record;
- (iii) No violent crime record; and
- (iv) Requirements set by local government.

Regulations on E-hailing service providers require that companies are responsible for safety in E-hailing services and ensure that the rights of consumers are observed. Apart from paying taxes, car service providers should also purchase insurance for their passengers.

In addition, regulations oblige E-hailing service companies, like Didi Chuxing, Uber, Zuche and YongChe Technologies, to review qualifications of their drivers and to guarantee their services. They are also responsible for inspecting drivers' private cars to ensure they are in good conditions and are insured, and that the inspection results must be reported to the local transport authority. There are certain requirements for operating vehicles such as restricting the maximum seat number at 7, being equipped with GPS and an emergency alarm system. The car must be registered at the Public Security Bureau (the Police Department) to obtain an on-line pre-booked taxi transportation permit. This means that local government plays a role in determining the number of vehicles in the relevant E-hailing service market. As of August 2017, there are 6 E-hailing service companies with some 6,000 vehicles that have gained approval to operate in Beijing.<sup>73</sup>

### *New South Wales (Australia)*

There are 22,000 accredited taxi drivers and more than 7,000 taxis in New South Wales (NSW).<sup>74</sup> The industry is regulated by the NSW Government under the Passenger Transport Act 2014. Its regulations provide for the following:

- (i) Allow the NSW Government to provide "driver authorisation" to people who have completed the required training and met the requirements to drive a taxi;
- (ii) Provide accreditation to owners and operators who have completed the training and met the requirements under the Act; and
- (iii) Allow the NSW Government to revoke authorisation and accreditation at any time.

Every NSW taxi in metropolitan areas must be affiliated with an authorised taxi network. Taxi networks are authorised by the NSW Government to provide a taxi booking service, oversee safety and security systems in taxis, and monitor and report services standards. Currently, there are 12 networks operating in Sydney.

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<sup>73</sup> Iresearch. (2017) *Media report of the 6 E-hailing service companies gained the approval to operate in Beijing*. [online] Available from: <http://news.iresearch.cn/content/2017/08/269905.shtml> [Accessed October 2017]. In China, there are totally 133 cities with E-hailing services, 19 E-hailing operators, 100,000 licensed drivers and the services covered 90% of share of hired car service market. <https://hk.news.yahoo.com> at 28 July 2017 [Accessed October 2017].

<sup>74</sup> NSW Taxi Council. (2013) *NSW Taxis Fact Sheet*. [online] Available from: [http://www.nswtaxi.org.au/sites/default/files/1-NSW\\_TAXI\\_FACT\\_SHEETS\\_nswtaxi3.pdf](http://www.nswtaxi.org.au/sites/default/files/1-NSW_TAXI_FACT_SHEETS_nswtaxi3.pdf) [Accessed October 2017].

Emerging technologies and changing customer expectations have created a number of challenges and in response, the NSW Government has introduced reforms to the taxi, hire car and rideshare industries. In December 2015, the NSW Government reformed the transport system and legalised E-hailing services using private cars such as Uber. Under the new model, taxis continued to have exclusive access to demand at stands and to be hailed from on the street. However, customers have a choice to book taxis, hire cars or use E-hailing services with private cars on their smart phones. Safety measures are to be boosted with a new regulator to oversee the reformed industry. Private car drivers providing E-hailing services have to pay a registration fee of AUD45 and were subject to criminal and safety checks.

As announced by the NSW Government in September 2017,<sup>75</sup> there will be a new regulation which called the Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017 supporting the new safety framework under the Point to Point Transport (Taxis and Hire Vehicles) Act 2016 for all point-to-point transport providers in NSW, including taxis, hire vehicles and rideshare services. The new regulatory regime will allow for a more transparent, competitive and flexible point-to-point transport industry. There will also be a new NSW Point to Point Transport Commissioner being established as the new regulator for the industry.

The NSW Government also created a more level playing field in the personalised point-to-point car transport market, where excessive bureaucracy or adherence to official rules and formalities for taxi and hire car drivers were repealed. The new legislative framework will focus on customer and driver safety and consumer protection; and will reduce red-tape and costs for service providers. To compensate taxi licence owners and taxi drivers for the upheaval caused by the introduction of E-hailing services, the NSW Government established an AUD250 million industry adjustment package along with a temporary levy on all point-to-point transport providers, equivalent to AUD1 per trip for a maximum of five years for the following purposes:

- (i) A total of AUD98 million for compensation payments of AUD20,000 per ordinary and transferable licence, for up to two licences, which were held before 1 July 2015;
- (ii) AUD142 million for taxi licensees facing hardship because of the changes; and
- (iii) Up to AUD10 million for a buy-back scheme for perpetual hire car licensees.

## *Singapore*

Singapore has 6 taxi service operators that own and lease vehicles to drivers on a daily basis. According to the regulatory conditions imposed by the Land Transport Authority (LTA), individual taxi service operators are required to achieve a minimum fleet size of 800 taxis by end of fourth year of operation to ensure that they have sufficient critical mass to provide an adequate level of service to the commuters. There are a small number of driver-owned yellow-top taxis whose licences are slowly being revoked. All taxi drivers working in Singapore should be licensed and trained. Fares are deregulated, so each of the companies has its own fare structure. However, the charging structure is publicised and from January 2016 some elements (surcharges and minor fees) has to be standardised.

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<sup>75</sup> Transport for NSW. (2017) *Point to Point Transport*. [online] Available from: <https://www.transport.nsw.gov.au/projects/programs/point-to-point-transport> [Accessed October 2017].

Singapore uses a market mechanism to allocate personalised point-to-point car transport services, and companies compete on prices. The Singapore Government only regulates for the purpose of information transparency and to ensure fair competition.

As of August 2017, there are 24,863 "traditional" taxis in Singapore, a fall of around 3,900 since May 2015 (28,792). Any taxi driver rent a taxi from any one of the taxi operators is paying about HK\$400 – HK\$550 per day, and the day long rental is usually split between two drivers operating in shifts.

On 1 September 2015, the Third-Party Taxi Booking Service Providers Act 2015 officially came into force in Singapore which allowed E-hailing service providers (ConnexTaxi, GrabTaxi, Hailo and Uber) to operate their third-party taxi booking mobile application.<sup>76</sup> It was stipulated that any third-party taxi booking services with more than 20 participating taxis are required to register with the LTA with a non-refundable application fee of SG\$400<sup>77</sup> and comply with certain conditions, for instance:

- (i) Bidding and pre-trip tipping for taxi services are not allowed. In addition, the booking fees charged by third-party taxi booking services cannot exceed the booking fees charged by taxi companies;
- (ii) Fare information shall be specified to commuters upfront before commuters accept dispatched taxi. These include the flag-down fare, distance and time rates, the booking fee charged by the service provider, and where applicable, peak period and location surcharges;
- (iii) Dispatch only licensed taxis and drivers holding valid Taxi Driver's Vocational Licences, and maintain accurate records of its taxis and drivers;
- (iv) Non-mandatory for commuters to specify their destinations before they can make booking; and
- (v) Furnish information specified by LTA (e.g. details of taxis and drivers registered with the provider, booking information) for proper discharge of its functions.

Consequently, E-hailing service providers can work with the taxi operators for pre-booked taxis, but the existing taxi operators have monopoly rights for street hailing / taxi stand pick-ups. There are currently 11 registered providers in Singapore and some of them are working closely with taxi operators. For example, the largest taxi operator, Comfort Del Gro, announced in August 2017 that it has signed a letter with Uber for "exclusive discussions" on a possible "strategic alliance".<sup>78</sup> This move could result in Comfort Del Gro's 15,500 taxis being made available through Uber's app.

E-hailing service providers can also enter the hire car service market that they can rent out cars to private hire car drivers to provide chauffeured services to passengers. These private hire car drivers are required to obtain a Private Hire Car Driver's Vocational Licence (PDVL) by the LTA under the new regulatory framework in March 2017. Prior to

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<sup>76</sup> Land Transport Authority of Singapore, *Third-party taxi pre-booking service providers*. [online] Available from: <https://www.lta.gov.sg/content/ltaweb/en/public-transport/taxis%20and%20private%20hire%20cars/third-party-taxi-booking-service-providers.html> [Accessed October 2017].

<sup>77</sup> Once registered and approved they receive a certificate lasting for three years.

<sup>78</sup> The Straits Times. (2017) *ComfortDelGro in talks with Uber over possible alliance*. [online] Available from: <http://www.straitstimes.com/singapore/transport/comfortdelgro-in-talks-with-uber-over-possible-alliance> [Accessed October 2017].

application, they must possess a valid Class 3 or 3A (auto) driver's licence for a minimum period of 2 years and have to undergo compulsory 10 hours training and pass the required test to qualify for a PDVL. Private hire cars providing chauffeured services are also required to be registered with the LTA and display a tamper-evident decal starting from July 2017. This is to assure passengers that the private hire car they are taking is indeed registered with LTA and to facilitate enforcement against unregistered cars providing chauffeured services; and against private hire cars that engage in unpermitted activities such as picking up passengers via street-hail. With effect from 1 October 2017, registration of a business entity to own a private-hire vehicle is no longer required.<sup>79</sup>

With the rapid growth in the hire car market, the Singapore Government helped the taxi trade by allowing Taxi Driver's Vocational Licence (TDVL) holders (i.e. taxi drivers) to drive both taxis and private hire cars without the need to apply for a PDVL. Private hire car rules and regulations will be covered when taxi drivers take the refresher course conducted by the Singapore Taxi Academy.

### *Toronto (Canada)*

In Canada, taxis are regulated by municipal governments and are owned either by individual drivers or private companies. Toronto has seen a rapid expansion in demand and use of E-hailing services. Since July 2016 E-hailing services have been legalised, but their growth in demand has been at the expense of traditional taxis. In Toronto, conventional taxi services are generally more expensive than E-hailing services such as Uber, but still enjoy a market share in street hailing and pick-ups from the airport.

In July 2016 Toronto applied a "vehicle-for-hire by law" which substantially changed the city's way of regulating the personalised point-to-point car transport market<sup>80</sup> by repealing some existing regulations. The City introduced a Private Transportation Company (PTC) licensing category which allowed E-hailing service companies to operate with regulatory oversight.

Accordingly, a driver must work with a licensed PTC to become a licensed PTC driver. He/she will need to apply through the PTC for a licence prior to driving for a PTC even if he/she has a Vehicle-for-hire driver's licence. The City requires the PTC to ensure that the City's requirements are met. The PTC is required to fail any potential or existing drivers if they cannot pass criminal background checks.

The PTC licence sets several requirements on E-hailing services. For example, they must have a registered business address within Ontario; maintain full data about every trip undertaken; and records must be supplied to the authority upon request within 24 hours for law enforcement purposes. The database is also subject to random audits. The PTC fares must be at least CAD3.25 per trip.

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<sup>79</sup> First Lane. (2017) *Update on PDVL requirements with effect from 1 July 2017*. [online] Available from: <https://www.firstlane.com.sg/how-to-be-uber-grab-driver-z10/> [Accessed October 2017].

<sup>80</sup> Municipal Government of Toronto. *The Toronto Municipal Code Chapter 546, Licensing of Vehicle-for-hire* [online] Available from: <http://www.toronto.ca/legdocs/municode/toronto-code-546.pdf> [Accessed October 2017].

PTC drivers need to have a minimum liability insurance of CAD2 million. Vehicles used by drivers working through a PTC should be less than 7 years old, must be a four-door car or van, passing the Safety Standard Certification inspection every year.

Toronto also lessened licensing requirements of existing taxis and limousines, by integrating them under a common Vehicle-for-Hire licence (VFH). There has also been some deregulation of drivers, for instance by removing the requirements for training. This relaxation addresses the industry's complaint that taxi drivers had tougher regulations than drivers working for E-hailing services.

The Toronto system has transformed from a personalised point-to-point car transport market dominated by conventional taxi licence services, to a market dominated by E-hailing services with 4 operators including Uber.<sup>81</sup> There are now around 48,000 Uber E-hailing drivers operating in Toronto. This is substantially greater than the 4,850 regular registered taxis, with some 15,000 drivers.

### 3.3 Minimal Regulatory Disruption in Personalised Point-to-Point Car Transport Markets

Minimal regulatory disruption of the personalised point-to-point car transport service market has been observed in some jurisdictions. The governments in these jurisdictions did not view E-hailing services and taxis as directly in competition with each other. This came about because E-hailing was categorised as falling within the existing largely open private hire sector, which is not considered as a public transport service. Thus, there was little or no amendment of legislation that was required that would limit E-hailing operators from entering these markets.

#### *London (United Kingdom)*

In London, taxi and private hire services are regulated by Transport for London (TfL). As of October 2017, there are around 21,177 licensed taxis and 24,117 taxi drivers.<sup>82</sup> On the other hand, the private hire car sector consisted of 2,409 licensed operators, using 116,067 licensed drivers and 88,493 licensed vehicles (minicabs). The essential difference between taxis and private hire vehicles is only that it is illegal for PHVs to pick up passengers on the street; as they must be pre-booked through a licensed operator. They are also not permitted to use taxi stands. Therefore, in London, there was already a competitive personalised point-to-point pre-booked car transport service market that allowed virtually seamless entry of E-hailing.

While both the taxi and private hire car operators faced challenges from E-hailing services such as Uber, E-hailing was considered by the UK Government to be compliant with the Private Hire Vehicles Act 1998. Uber, for example, was granted an operating licence to operate as a private hire vehicle company for a five-year period in London from May 2012 to May 2017. With its advanced passenger/driver communication technology as a competitive advantage, Uber grew rapidly in London.

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<sup>81</sup> The other three E-hailing service operators are Facedrive, Instaryde, Ridein. see the website of Toronto Government (2017). *Business Licence Lookup*. [online] Available from: <http://app.toronto.ca/LicenceStatus/search.do> [Accessed October 2017].

<sup>82</sup> Transport for London. *Licensing information*. [online] Available from: <http://tfl.gov.uk/info-for/taxis-and-private-hire/licensing/licensing-information> [Accessed October 2017].

However, the open market approach caused the number of private hire vehicles to increase rapidly from 49,854 in 2012/2013 to 87,409 in 2016/2017 (a 75.3% increase) and brought some congestion, pollution and illegal parking problems in the city. It also increased the cost of TfL ensuring private hire operators fulfil their licensing obligations and in tackling illegal activity to keep passengers safe. In March 2016, the TfL approved a new plan to modernise the private hire car sector while allowing Uber to continue operating in London. Under the new plan, private hire vehicles will be required to have "hire and reward" insurance in place for the duration of the licence. In addition, there will be a formal English language requirement for all drivers that are booked via an E-hailing app, and E-hailing service providers will be required to guarantee fare estimates for customers in advance of every journey.

With the growing pressure in traffic and the public criticisms, TfL granted Uber a four-month operator's licence in May 2017 allowing itself more time to decide whether to grant a longer five-year licence. However, following that, the TfL made a decision in September 2017 that Uber was not issued with another five-year period private hire operator licence. In its press release statement,<sup>83</sup> the TfL concluded that Uber was not fit and proper to hold a private hire operator licence and considered that Uber's approach and conduct demonstrated a lack of corporate responsibility in relation to a number of issues, which have potential public safety and security implications. These included:

- (i) Its approach to reporting serious criminal offences.
- (ii) Its approach to how medical certificates are obtained.
- (iii) Its approach to how Enhanced Disclosure and Barring Service (DBS) checks are obtained.
- (iv) Its approach to explaining the use of Greyball in London – i.e., software that could be used to block regulatory bodies from gaining full access to the app and prevent officials from undertaking regulatory or law enforcement duties.

Following this recent licence decision, Uber lodged a legal appeal to the court in October 2017 against TfL in an attempt to reverse the ruling.<sup>84</sup>

### *New York (United States)*

In New York, there are four types of "for-hire" vehicles, namely yellow and green taxis, livery cars, and traditional black car services. Yellow and green cabs have fleets whose numbers are restricted by law – 15,327 and 18,000 vehicles respectively. However, for the livery, black car, and limousines sectors, including E-hailing/dispatch cars, there are no such restrictions.

Uber was introduced in New York City in 2011 and has grown steadily in popularity without intervention from the Taxi and Limousine Commission. Although there had been concerns on congestion due to the surge in vehicles, the Mayor, Bill de Blasio, halted his plan to cap the number of Uber drivers in July 2015. An independent study

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<sup>83</sup> Transport for London. (2017) *Licensing decision on Uber London Limited*. Available from: <https://tfl.gov.uk/info-for/media/press-releases/2017/september/licensing-decision-on-uber-london-limited> [Accessed October 2017].

<sup>84</sup> The Guardian. (2017) *Uber launches appeal against loss of London licence*. [online] Available from: <https://www.theguardian.com/technology/2017/oct/13/uber-appeal-london-licence-tfl> [Accessed October 2017].

commissioned by Bill de Blasio later found that Uber and other E-hailing services are not responsible for road congestion in New York. In June 2017, the New York State Department of Motor Vehicles (DMV) further announced approval for Uber and Lyft to offer ride sharing service in Upstate New York and on Long Island.

New York taxi licence prices have plummeted since 2014. The licences are now worth only 80% of the prices buyers were willing to pay for them in 2011. The existence of Uber and Lyft, that do not require costly permits,<sup>85</sup> and the shift in demand for a personalised point-to-point car transport service from the stand and the hail service, to a pre-booked service, has meant that taxis have lost their previous competitive advantages, and this is affecting both the fundamental and market speculative value of taxi licences.

### 3.4 Protectionist Measures for Incumbent Taxi Service Providers

Some governments took the view that E-hailing services are just an alternative form of illegal taxi service. The vehicles and drivers of E-hailing services are neither licensed nor regulated and it is alleged that E-hailing service providers are rent-seeking businesses that are redistributing the economic rent “owned” by taxi licensees to the owners and the driver of E-hailing service companies, without significant economic efficiency gains to the economy.

In these jurisdictions, taxi incumbents pushed their governments to preserve the incumbent system and to protect the value of their licences by banning E-hailing services. Through legislation, taxi licence owners want to define E-hailing as clearly illegal and exclude the service from the personalised point-to-point car transport service market. To cope with consumers’ expectations and needs with the rise of E-hailing, and to protect existing taxi stakeholders, the governments in these jurisdictions have also put in some measures to upgrade the standards of existing taxi service in order to build barriers to limit the market entry of E-hailing services.

#### *Barcelona (Spain)*

In Spain, the proportion of hire cars with a driver in the market has been set in a quota ratio of 1 for each 30 licensed taxis; and the hire cars must provide 80% of the service within the regional area of authorisation. In addition, a hire car driver is obligated to perform the service based on a prior reservation (for a pre-arranged fixed fare) and to return to the place of business, i.e., the dispatch centre, after each ride; except if there is a prior reservation. The main objective of these restrictions is to create two different segments of the market, taxi services and hire car services to serve different types of users. As mentioned in Chapter 2, the limit in supply of hire cars prompts the inter-related demand for pre-booked services to shift to the stand and the hail market. Because of the absence of the competition mechanism in these two segments; quality of personalised point-to-point car transport service is expected to deteriorate.

In December 2014, Uber was forced to end its operations after a Judge ruled the company was in violation of local regulations which amounted to unfair competition for taxi drivers. While the court was requesting the European Court of Justice to

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<sup>85</sup> In contrast, there is a US\$100,000 application fee and an annual renewal fee of US\$60,000 as a ride-sharing company.

determine whether Uber is an online service or a taxi firm, Uber relaunched its operation in the form of UberX in March 2016, which matches users with hire car drivers holding passenger transport vehicle (VTC) licences.

In May 2017, the European Union's Advocate General announced that Uber is primarily a transport company rather than an intermediary between passengers and drivers,<sup>86</sup> implying that any E-hailing companies could be obliged by European Union member states to have licences and permits for their vehicles to carry out their E-hailing services as taxi service providers or hire car service providers.

### *Copenhagen (Denmark)*

Since Uber launched in Denmark in 2014, local taxi driver unions and politicians have been complaining about its failure in meeting the same regulatory standards as conventional taxis. Two Danish Uber drivers were fined in November 2016 for violating taxi laws and in the following month Uber's European division was indicted by Danish public prosecutors on charges of assisting those drivers in violating taxi laws. The courts found that Uber had a profit motive meaning it was not a true or so called "ride-sharing programme", but was instead akin to an illegal taxi service.

In February 2017, the Danish parliament passed legislation amending the regulations on taxis. According to the new law all transportation of persons for remuneration, which goes beyond the direct costs of driving, is to be considered a commercial activity. A licence would be required to perform such services. At the same time, the law requires mandatory fare meters in cabs and seat occupancy detectors to activate airbags for all hire car vehicles. Uber ended its operation in April 2017 as the new laws forcing E-hailing service operators to install fare meters and seat occupancy sensors created insurmountable barriers for E-hailing service companies to recruit vehicles.

### *Seoul (Korea)*

In Seoul, taxi operators need licences to run a taxi service. Taxis in Seoul are broadly categorised into (a) regular taxis, (b) deluxe taxis, and (c) jumbo taxis. In addition, there is a fleet of wheelchair-accessible taxis which are operated directly by the Seoul Metropolitan Government.

Uber entered the South Korean market by signing an agreement with the local car-rental company MK Korea early in 2013. In December 2014, the Seoul Metropolitan Government arrested Uber drivers, deeming their ride-sharing service illegal and in violation of Korea's Passenger Transport Service Act. The Seoul Metropolitan Government further prohibited E-hailing services by offering monetary rewards for reporting private or rented car drivers providing E-hailing services through Uber.

The Seoul Government website,<sup>87</sup> states that the business activity of Uber was in violation of the current law, which exploited the loopholes of the law, pointing out problems of the business and stated that it undermined the sharing economy.

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<sup>86</sup> See <http://curia.europa.eu/juris/document/document.jsf?text=&docid=170871&pageIndex=0&doclang=EN&mode=req&dir=&occ=first&part=1&cid=653516> [Accessed October 2017].

<sup>87</sup> See <http://english.seoul.go.kr/seoul-offers-monetary-reward-reporting-uber-taxis/?keyword=uber&cat=46> [Accessed October 2017].

In May 2015, South Korea passed legislation banning unlicensed drivers from providing taxi services. Two months later, the South Korean Government launched a premium taxi-hailing service and Uber re-entered the market by offering the UberBLACK service which works with ordinary licensed taxi drivers to provide luxury transportation services to passengers.

### 3.5 How E-hailing Services Enter the Market

Technological innovation has changed many markets and there is no exception for the personalised point-to-point car transport service market. Worldwide there are two broad approaches or road maps under which E-hailing services entered different jurisdictions with regulatory oversight:

- (i) Progressive Approach: Allowing a gradual increase in the number of HCPs to operate which over time would affect the demand for taxi services with the taxi licence price better managed. For example, the Singapore style of entry for E-hailing that allows for an unrestricted number of HCPs. Nevertheless, E-hailing operators are still regulated by governments and must undertake checks to ensure suitability of drivers and necessary criterion for vehicles providing the services; and
- (ii) Open Market Competition Approach: Like London or New York, the Government views the personalised point-to-point car transport service market remains as a separate private hire sector as compared with taxis as part of the public transport service. Therefore, the market is completely opened for different players to enter the market and competition between the private hire sector and taxis is dependent on the market force.

#### *Impact of progressive approach*

The “progressive” approach is intended to allow a managed decline in the price of existing taxi licences, and to enable the entry of E-hailing to induce competition in taxi services. However, because the supply of E-hailing services under this progressive approach is limited, E-hailing service fares would probably remain in the high side in the beginning, commensurate with incumbent taxi service fares.

It envisages with a controlled entry. E-hailing vehicles would only make up a small proportion of the overall taxi fleet. It is understood that without significant competition between E-hailing services and taxi services, in the pre-booked market quality of services to consumers would be confined to those passengers of E-hailing car permitted vehicles. This means that an increase of the number of E-hailing vehicles should be enabled to achieve the overall increase in quality of services as the market approach to open market competition.

#### *Impact of open market competition approach*

Under an “open market competition” approach, the price of existing taxi licences could swiftly fall if the demand for E-hailing is unfettered and high. Existing taxi licence owners would become the losers.<sup>88</sup> However, since the supply of E-hailing services is potentially very large, the service fares would be forced low through the effect of market forces, and as the price of E-hailing services become close to taxi services; more demand would shift from the stand market and hail market to the pre-booked E-hailing service market. It is possible that an increase in road congestion could result through

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<sup>88</sup> See this website for a Singapore cabbies’ reflections on Uber in Singapore <http://cabby65.blogspot.hk/search?q=uber> [Accessed October 2017].

an increase in the number of E-hailing service cars. However, there could as a result be a slight reduction in usage of traditional taxi transport which in turn could lead to a reduction in the number of taxis as they exit the market due to the increased competitive pressure from E-hailing.

No matter which approach is chosen, competition will eventually play its part in ensuring consumers benefit from better quality taxis, inherent efficiencies in E-hailing services and lower fares. E-hailing provides passengers with an effective mechanism to provide customer feedback and the resulting competition is likely to drive up standards in the rest of the market. Moreover, the resultant competitive pressures could mean that the conduct and attitude of taxi drivers is also likely to improve.

**Table 3: Comparison of different ways to deal with E-hailing Services**

|   | <b>Creating a Level Playing Field for E-hailing Service and Taxi Service</b>   | <b>Minimal Regulatory Disruption in Personalised Point-to-Point Car Transport Markets</b>   | <b>Protectionist Measures for Incumbent Taxi Service Providers</b>  |
|---|--|---|---|
| Approach to introduce E-hailing in the market | "Progressive Approach" or "Open Market Competition Approach"   |   | Closed market   |
| Market setting                                | New set of regulations take place to embrace E-hailing service   | Hire car market is mature in which E-hailing service can fit in   | Thriving taxi market and limiting the development of hire car market  |
| General views to E-hailing                    | An innovative transport service in which new regulations are necessary   | A hire car service which complies with the current regulations  | An illegal transport service and violates the current regulations   |
| Measures to traditional taxi trade            | Sometimes compensations are available to assist taxi trade   | Nil   | Review and upgrade of taxi services in some places  |
| Pros  | <ul style="list-style-type: none"> <li>• Gradual implementation for better monitoring and control for the overall traffic</li> <li>• New requirements can be put in place easily to enhance passengers' safety and improve service quality of transport</li> </ul> | <ul style="list-style-type: none"> <li>• Increase consumers' choices and competition immediately</li> <li>• Few requirements are put in place to enhance passengers' safety and improve service quality of transport</li> </ul> | <ul style="list-style-type: none"> <li>• Mitigate the risks and potential problems, such as passengers' safety, drastic loss of business of taxi services, and collapse of taxi licence premium, arouse by E-hailing to some jurisdictions</li> </ul>                 |
| Cons  | <ul style="list-style-type: none"> <li>• Observable effect on competition may take time</li> </ul>   | <ul style="list-style-type: none"> <li>• Impacts of E-hailing vehicles on the road causing traffic problems</li> <li>• Direct impact to the incumbents</li> </ul>   | <ul style="list-style-type: none"> <li>• Limited competition and incentives to improve the service quality of the market</li> <li>• Substitutes by other transport mode (including "illegal" transport services) could ultimately affect the taxi industry</li> </ul> |

# Chapter 4: Towards Market Reform



## Highlights

The Council's research, as detailed in this report, indicates that existing E-hailing service providers provide many features, such as reduction of search costs, more direct control on supply to meet demand, better quality of services; and inducing more competition in the market that bring benefits to consumers.

Many E-hailing service operators commit to innovations that serve consumers and societal interests. Any regulatory framework that is eventually introduced should support and encourage an innovative and customer-centric evolution of the industry, and not be locked into incumbent business interests.

The Government's desire to create a system of franchised taxis does not appear to fully satisfy the call from consumers. The Council believes that the introduction of a parallel regulatory regime overseeing taxi and E-hailing services, with the benefit of increased competition would eventuate in a better quality of service. In comparison with taxi services, E-hailing should have fewer regulatory requirements and restrictions and no control should be imposed on fares.

The Council recommends that the Government adopts a "progressive" and "transitional" approach to minimise disruption to existing taxi drivers from the inevitable entry of E-hailing, beginning with the application of licensing/permits for E-hailing service providers; the introduction of quotas for newly licensed operators; and providing for a controlled momentum towards a more open market based system.

A consumer friendly matchmaker service is the driving force to having a better quality of personalised point-to-point car transport service.

In a competitive environment, it can be assumed that E-hailing service operators will provide guarantees and benefits to drivers/vehicle owners resulting in a better or a more flexible form of compensation/remuneration than through an employer-employee relationship as proposed in the Government's "Franchised Taxi Services" scheme.

In summary, the Council recommends the following steps be implemented through transitional phases:

- E-hailing platforms, vehicles and drivers all need licences, with quota applied to the numbers of vehicles and new market entrants;
- Regulatory condition are imposed on vehicles and drivers to safeguard passengers;
- Specific licensing requirements of E-hailing service providers are introduced to maintain price transparency, adequate customer personal safeguards and traffic control; and
- Market segregation between taxi and E-hailing services.

Within a reasonable period, the regulatory framework should shift to one that is a more amenable to an open market where restrictions on the number of E-hailing franchises and vehicles can be relaxed.

The Council urges the Government to use the lessons learned from overseas experience, and to adopt a forward-looking policy of enhancing consumer welfare through allowing the introduction of the new E-hailing model for personalised point-to-point car transport, in recognition of Hong Kong's aspirations as a smart city, and to be an active player in the digital world.

## 4.1 Regulating Transport Services in a Digital Age

One of the major disruptive forces to economies around the world has been the acceleration in scope, scale, and economic impact of information technologies using the Internet. New business models that find new ways of providing services to consumers have always been a major factor in overturning the status quo of many industries and their trade practices in the market place. For example, Facebook attracted 100 million users in 2008, and then the number multiplied 17 times over the next five years, transforming the media service market. China's mobile text and voice-messaging service WeChat with 500 million active users overturned the manner of telecommunications charging in China. By 2014, 7 years after the launch of iPhone, the number of mobile phone applications had hit 1.2 billion, and users make use of the applications to supply and demand a vast array of new services.

Processing power and connectivity are only part of the story. Their impacts are multiplied by the big data revolution, which places unprecedented amounts of information in the hands of consumers and businesses alike. The proliferation of technology-enabled business models, from online retail platforms like Alibaba to Video-on-demand platforms like Netflix and E-hailing like Uber are inevitable consequences of the marriage of entrepreneurial speculation with technological innovation. The economic benefits that have arisen for consumers in these products, together with the controversies generated are a natural consequence of a constantly evolving and competitive free market.

In the Report "Consultancy Study on Smart City Blueprint for Hong Kong" commissioned by the Government, it is stated that the policy objectives for "Smart Mobility" are to facilitate commuters' choice of efficient and integrated multimodal transport; promote non-mechanised transport modes for short trips and maximise the use of public transport; reduce carbon emissions and air pollution through the use of efficient modes of transportation; and alleviate traffic congestion problems through effective planning and enforcement. One of the recommendations made in the consultancy report is to maximise the use of car assets through promoting carpooling and car sharing.<sup>89</sup>

### *Benefits of E-hailing*

It is thereby important to notice that the competitive advantages of utilising information technology and big data in the provision of E-hailing services enables both small and medium size enterprises to leverage new efficient transportation services at competitive prices and to achieve cost savings in running their businesses. The potential benefits of utilising these advances to build Hong Kong as a smart city with highly efficient transportation network services have to be well captured by the Government and policy makers.

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<sup>89</sup> Office of the Government Chief Information Officer. (2017) *Report of Consultancy Study on Smart City Blueprint for Hong Kong* [online] Available from: [https://www.smartcity.gov.hk/report?lang=en\\_US](https://www.smartcity.gov.hk/report?lang=en_US) [Accessed October 2017].

In the European Union, arguments in favour of embracing E-hailing were considered to be additional transportation choices for consumers, which could in turn lead to reductions in car ownership, road congestion, and the creation of new jobs. The primary reasons for efficiency gains realised by E-hailing service providers, and potentially benefiting consumers, are listed in an analysis report of the Committee on Transport and Tourism of the European Parliament as follows:<sup>90</sup>

*Reduction of search costs: Consumers looking for a transport service are traditionally confronted with search costs for uncertain outcomes; consumers who hail taxis on the street are uncertain about the waiting time until the next taxi. Importantly, consumers, rather than calling a dispatcher and waiting, or standing on the street, can demand a E-hailing car from indoors and watch its progress toward their location through GPS on their smart phones;*

*Direct control of the supply to meet the peak-load demand: E-hailing service providers can leverage ICT to determine the demand, availability and activate the business being conducted by E-hailing cars entering in the market at any moment. For example, by providing orders to drivers to work extra hours when the demand is high or responding to a request by an authority to reduce supply to ease traffic congestion;*

*A better overview of quality and prices: Drivers are rated by consumers and may be removed from the system if their rating falls below a certain threshold. Estimated price of the ride is quoted beforehand and can be easily compared across several applications, introducing greater transparency that empowers consumers; and*

*E-hailing services induce competition: Competitive pressures in the personalised point-to-point car transport service market could be increased through the introduction of E-hailing. Restrictions on entering the market limit competition and may be considered to lead to large surplus transfers from consumers to producers and economic distortions. Where taxi licences are tradable commodities this usually results in high prices in different markets. For example, in 2007, a Paris taxi licence had a market value between EUR 100,000 and EUR 125,000. Licences in Sydney and Melbourne were valued at AUD300,000 and AUD500,000 respectively. Licences in New York cost US\$600,000 while a Hong Kong taxi licence had a market value as high as HK\$6 million. In most of these cities, licence prices had risen substantially. Some argued that these high licence values reflect the substantial monopoly rents that can be accrued from the exploitation of scarce taxi licences.*

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<sup>90</sup> European Parliament. (2015) *Social, Economic and Legal Consequences of Uber and Similar Transportation Network Companies (TNCs)* [online] Available from: [http://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL\\_BRI\(2015\)563398](http://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL_BRI(2015)563398) [Accessed October 2017].

## *Concerns about E-hailing operators*

However, there are also some allegations that E-hailing service companies derive their competitive advantage from exploiting loopholes in regulatory requirements and lower standards of consumer safety/privacy. Specifically, they could:

- *Unfairly compete with taxi drivers by entering their market without following regulations or fare schedules;*
- *Aspire to become monopolies;*
- *Its cars or drivers could be unsafe or underinsured;*
- *Invade customers' privacy;*
- *Enable discrimination by drivers and passengers;*
- *Undermine working standards for drivers and offer drivers poor compensating;<sup>91</sup> and*
- *Present challenges related to taxation.*

## *A balancing act*

The critical step is to let market forces of personalised point-to-point car transport services operate as freely as possible, while at the same time maintaining a suitable regulatory framework to protect consumers. The protection that is required ranges from standard prohibitions against unfair trade practices and protection for the personal well-being and safety of passengers.

The Council's observations and findings in personalised point-to-point car transport services is that consumers want:

- Better behaviour – this includes not refusing hire, better attitude, taking the most direct route.
- Safety & insurance – drivers should be vetted to ensure they pose no risk to passengers. Vehicles and drivers should be properly insured to compensate passengers if there is an accident.
- Complaints handling – drivers to be accountable and customer complaints quickly resolved.
- Greater convenience – ease of ordering, and accurate assessment of how long a vehicle will take to arrive.
- Variety and quality of vehicles – choice of different sized vehicles and newer cars.
- Greater availability – more vehicles especially at times of high demand and low supply.
- No deterioration in congestion – there should be controlled growth in the number of personalised point-to-point car transport service vehicles. Any new licensing system should be in line with a transport policy objective of economic efficiency, passenger safety and little traffic congestion.

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<sup>91</sup> Rogers B., The Social Costs of Uber, The University of Chicago Law Review, 2015.

## 4.2 International Experience and Government Initiatives

### *Overseas solutions*

As noted in Chapter 3, other major jurisdictions that regulate E-hailing services have generally established two licensing frameworks. They either:

- (i) License E-hailing services on the condition that an E-hailing service operator applies various conditions on its employed drivers and on its employed vehicles, as stipulated by the authority, to ensure compliance with customer safety and minimum standards; or
- (ii) License E-hailing services providers under a set of regulatory requirements which are directed specifically at drivers, rather than the E-hailing service operator, and vehicles licensed by the authority; similar to that which applies to taxis.

The first type of E-hailing service license holder is responsible for their drivers, vehicles and E-hailing services. The E-hailing service operator just needs to demonstrate to the authority that the licence conditions are well adhered to through proper tracking and reporting.

The second type of licensing needs additional regulations that oblige owners of vehicles used for E-hailing services to get a specific E-hailing licence for the car and those drivers are specifically registered as E-hailing drivers with the authority.

### *Hong Kong's solution*

In 2017 the Government PTSS Report, stated that<sup>92</sup> *"the conduct of some taxi drivers (such as refusal of hire, poor service attitude towards passengers and overcharging) has been subject to increasing criticisms in the community in recent years. ...The existing taxi operation mode has posed a certain limitation on ensuring the overall quality of taxi service in a sustained fashion. ... Malpractices of (taxi) drivers usually occur with the presence of the drivers and passengers only. The absence of other independent corroborating evidence renders it difficult to gather evidence for prosecution. ... (Besides,) the effectiveness of enforcement is still subject to constraints arising from the aforesaid high threshold for gathering of evidence for prosecution. ... Without reforming the existing regime of taxi services, it will be difficult to meet the community's demand for quality personalised and point-to-point public transport services."*

Despite the Government recognised problems in the market, it has taken a prudent approach to keep taxis as major providers of personalised and point-to-point car transport services, and their existing roles and positioning of public transport services should be maintained. In addressing public concerns over the quality of taxi services, a franchised taxi pilot scheme will be introduced. Adopting a less-regulated E-hailing car service to introduce competition in the market is by far not the primary consideration but a fallback option in the Government's approach to market reform.

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<sup>92</sup> Transport and Housing Bureau. (2017) *Public Transport Strategy Study*. [online] Available from: [http://www.td.gov.hk/filemanager/en/publication/ptss\\_final\\_report\\_eng.pdf](http://www.td.gov.hk/filemanager/en/publication/ptss_final_report_eng.pdf) [Accessed October 2017].

In addition to the introduction of the franchised taxi services in the market, a two-pronged approach to enhance taxi services, firstly *"to strive to enhance the existing taxi service quality and operating environment by, inter alia,*

- (i) Reviewing the current penalty for various taxi malpractices;*
- (ii) Relaxing permanently the no-stopping restrictions for taxi from peak hours and "7 a.m. to 7 or 8 p.m." on roads with speed limit less than 70 kilometres per hour;*
- (iii) Extending the validity period of driver identity plates;*
- (iv) Amending the requirement for applicants for driving licence for taxis etc. to hold a valid driving licence for private car or light goods vehicle for at least 3 years to at least one year; and requiring applicants for full driving licence for taxi and non-franchised public bus to complete and pass a pre-service course designated and approved by the Commissioner for Transport; and*
- (v) Proactively considering subsidising taxi drivers to enrol in training courses.*

*(and secondly to) strengthen the interaction and cooperation with the trade and other important stakeholders (including stakeholders such as the Chartered Institute of Transport, passenger concern groups, Consumer Council, Competition Commission and labour organisations), drive changes and discuss feasible supportive measures through comprehensive restructuring the current Quality Taxi Services Steering Committee under the Transport Department."*

### 4.3 Searching for the Right Model

The Government has proposed a pilot scheme of franchised taxi services, as a means to address the call from the public for a high quality service alternative to ordinary taxis and as a possible solution to the service quality problem of the personalised point-to-point car transport service market. The franchised taxi service is positioned as a new choice of personalised and point-to-point public transport services to address the needs of passengers with certain "E-hailing" features included in the service. Most importantly, the Government believes that the employer-employee relationship between taxi owners and drivers of the franchised taxi will tackle issues inherent in the ordinary taxi trade. For example, that there is a lack of an incentive mechanism to motivate a taxi driver to offer a good service, and subsequently affect the sustainability of service quality, and to attract new blood to the trade.

After consultation with stakeholders and the trade, the Government announced its plan in the Chief Executive Policy Address in October 2017 that *"we (the Government) are making preparation for launching franchised taxis with "online-hailing" features to address the new demand for personalised and point-to-point public transport services in the community."*<sup>93</sup>

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<sup>93</sup> Hong Kong SAR Government "The Chief Executive's 2017 Policy Address: We Connect for Hope and Happiness". Para 212 [online] Available from <https://www.policyaddress.gov.hk/2017/eng/pdf/PA2017.pdf> [Accessed on October 2017].

## *Council's views*

The Council acknowledges that any proposal to improve taxi services through increased competition amongst new service providers in Hong Kong is a welcome step. However, notwithstanding the recent Government initiative, the Council envisages that the new personalised point-to-point car transport may not be able to deliver sufficient competition to drive a fundamental change in the market. The Council regards the Government's proposal as having the following insufficiencies:

- (i) There will only be 3 franchisees, each operating 200 franchised taxis. Two hundred vehicles providing services per franchise is insufficient to provide a seamless and reliable pre-booking service to meet demand. If the franchised taxi services only rely on the demand of the stand and the hail market segment, there will be little difference between an ordinary taxi and a franchised taxi. Without the driving force of competition of the pre-booking services, the E-hailing features alone will not function well to improve the services;
- (ii) The operational costs for 200 vehicles will drain the resources of a franchisee which could otherwise be allocated to invest in information technology for the development of its E-hailing platform to build an edge in matching services for pre-booking taxi services;
- (iii) The employment relationship model and vertical integrated model (driving services, vehicle services and matching services are all operated by the franchisee under the Government's proposal), preferred by the Government though rendered job protection to drivers and adequate return to the vehicle investment would eliminate the possibility that drivers or vehicles could work flexibly with more than one platform concurrently, and in response to demand by the market force thus enhancing efficiency; and
- (iv) The franchised taxi model that would bring more vehicles onto the roads is contrary to the overall transportation strategy of Hong Kong to control the number of vehicles and alleviate traffic congestion. If there is a strong consumer demand on franchised taxi services after 5 years when the 5-year pilot scheme expires, the number of franchised taxis would most likely increase. On the other hand, the model of E-hailing under which using existing private cars are used, would likely lessen the burden.

The Council understands that the taxi industry should be given an opportunity to improve their services. By introducing the franchised taxi service, this could provide a way to induce changes in operating the taxi service and if successful, might encourage the taxi trade to supply a quality personalised point-to-point car transport service to meet the expected standard of Hong Kong as an Asian metropolitan city.

## *Council's model*

According to the Government's PTSS report, the Government does not rule out introducing regulated E-hailing services directly, currently it aims to try out the "Franchised Taxi" model first with minimum interruption created in the market. As stated by the Government "*Depending on the outcome of the scrutiny of the legislation (if proposed) on franchised taxis by the LegCo, consideration may have to be given on whether to explore other new services (such as regulated online hailing services)*".

If accommodating the concerns of the taxi trade is not a viable and effective option, the Council would urge the Government to take immediate and decisive action to opt for a competitive E-hailing car service model, especially when the franchised taxi and other initiatives are not able to improve the service quality of the taxi services over the 5 years of the pilot scheme for "Franchised Taxi Services".

The Council believes that the introduction of a parallel regime consisting of taxi and E-hailing services, with the benefit of increasing competition would in turn strengthen the service quality of market players. To reduce barriers of entry and to foster innovation, it would be more desirable to impose fewer requirements for the E-hailing service as far as possible and to focus on regulatory requirements on key areas of concerns to passenger safety and operating effectiveness of the E-hailing platform for proper enforcement and traffic control by the Government.

What the Council envisages is an evolutionary process that could balance the interest of the public and gradually transition from the existing personalised point-to-point public transport model that is primarily based on the taxi industry (including the new franchised taxi service) to one that incorporates E-hailing, and adjustments to the less regulated and competitive hire car segment. The steps are important to reform the market progressively in considering the interest of all, and most importantly safeguarding consumer interests and bringing in competition with E-hailing services.

## *Permit based licensing for all parties*

The Council suggests that the process could make use of the existing 1,500 HCPs issued by the Commissioner for Transport which relaxes to some extent, the stringent requirements which govern the business environment that could embrace the E-hailing services. To begin with, the new system would grant three distinct sorts of permits for:

- (i) Franchisees of E-hailing services – applying conditions on E-hailing platform service providers;
- (ii) Time-limited car permits – applying conditions to vehicles used for E-hailing services (not needed if delegated to the E-hailing service operator); and
- (iii) Partner driver (PD) or HCPs – applying conditions to the "partner drivers" (not needed if delegated to the E-hailing service operator).

Regarding the first permit, a specified number of time-limited franchises (in different jurisdictions, the number is in the range of 3 - 11, depending how many feasible HCPs in principle can be engaged with each E-hailing operator) of E-hailing services would be granted obliging each franchisee to employ PDs and/or partner with existing

licensed drivers. The number of time-limited franchises and the number of HCPs are interdependent and are crucial on how fast the market can develop competitive booking car services by means of efficient matchmaking services by E-hailing platform. More vehicles, with HCPs, engages with the E-hailing operator, the better is its matchmaking services and more franchises of E-hailing services, the better competition in the market, the more competitive fares of E-hailing services.

PDs could be self-employed and could be responsible for procuring and managing their own vehicles if they supply the vehicle for the service. Their vehicles would have to be a vehicle with a HCP. There should be no limit on PDs and taxi drivers with taxi vehicles are allowed freely to log on E-hailing platforms to serve the booking segment.

With reference to requirements applying in those jurisdictions which created a level playing field between E-hailing services and taxi services outlined in Chapter 3 i.e. Beijing, New South Wales (Australia), Singapore, Toronto (Canada) (see Annex 1 for details), some suggestions for the licence conditions are listed.

### *Regulatory conditions for permitted hire cars and drivers*

The Council recommends the Government consider the following licensing conditions be applied to PDs and permitted hire cars. The suggestions seek to adapt Hong Kong's existing system of hire car regulations to allow the entry of new vehicles without imposing too many changes to the existing regulations.

The Government can use existing regulations to create a time limited HCP so only a defined number of vehicles are allowed to operate as hire cars working with E-hailing.

Conditions of hire cars:

- (i) The new HCPs are associated with specific vehicles and would last for around 7 years.
- (ii) The E-hailing scheme may issue permits to vehicles operated by leasing companies to rent to drivers, or to drivers who wish to use their own vehicles.
- (iii) Hire cars have to be in good condition, insured to carry passengers, and not older than 7 years old.
- (iv) The E-hailing scheme may impose further conditions on the vehicle to ensure standard meets customer expectations commensurate to the fare level being charged (premium, budget).

Partner Drivers have to have a minimum of three years' driving experience and fulfil background checks (no serious driving convictions, no criminal convictions for violence, threatening behaviour, driving under the influence). There could be further requirements for drivers such as minimum language skills and health condition fulfilment. The licence may allow share-rides and co-ordinate the use of vehicles by multiple customers to save customers' money, reduce congestion and improve sustainability.

### *Fare and surcharge controls on E-hailing Services*

E-hailing service operators would need to develop, publicise and disclose to consumers their fare structure (distance, duration relationship, any surcharges for luggage, use of tunnels) before the journey is booked. They would also need to notify a passenger if any peak-demand related surcharge was to be applied before the booking is finalised.

At any moment in time if the supply of HCPs exceeds the E-hailing quota as stipulated by the Government, or when E-hailing operator with substantial market power, the App must apply a non-discriminatory means of allocating between drivers. This allocation should not be based on price.

### *Customer personal safeguards*

An E-hailing operator would also have to conduct background security checks on drivers, ensure that they are adequately insured, and that their vehicles have valid HCPs and are qualified to provide the service. Passengers should be protected by a suitable driver/taxi owner insurance policy.

The E-hailing operator would be responsible for record keeping, with a record of each trip, route taken, fare charged. These would need to be made available to the Government for any criminal investigations. Aggregate data should also be available for inspection to ensure that the E-hailing operator is operating within the regulatory framework. It would be responsible for providing the Government with an up to date list of all the vehicles that it registers.

A system to record consumer feedback on individual trips and operate a complaint handling system for resolving disputes between drivers and passengers would also need to be provided by the E-hailing operator. Customer feedbacks on specific drivers should also be available, as appropriate, to other customers.

### *Differentiation between taxis and E-hailing operators*

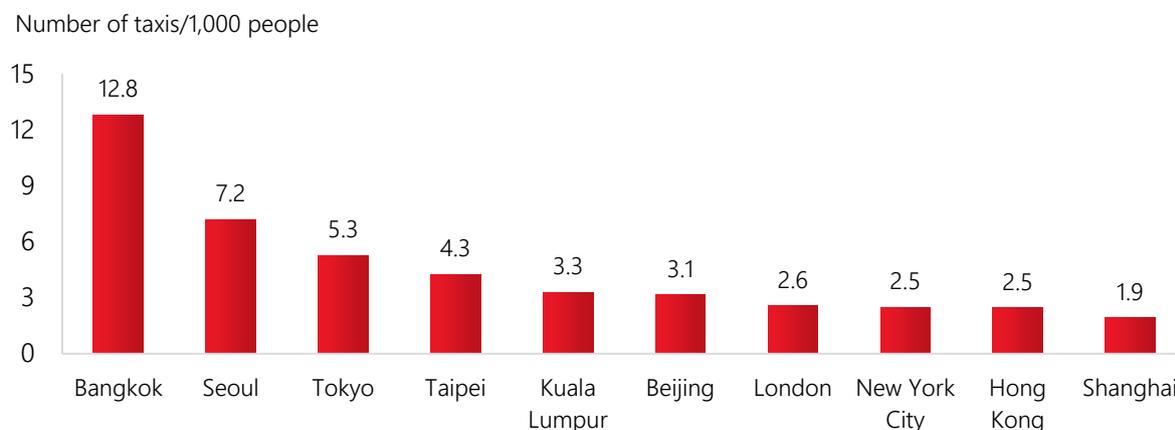
All journeys by E-hailing service providers would have to be arranged through an E-hailing operator's platform network. An E-hailing service provider would not be allowed to pick up passengers from a kerb or taxi stand unless they were ordinary taxi drivers. E-hailing service-cars would not be allowed to turn down a hire because they dislike the destination or the passenger, and the E-hailing operator would have to provide other customer support services, such as lost-and-found services and websites for enquiries or complaints. Furthermore, taxis are allowed to use E-hailing service for picking up passengers. Fare of E-hailing services with taxi vehicles should apply taxi regulated fares.

### *Quotas and number of operators*

Hong Kong (in comparison with other metropolitan East Asian cities) has one of the lowest number of taxis per capita (Figure 11) that obviously has room for more personalised point-to-point vehicles to provide E-hailing services in the market. In adopting a progressive approach in developing the pre-booked market, vehicles

operating under the new HCP and vehicles operating through E-hailing would initially need to be subject to a quota. With reference to Singapore, a city very similar to Hong Kong, the Council believes it should start with existing 1,500 HCPs.

Figure 11: Number of taxis per capita of different metropolitan cities



Taxis, as opposed to hire cars, that choose to use an E-hailing service at any moment for picking up passengers would be outside the quota requirement or some consider that taxi license can be swapped with a “longer time” HCP for supplying of E-hailing car services in addition to the services provided by 1,500 new HCPs.

It would be the responsibility of E-hailing service companies to ensure that they do not breach the quota; otherwise appropriate commercial sanctions will be imposed. To keep track of whether E-hailing services are not exceeding the quota at any particular time, licence conditions should be in place requiring E-hailing operators to submit detailed operational information upon Government request or on a periodic base.

By applying a quota mechanism at the initial stages of market reform, the Government will be able to attempt at calculating, over a reasonable period of time, the extent to which quotas can be increased. This will in turn drive the market towards an optimal form of “deregulated” environment where demand and supply are more closely aligned for consumer benefits. On the other hand, by applying quota restrictions for too long, there is the risk that if the calculations are wrong, an insufficient number of drivers and vehicles will be on the road and will not help to build a sustainable matchmaker service for both consumers and car service providers.

In many jurisdictions, as E-hailing services develop, the market could evolve in the direction of diversification or consolidation, all subject to a range of market factors, such as market demand, passenger safety and effectiveness in business operation, etc. However, it is understood that the economies of scale through ICT investment and more innovative services will drive the competition. The Council suggests the Government to make references to the licensing quotas of different markets to determine the right number of E-hailing services and vehicles that could foster competition in a progressive manner.

# Open Market in the Long Run



## Licensing of E-hailing



Franchised permit for E-hailing platform



Permit for E-hailing vehicle



Permit for E-hailing "partner" driver

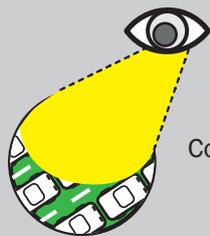
## Regulatory conditions

### E-hailing platform



Transparency control on charges and surcharges

### Passenger protection



Monitor traffic conditions to adjust service supply



Complaint handling



Record keeping

### Hire-car



New hire car permit be allowed to operate for 7 years

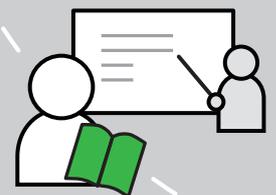


Adequately insured and in good condition (less than 7 years)

### Driver



- ✓ At least 3 years driving experience
- ✓ Fulfil background checks (no serious driving or criminal convictions)



Training in language and customer service

## 4.4 Measures to Improve Taxi Services

It is a commitment of the Government to drive changes and to seek measures that can improve the quality of the taxi service. Some members of the taxi trade have been actively considering how to improve the service quality of ordinary taxis. In November 2015 seventeen taxi associations formed the Hong Kong Taxi Council<sup>94</sup> with the aim to improve service quality through self-regulation by the industry and the image of the taxi industry. The Hong Kong Taxi Council has organised retraining programmes for taxi drivers with the Employees Retraining Board in order to enhance their service standards and to attract new blood to the trade. The first two programmes commenced in February 2017.<sup>95</sup>

In its proposal for franchised taxis, the Government also prescribed a requirement on franchise operators to provide training courses to drivers which cover customer service skills, driving attitude, handling of emergencies and traffic accidents, handling of customer complaints, basic vocational English and Mandarin, etc. Drivers' training courses proposed by applicants will be an important factor to be assessed for granting the franchises.<sup>96</sup>

### *Singapore – mandatory training by Taxi Academy*

In Singapore, the LTA authorised the Taxi Academy to train, test and certify drivers so as to meet the requirement on issuance of Taxi Driver or Private Hire Car Driver's Vocational Licence. Currently there are two types of courses provided by the Taxi Academy, namely (i) Taxi and Private Hire Car Driver Vocational Licence Mandatory Programme<sup>97</sup> and (ii) Private Hire Car Driver Vocational Licence Mandatory Programme.<sup>98</sup> For (i), trainees will be issued both TDVL and PDVL by LTA upon completing the training programme and passing all the prescribed tests, while for (ii) only PDVL will be issued. It takes 10 to 25 hours to complete the training which is combined with classroom coaching and a self-study programme. Regarding the written test upon completion of the lessons, it covers areas including service quality, health and safety, rules and regulations of taxi or private hire car and route planning (for (i) only). Besides, the LTA also requires the current licensed drivers to attend a mandatory refresher course (lasting for 3 – 5 hours) every 6 years so as to revalidate and update the vocational skills they are licensed to perform.

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<sup>94</sup> Members include taxi drivers, radio call stations, owners, taxi companies and keepers, etc.

<sup>95</sup> Legislative Council Secretariat. (2017). *Legislative Council Panel on Transport Public Transport Strategy Study - Role and Positioning Review Personalised and Point-to-Point Transport Services*. [online] Available from <http://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170317cb4-666-5-e.pdf> [Accessed October 2017].

<sup>96</sup> Ibid.

<sup>97</sup> Land Transport Authority of Singapore. (2017). *Taxi and Private Hire Car Driver Vocational Licence Mandatory Programme*. [online] Available from <http://www.taxi.org.sg/pdf/Taxi%20and%20PHC%20Driver%20VL%20Course%20Outline.pdf> [Accessed October 2017].

<sup>98</sup> Land Transport Authority of Singapore. (2017). *Private Hire Car Driver Vocational Licence Mandatory Programme*. [online] Available from <http://www.taxi.org.sg/pdf/PDVL%20Course%20Outline.pdf> [Accessed October 2017].

### *New South Wales (Australia) – mandatory training for wheelchair accessible taxi drivers*

In New South Wales, the new Point to Point Transport (Taxis and Hire Vehicles) Act 2016 will commence in November 2017. The training of drivers will no longer be mandated by the NSW Government, and neither will test on geographic knowledge and understanding the relevant regulations. English language proficiency will be the only requirement for authorised taxi drivers.<sup>99</sup>

On the other hand, wheelchair accessible taxi drivers will be mandated to demonstrate a level of competence in the safe loading, restraint and unloading of a person in a wheelchair i.e. required to complete courses via registered training organisations.<sup>100</sup>

### *Toronto (Canada) – training initiated by the industry*

Since the Toronto municipal Government lessened the training requirements of existing taxis drivers, after legalising E-hailing services in 2016, the taxi industry undertook service improvement initiatives to require new taxi drivers to take and pass a training programme developed by the Toronto Taxi Alliance (Representative of Toronto taxi industry) and Centennial College of Canadian Pro Drivers.<sup>101</sup>

Major taxi companies in Toronto like Beck Taxi mandates that a taxi licensed driver who receives customer complaints should undergo an 18-hour training course (12-hour in-class components, and a 6-hour defensive driving session) with modules on English, customer service, cultural sensitivity training, knowledge of roads of the area and defensive driving.<sup>102</sup>

### *Way forward to improve the quality of the taxi services*

The Council would like the Government to take note of overseas examples in Chapter 3 that Hong Kong can learn from. Many metropolitan cities mandated training requirements on taxi drivers, hire car drivers and E-hailing service drivers after introducing a level playing field for E-hailing services and taxi services; or after introducing new taxi services with E-hailing service features.

The Council welcomes the principal of training for drivers as a requirement of the proposed franchised taxi service and the training initiatives undertaken by the industry in Hong Kong. If taxi drivers do not subscribe to the training programme by HKTC and the number of complaints against the manner and attitude of the taxi driver keeps rising, the Government may need to consider imposing mandatory re-training to taxi drivers who have record of complaints, when renewing their driving licences.

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<sup>99</sup> Transport for NSW. (2017). *What has changed?* [online] Available from <http://www.pointtopoint.nsw.gov.au/taxis-what-has-changed> [Accessed October 2017].

<sup>100</sup> Transport for NSW. (2017). *Factsheet - Point to point transport - Taxi Drivers.* [online] Available from <http://www.rms.nsw.gov.au/documents/business-industry/public-passenger-vehicles/fact-sheet-taxi-drivers.pdf> [Accessed October 2017].

<sup>101</sup> Centennial College. (2016). *Taxi driver training program coming this fall.* [online] Available from <https://www.centennialcollege.ca/news/taxi-driver-training-program-coming-this-fall/> [Accessed October 2017].

<sup>102</sup> Toronto Sun. (2016). *Training mandatory for new cabbies: Toronto Taxi Alliance* [online] Available from <http://www.torontosun.com/2016/08/24/training-mandatory-for-new-cabbies-toronto-taxi-alliance> [Accessed October 2017].

## 4.5 Conclusion

The Council's research, as detailed in this report, indicates that existing E-hailing service providers provide many features that are enhancing service quality for consumers. E-hailing platform companies around the world have invested significant sums to optimise their software performance, pay inducements to develop driver networks, and employ customer care teams to resolve complaints. Worldwide E-hailing service operators are also early adopters and supporters of innovation that serve consumer and societal interests, for example, the trial-run with driverless taxis in Singapore.<sup>103</sup> The Council considers that any regulatory framework that is eventually introduced in Hong Kong should support and encourage an innovative and customer-centric evolution of the industry. Nevertheless, from a public policy standpoint, it must be recognised that the incumbent business interests that have also evolved over many years due to past government management of the industry, and that could restrain the development of benefits for the wider society, also have to be taken into account.

The Council welcomes the Government's desire to create a system of franchised taxis in response to consumers' desires for better quality service and a greater range in vehicle types. However, the mechanism currently proposed by the Government would not appear to fully satisfy the call from consumers and is not well suited to the emergence of existing E-hailing services that are popular in many countries. It would be a missed opportunity if the reforms currently being contemplated missed the chance to embrace new offerings from the E-hailing service.

Like many markets, the key issue to be considered is how to minimise disruption to existing taxi drivers against the introduction of E-hailing. The Council recommends that the Government considers the Council's proposal as suggested above as "Franchised Taxi Services" fails to deliver its promise. An orderly transition, beginning with the application of licensing/permits for E-hailing service providers, the introduction of quotas for newly licensed operators, and providing for a controlled momentum towards a more open market based system should be adopted.

In a competitive environment, E-hailing service operators (serving as matchmakers) will provide guarantees and benefits to drivers/vehicle owners as an inducement to join their hailing network. In other jurisdictions heavy competition for drivers to join their E-hailing platforms has operators like Uber and Lyft to offer minimum-earnings guarantees to drivers. Market competition will therefore result in a better or a more flexible form of compensation for drivers and result in a consumer friendly matchmaker service, which is the driving force to having a better quality of personalised point-to-point car transport service.

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<sup>103</sup> The Straits Times. (2016) *World's first driverless taxi trial kicks off in Singapore*. [online] Available from: <http://www.straitstimes.com/singapore/transport/worlds-first-driverless-taxi-trial-kicks-off-in-singapore> [Accessed October 2017].

In summary, the Council recommends that a staged approach be implemented through transitional phases whereby:

- E-hailing platforms, vehicles and drivers all need licences, with a quota applied to the numbers of vehicles and new market entrants;
- Regulatory conditions are imposed on vehicles and drivers to safeguard passengers;
- Specific licensing requirements of E-hailing service providers are introduced to maintain price transparency, adequate customer personal safeguards and traffic control; and
- Market segregation between taxi and E-hailing services.

Data is collected on how extensively vehicles are utilised, the impact of road congestion can be measured and the extent of deleterious impacts on existing taxi drivers, as to be ascertained to determine the pace of reform. Within a reasonable period, the regulatory framework should shift to one that is more amenable to an open market where restrictions on how many vehicles may be used through E-hailing and the restriction that caps the number of E-hailing franchises to be relaxed.

Hong Kong has many successful stories where it has leveraged an open competition policy into reforming an incumbent dominated economic sector; for example, the liberalisation of the telecommunications sector which has transformed Hong Kong into an Asian telecommunications centre. The Council hopes the Government and the wider public learn from past experience, and adopt a forward-looking policy of enhancing consumer welfare through introducing a new E-hailing model for personalised point-to-point car transport, in recognition of Hong Kong's aspirations as a smart city, and to be an active player in the digital world.

## Annex 1: Regulatory Requirements of Taxi Service and E-hailing/Hire Car Service in Some Jurisdictions

### Hong Kong

|          | Taxi  | Private service (limousine) hire car  |
|----------|---|---|
| Operator | No special requirements   | No special requirements   |
| Vehicle  | <ul style="list-style-type: none"> <li>- Commercial and goods motor vehicles in Hong Kong must undergo annual vehicle examinations</li> <li>- Taximeter installed</li> <li>- Taxis to have illuminated signs and markings</li> <li>- Painting of vehicles</li> <li>- Fare schedule display</li> </ul> | <ul style="list-style-type: none"> <li>- Not classified as commercial vehicle</li> <li>- A minimum taxable value of over HK\$300,000</li> <li>- Should be less than 7 years old from the date of first registration as a "brand new vehicle" in Hong Kong (viz. aged 6 year or below) at the time of the application</li> <li>- The replacement vehicle should not be older than the vehicle being replaced</li> <li>- The hire car service shall be operated only from an address—                             <ul style="list-style-type: none"> <li>(i) specified in the hire car permit issued therefore; and</li> <li>(ii) registered with the Commissioner for Transport</li> </ul> </li> <li>- The hire car permit shall be displayed inside the private car</li> <li>- The hire car permit holder shall not place or cause to be placed on or in the private car any marking</li> <li>- During the period of validity of the permit, there should remain in force in relation to the user of the private car for the carriage of passengers for hire or reward such policies of insurance or such securities in respect of third party risks</li> </ul> |

|        |   |   |
|--------|---|---|
|        |   | <ul style="list-style-type: none"> <li>- Should satisfy the Commissioner for Transport regarding the maintenance facilities provided for the vehicle and the availability of suitable overnight parking accommodation for the vehicle</li> <li>- Touting is not allowed</li> <li>- For private service hire car permit, there is no apparent channel for the application which specified that the private car shall not be fitted with any equipment permitting the driver to transmit and receive messages by radio</li> </ul> |
| Driver | <p>Qualifications for taking the Taxi Licence Test:</p> <ul style="list-style-type: none"> <li>(i) Aged 21 years old or above</li> <li>(ii) Physically fit to drive</li> <li>(iii) Having held a valid full driving licence to drive a private car or light goods vehicle for at least 3 years immediately preceding his application</li> <li>(iv) Have not been convicted of Section 36 (Causing death by dangerous driving), Section 39 (Driving a motor vehicle under the influence of drink) etc. during the 5 years immediately preceding the application</li> </ul> | No special requirements   |

|                            | 的士 (Taxi)  | 網約車 (E-hailing)   |
|----------------------------|--|---|
| 汽車服務經營者 (Vehicle operator) | <ul style="list-style-type: none"> <li>- 申請巡遊計程車經營的，應當根據經營區域向相應的縣級以上地方人民政府計程車行政主管部門提出申請，並符合下列條件：               <ul style="list-style-type: none"> <li>(一) 有符合機動車管理要求並滿足以下條件的車輛或者提供保證滿足以下條件的車輛承諾書：                   <ol style="list-style-type: none"> <li>1. 符合國家、地方規定的巡遊計程車技術條件；</li> <li>2. 有按照第十三條規定取得的巡遊計程車車輛經營權。</li> </ol> </li> <li>(二) 有取得符合要求的從業資格證件的駕駛人員；</li> <li>(三) 有健全的經營管理制度、安全生產管理制度和服務品質保障制度；</li> <li>(四) 有固定的經營場所和停車場地。</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>- 申請從事網約車經營的，應當具備線上線下服務能力，符合下列條件：               <ul style="list-style-type: none"> <li>(一) 具有企業法人資格；</li> <li>(二) 具備開展網約車經營的互聯網平台和與擬開展業務相應的資訊資料交互及處理能力，具備供交通、通信、公安、稅務、網信等相關監管部門依法調取查詢相關網路資料資訊的條件，網路服務平台資料庫接入計程車行政主管部門監管平台，伺服器設置在中國內地，有符合規定的網路安全管理制度和信息安全保護技術措施；</li> <li>(三) 使用電子支付的，應當與銀行、非銀行支付機構簽訂提供支付結算服務的協定；</li> <li>(四) 有健全的經營管理制度、安全生產管理制度和服務品質保障制度；</li> <li>(五) 在服務所在地有相應服務機構及服務能力；</li> <li>(六) 法律法規規定的其他條件。</li> </ul> </li> </ul> <p>外商投資網約車經營的，除符合上述條件外，還應當符合外商投資相關法律法規的規定。</p> |

<sup>1</sup> Website of the Ministry of Transport of the People's Republic of China. (2017). *Requirements to different personalised point-to-point car transport operators, vehicles and drivers*. [online] Available from [http://zizhan.mot.gov.cn/zfxxgk/bnssj/zcftgs/201607/t20160728\\_2068633.html](http://zizhan.mot.gov.cn/zfxxgk/bnssj/zcftgs/201607/t20160728_2068633.html) [Accessed October 2017].

|                 |  |   |
|-----------------|--|---|
| 車輛<br>(Vehicle) | <ul style="list-style-type: none"> <li>- 縣級以上地方人民政府計程車行政主管部門應當配合有關部門，按照有關規定，並綜合考慮巡遊計程車行業定位、運營成本、經濟發展水準等因素合理制定運價標準，並適時進行調整。縣級以上地方人民政府計程車行政主管部門應當配合有關部門合理確定巡遊計程車電召服務收費標準，並納入計程車專用收費專案。</li> <li>- 投入運營的巡遊計程車車輛應當安裝符合規定的計程計價設備、具有行駛記錄功能的車輛衛星定位裝置、應急報警裝置，按照要求噴塗車身顏色和標識，設置有中英文“計程車”字樣的頂燈和能顯示空車、暫停運營、電召等運營狀態的標誌，按照規定在車輛醒目位置標明運價標準、乘客須知、經營者名稱和服務監督電話。</li> <li>- 巡遊計程車車輛經營權不得超過規定的期限，具體期限由縣級以上地方人民政府計程車行政主管部門報本級人民政府根據投入車輛的車型和報廢週期等因素確定。</li> </ul> | <ul style="list-style-type: none"> <li>- 網約車運價實行市場調節價，城市人民政府認為有必要實行政府指導價的除外。</li> <li>- 擬從事網約車經營的車輛，應當符合以下條件： <ul style="list-style-type: none"> <li>(一) 7 座及以下乘用車；</li> <li>(二) 安裝具有行駛記錄功能的車輛衛星定位裝置、應急報警裝置；</li> <li>(三) 車輛技術性能符合運營安全相關標準要求。</li> </ul> </li> </ul> <p>車輛的具體標準和營運要求，由相應的計程車行政主管部門，按照高品質服務、差異化經營的發展原則，結合本地實際情況確定。</p> <ul style="list-style-type: none"> <li>- 網約車行駛里程達到 60 萬千米(公里)時強制報廢。行駛里程未達到 60 萬千米(公里)但使用年限達到 8 年時，退出網約車經營。</li> </ul> |
| 司機<br>(Driver)  | <ul style="list-style-type: none"> <li>- 巡遊計程車經營者應當按照有關法律法規的規定保障駕駛員的合法權益，規範與駕駛員簽訂的勞動合同或者經營合同。巡遊計程車經營者應當通過建立替班駕駛員隊伍、減免駕駛員休息日經營承包費用等方式保障巡遊計程車駕駛員休息權。</li> <li>- 申請參加計程車駕駛員從業資格考試的，應當符合下列條件： <ul style="list-style-type: none"> <li>(一) 取得相應的機動車駕駛證 3 年以上；</li> <li>(二) 近 3 年內無重大以上且負同等以上責任的交通事故。</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>- 網約車平台公司應當保證提供服務的駕駛員具有合法從業資格，按照有關法律法規規定，根據工作時長、服務頻次等特點，與駕駛員簽訂多種形式的勞動合同或者協議，明確雙方的權利和義務。</li> <li>- 從事網約車服務的駕駛員，應當符合以下條件： <ul style="list-style-type: none"> <li>(一) 取得相應准駕車型機動車駕駛證並具有 3 年以上駕駛經歷；</li> <li>(二) 無交通肇事犯罪、危險駕駛犯罪記錄，無吸毒記錄，無飲酒後駕駛記錄，最近連續 3 個記分週期內沒有記滿 12 分記錄；</li> <li>(三) 無暴力犯罪記錄；</li> <li>(四) 城市人民政府規定的其他條件。</li> </ul> </li> </ul>   |

## New South Wales (Australia)<sup>2</sup>

|          | Taxi  | Private hire vehicle (for Booking service) |
|----------|---|--|
| Operator | <p>Compliance with safety standards.</p> <p>Keeping records of:</p> <ul style="list-style-type: none"> <li>- Full names and driver licence numbers of all drivers.</li> <li>- Registration details for all cars in their fleet.</li> <li>- All bookings for at least 2 years after the booking is made.</li> <li>- Reasonably foreseeable hazards that could pose a risk to the health and safety of drivers, passengers and others.</li> <li>- Control measures taken to eliminate or minimise those risks.</li> <li>- Actions taken to maintain control measures.</li> <li>- Consultations with drivers, affiliated providers and others to show there are no gaps in safety.</li> </ul> <p>Compliance with the requirements of the Passenger Service Levy.<sup>3</sup></p> <p>Providing written notice to the Point to Point Transport Commission within 7 days about any change of business address and within 21 days of changes to nominated managers or directors.</p> |  |

<sup>2</sup> Website of the Point to Point Transport Commissioner of the New South Wales Government. (2017) *Requirements to different personalised point-to-point car transport operators, vehicles and drivers.* [online] Available from: <https://www.pointtopoint.nsw.gov.au/> [Accessed October 2017].

<sup>3</sup> The levy is payable on a monthly basis for all authorised service providers making more than 600 passenger service transactions per year. Special consideration has been made for smaller service providers and exemptions apply to those based in remote parts of NSW. All service providers outside of exempt areas will need to register as a taxpayer with the Commission. Payment collection will be managed by Revenue NSW.

|                                   |   |  |
|-----------------------------------|---|--|
|                                   | <p>For each hire, keep records of:</p> <ul style="list-style-type: none"> <li>i) Date, start and end time of a journey;</li> <li>ii) Starting and final location of a journey;</li> <li>iii) Driver's full name and licence number of the taxi; and</li> <li>iv) The fare amount.</li> </ul>  | <p>For each hire, keep records of:</p> <ul style="list-style-type: none"> <li>i) Date, start and end time of a journey;</li> <li>ii) Start and final location of a journey;</li> <li>iii) Driver's full name and vehicle registration number;</li> <li>iv) Date and time of the booking;</li> <li>v) Contact information for at least one of the passengers, or the person who made the booking or the person who paid for the journey; and</li> <li>vi) If the booking was passed on to another Booking Service Provider, their name must be recorded.</li> </ul> |
| <p>Vehicle<br/>(Registration)</p> | <p>Vehicle registration:</p> <ul style="list-style-type: none"> <li>- The vehicle must be appropriately registered and safe to be driven on the road; and</li> <li>- Vehicles will need to have annual pink slip<sup>4</sup> registration inspections even if they are less than 5 years old.</li> </ul> <p>Third Party Property insurance:</p> <ul style="list-style-type: none"> <li>- The vehicle must be covered by a valid insurance policy for third party property damage with cover of at least AUD5 million.</li> </ul> <p>Maintenance and repairs:</p> <ul style="list-style-type: none"> <li>- Vehicles must be regularly maintained, consistent with the manufacturer's recommendations and any maintenance and repairs (excluding minor repairs such as oil changes, spark plug replacements and tyre changes) must be performed by a licensed mechanic;</li> <li>- Records of all maintenance and repairs carried out on a vehicle should be kept; and</li> <li>- Keeping a maintenance schedule that allows all of the information to be kept in one place.</li> </ul> |  |

<sup>4</sup> Generally, light vehicles such as passenger cars or motorcycles more than five years old require a safety check which can only be performed at an Authorised Inspection Scheme station before its registration can be renewed.

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| <p>Vehicle (Operation)</p> | <ul style="list-style-type: none"> <li>- Only taxis can serve stand or street hailing segments, that is pick up customers from ranks or be hailed down in the street which must have a roof light and sign displaying the word 'TAXI'.</li> <li>- Taxis that serve stand or street hailing segments in Sydney, Wollongong, the Central Coast and Newcastle must be fitted with duress alarms and vehicle tracking systems.</li> <li>- Taxis which serving stand or street hailing segments are required to have fare calculation devices (meters) and security cameras.</li> <li>- Accommodation standards: A taxi must be able to seat the driver and at least four adults, but no more than 11 passengers. It must also have at least four side doors, unless it is a maxi taxi or a wheelchair accessible taxi</li> </ul>  | <ul style="list-style-type: none"> <li>- Vehicles used to provide booked services that are not taxis must not be painted or marked, or have any signs of lights that may indicate to a customer that it is a taxi.</li> <li>- Rather, there should be a display of retro-reflective sign to makes it clear that the vehicle is a hire vehicle.</li> </ul> |
| <p>Driver</p>              | <ul style="list-style-type: none"> <li>- Have held an unrestricted Australian driver licence (not a probationary licence) for at least 12 months in the preceding two years</li> <li>- Meet medical standards for commercial vehicle drivers</li> <li>- Must not be anyone whose driver authority was cancelled (other than on medical grounds), or their application was refused, in the past 10 years on the grounds that they were not a fit and proper person; nor people who have committed certain offences relating to the crime (e.g. Stalking or intimidation with intent to cause fear of physical or mental harm) or transport (e.g. Driving or making licence application while disqualified)</li> <li>- For taxi drivers only (but not private hire vehicle drivers), they must display an identity document showing their photograph and identification number provided by the Taxi Service Provider. In addition, they have to provide proof of English language proficiency if driving a taxi in the Sydney metropolitan area.</li> </ul> |   |

## Singapore<sup>5</sup>

|          | Taxi  | E-hailing (Private hire car booking service provider)  |
|----------|---|--|
| Operator | <p>Minimum fleet size requirement of 800 taxis.</p> <p>Quality of Service Standards:</p> <ul style="list-style-type: none"> <li>- At least 95% call answer rate by the taxi dispatch system (90% for small companies) and at least 92% (80% for small companies) of calls despatched that are successfully matched with taxis.</li> <li>- Waiting time for despatch system to answer incoming telephone calls within 20 secs (90% of the time), to confirm taxi from the time the call is answered within 5 mins, 90% of the time.</li> <li>- Passenger waiting time for taxi to arrive within 10 mins, 95% of the time (90% for small companies).</li> <li>- At least 98% first inspection passing rate.</li> <li>- Accident/Offence Rate not more than 0.02 per 100,000 km.</li> </ul> <p>Availability Standards:</p> <ul style="list-style-type: none"> <li>- LTA requires taxi companies to ensure that 85% of their taxis are on the road during peak periods (7am to 11am and 5pm to 12 midnight).</li> </ul> | <p>A licensee holding a private hire car licence may be certified by the Registrar to be a certified private hire car licensee if the Registrar is satisfied that the licensee:</p> <ul style="list-style-type: none"> <li>- is the owner of 2 or more licensed chauffeured private hire cars;</li> <li>- is the employer of at least 2 drivers on a full-time basis to provide ride-sourcing services that are booked through the licensee and using those chauffeured private hire cars;</li> <li>- has, in the period of 12 months before applying to be a certified private hire car licensee, directly received bookings for ride-sourcing services provided by drivers it employs (including through the licensee's own mobile application) which are at least 75% of the total number of bookings for ride-sourcing services provided by its drivers during that period;</li> <li>- has an appropriate in-house training and assessment programme for its employees who are providing those ride-sourcing services in the course of their employment with the licensee; and</li> <li>- ensures that the employees attend the medical fitness tests necessary to obtain the certificates and reports required under</li> </ul> |

<sup>5</sup> Website of the Land Transport Authority of Singapore. (2017) *Requirements to different personalised point-to-point car transport operators, vehicles and drivers*. [online] Available from: <https://www.lta.gov.sg/content/ltaweb/en/public-transport/taxis%20and%20private%20hire%20cars.html> [Accessed October 2017].

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|--|--|--|
|  | <p>For third-party taxi booking service providers:<br/>Fees and charges to passengers:</p> <ul style="list-style-type: none"> <li>- Bidding and pre-trip tipping for taxi services are not allowed. In addition, the booking fees charged by third party taxi booking services cannot exceed the booking fees charged by taxi companies.</li> <li>- Fare information shall be specified to commuters upfront before commuters accept dispatched taxi. These include the flag-down fare, distance and time rates, the booking fee charged by the service provider, and where applicable, peak period and location surcharges.</li> <li>- Receipts, electronic or otherwise, that detail the different fare components, shall be provided to the passenger upon request.</li> </ul> <p>Licensed taxis and drivers</p> <ul style="list-style-type: none"> <li>- Dispatch only licensed taxis with drivers holding valid Taxi Driver's Vocational Licences, and maintain accurate records of its taxis and drivers.</li> <li>- If the Registered Provider has non-taxi booking options, it shall clearly differentiate these from the taxi booking option.</li> </ul> <p>Service requirement</p> <ul style="list-style-type: none"> <li>- Non-mandatory for commuters to specify their destinations before they can make bookings</li> </ul> | <p>the Road Traffic (Public Service Vehicles) (Vocational Licences and Conduct of Drivers, Conductors, Trishaw Riders and Passengers) Rules (R 8) to obtain or renew their vocational licences.</p> <p>Responsibilities:</p> <ul style="list-style-type: none"> <li>- Take reasonable steps to ensure that each affiliated driver either holds a vocational licence that authorises the driver to drive the bookable vehicle;</li> <li>- Provide information and reports about the operator, and its affiliated drivers, and the private hire car booking service it provides to the Singapore Government; and</li> <li>- Provide the Singapore Government an address in Singapore at which notices and other documents under the regulations may be served on the private hire car booking service operator.</li> </ul> |
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|  | <ul style="list-style-type: none"> <li>- Customer service <ul style="list-style-type: none"> <li>o Provide either a telephone number or electronic option such</li> </ul> </li> <li>o</li> <li>o Provide passengers the ability to indicate special needs (e.g. wheelchair or bulky luggage)</li> </ul> <p>Notification on change in service or charges</p>  |  |
|  | <p>General obligations</p> <ul style="list-style-type: none"> <li>- Furnish information specified by LTA for proper discharge of its functions. These include, but are not limited to: <ul style="list-style-type: none"> <li>o Details of taxis and drivers registered with the provider</li> <li>o Booking information</li> <li>o Number of registered end users</li> <li>o Investigate and report on all incidents affecting its booking service as required by LTA</li> </ul> </li> </ul> <p>Allow LTA or its appointed firm to conduct audits relating to the 3<sup>rd</sup> party taxi booking service</p> |  |

|         |  |  |
|---------|--|--|
| Vehicle | <ul style="list-style-type: none"> <li>- Passenger seating capacity: 4</li> <li>- Taximeter to be sealed</li> </ul>  | <ul style="list-style-type: none"> <li>- All private hire cars used to provide chauffeured services must display a pair of tamper-evident decals on the front and back windscreen of their vehicles</li> </ul>   |
| Driver  | <ul style="list-style-type: none"> <li>- Certified by doctor to be medically fit (VL medical examination report and Chest X-ray examination report)</li> <li>- Be able to speak and read basic English, GCE N or O level English (Grade D7 and above) or WSQ Conversational English (Competency level 3)</li> <li>- Like for applications for the Taxi Driver's Vocational Licence, LTA considers the nature of the offence when assessing the applications of ex-offenders for a PDVL</li> </ul> <p>Refresher course:</p> <ul style="list-style-type: none"> <li>- To renew their VL once every 3 years so as to revalidate their credentials as Vocational Licence holders</li> <li>- To attend a mandatory refresher course once every 6 years so as to revalidate and update the mandatory vocational skills they are licensed to perform according to the current TDVL and PDVL course</li> </ul> | <ul style="list-style-type: none"> <li>- Must pass LTA's required medical examination and background checks;</li> <li>- Must have a valid Class 3/3A/3C/3CA Singapore driving licence for at least a continuous period of two years at the point of application; and</li> <li>- Singapore Permanent Residents and Foreign Work Pass holders (with "Chauffeur" as a vocation) need to be employees driving for a company or business providing chauffeured services.</li> <li>- Singapore Permanent Resident applying for PDVL must submit a copy of your CPF Contribution Statement (2 Months' Contribution) and Employment Letter at the point of application.</li> </ul> |
|         | <ul style="list-style-type: none"> <li>- Must be at least 30 years old;</li> <li>- Must be a Singapore Citizen holding a pink NRIC;</li> <li>- Must have a valid Class 3/3A Singapore driving licence for a continuous period of at least one year at the point of application;</li> </ul> <p>Remarks:</p> <ul style="list-style-type: none"> <li>- Taxi drivers looking to enter the private-hire car sector may convert their Taxi Driver's Vocational Licence (TDVL) to a PDVL by attending a two-hour briefing on the regulations governing chauffeured services</li> </ul>  |  |

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|  | <p>Apply For Taxi Driver's Vocational Licence Course:</p> <ul style="list-style-type: none"> <li>- training course at the Singapore Taxi Academy which takes about 25 hours to complete (16 hours of classroom training and with at least 9 self-study hours) <ul style="list-style-type: none"> <li>o Module 1 (8 classroom hours and 5 self-study hours at least): Provide chauffeured car services using taxi and private hire car - Trainees will learn all the required knowledge, skills, attitude and habits of a professional chauffeur who is able to use a taxi or a private hire car to serve the evolving needs of the public commuters while complying with the rules and regulations set by LTA. Trainees will learn what they must know and do to make a living out of the chauffeured car services they are licensed to provide</li> <li>o Module 2 (8 classroom hours and 4 self-study hours at least): Route planning - Trainee will learn the required skill to bring the commuters from one place to any given destination. This defines the value of chauffeured car service. It is mandated that taxi driver must take the most direct route to complete the taxi journey with commuters onboard and will only be paid according to the taximeter at the end of the journey</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>- Work Pass Holder applying for PDVL must submit a copy of your Certificate of Conduct and Employment Letter at the point of application.</li> <li>- Taxi Driver's Vocational Licence Holder need not apply for PDVL (Private Hire Car Driver's Vocational Licence), if driving for Uber and Grab, approach the platform provider.</li> </ul> <p>Apply for Private Hire Car Driver's Vocational Licence Course:</p> <ul style="list-style-type: none"> <li>- training course at the Singapore Taxi Academy which takes about 10 hours to complete (8 hours of classroom training and with at least 2 self-study hours) <ul style="list-style-type: none"> <li>o Module 1 (8 classroom hours and 2 self-study hours at least): Provide chauffeured car services using private hire car - Trainees will learn all the required knowledge, skills, attitude and habits of a professional chauffeur who is able to use a private hire car to serve the evolving needs of the public commuters while complying with the rules and regulations set by LTA. Trainees will learn what they must know and do to make a living out of the chauffeured car services they are licensed to provide</li> </ul> </li> </ul> |
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Toronto (Canada) <sup>6</sup>

|          | Taxi   | Hire car (Private Transportation Companies)  |
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| Operator | <ul style="list-style-type: none"> <li>- A taxicab owner can only designate one taxicab operator to manage their taxicab. However, taxicab operators can manage more than one taxicab</li> <li>- Only rent vehicles on a shift basis</li> <li>- Must maintain records for 12 months</li> </ul> | <ul style="list-style-type: none"> <li>- A PTC must have CAD5M commercial general liability</li> <li>- Ensure that each PTC vehicle has Automobile Liability Insurance with a minimum of CAD2M coverage</li> <li>- Licensing fees includes application fee (one-time/non-refundable) of CAD20,000 and annual fee comprised of: CAD15/driver plus CAD0.30/trip</li> <li>- Other than setting a minimum rate of CAD3.25, the City is not regulating rates charged by PTCs. A PTC is permitted to set rates, including surge pricing, where the following conditions are met:               <ul style="list-style-type: none"> <li>o The passenger is clearly advised of the amount to be charged</li> <li>o The record is maintained that shows the passenger accepted the price PRIOR to starting the trip</li> <li>o A detailed receipt is provided containing all rates, fees, surcharges for the trip, total amount paid, date and time of the trip, pick-up and drop-off location, total distance, and driver name</li> </ul> </li> </ul> |

<sup>6</sup> Website of the Vehicle-for-Hire bylaw of Toronto. (2017). *Requirements to different personalised point-to-point car transport operators, vehicles and drivers*. [online] Available from: <https://www1.toronto.ca/wps/portal/contentonly?vgnextoid=67d78b38956c5510VgnVCM10000071d60f89RCRD> [Accessed October 2017].

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| <p>Vehicle</p>  | <p>All taxicab, limousine and PTC vehicles will be required to meet the City's standards for vehicle inspections and carry Automobile Liability Insurance with a minimum of CAD2 million coverage</p> <p>Vehicles can be up to 7 model years</p> <p>Vehicle Inspections Information:</p> <ul style="list-style-type: none"> <li>- If a vehicle is driven more than 40,000 km in the previous year, a Safety Standard Certificate<sup>7</sup> (SSC) must be submitted twice a year, once every six months</li> <li>- If a vehicle is driven less than 40,000 km in the previous year, a SSC must be submitted once a year</li> <li>- Valid SSCs cannot be more than 36 days old at time of submission to the Licence and Permit Issuing Office. A SSC may be submitted up to 30 days before the submission date</li> <li>- All Safety Standards Certifications (hard copy) are to be kept in vehicle and produced upon request.</li> </ul> |
| <ul style="list-style-type: none"> <li>- Taxicabs with a Standard licence can have any of the four types of vehicle: Accessible vehicle, Alternative fuel, Hybrid vehicle or Low emission vehicle</li> <li>- Equipped with cameras that take pictures inside the vehicle</li> <li>- Have emergency lights that can be discreetly activated to alert authorities of an emergency within the vehicle</li> <li>- Setting the fare protects consumers and prevents price surging</li> </ul> | <ul style="list-style-type: none"> <li>- Any four-door vehicle that carries a maximum of 7 passengers</li> <li>- Required to have either snow tires or all weather (not all-season) tires from December 1 to April 30</li> </ul>  |

<sup>7</sup> A Safety Standard Certificate (SSC) is issued following a mechanical inspection by a Motor Vehicle Inspection Station (MVIS) garage operator licensed by the Ontario Ministry of Transportation.

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| Driver | <ul style="list-style-type: none"> <li>- Fulfil the screening criteria of Vehicle-for-Hire by law (e.g. not been convicted of any sexual offence under the Criminal Code in the preceding ten years)</li> <li>- Must be 18 years of age or older to apply</li> <li>- Drivers are screened through police background checks before they become licensed and every four years after</li> <li>- Drivers are screened through driving abstracts yearly</li> <li>- As of July 15, 2016, taxicab licence was changed to a new Vehicle-for-Hire licence which allowed taxi drivers to drive either a taxicab or a limousine</li> </ul> | <ul style="list-style-type: none"> <li>- Drivers must work with a licensed PTC to become a licensed PTC driver even if they have a Vehicle-for-hire driver's licence, the City will not issue PTC driver's licences directly to individuals</li> <li>- Required to undergo a City-approved inspection</li> <li>- All trips must be pre-booked through the PTC (Cabstand pick-up and street hails are not permitted)</li> <li>- A PTC identifier must be placed in the rear window of the vehicle</li> </ul> |
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