

Ride-Sharing as the Ultimate Sustainable Alternative to a Traditional Economy



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PALLING

Nearly everyone has heard of the concept of a sharing economy and ride-sharing by now. From Uber to Didi Chuxing to Lyft there are hundreds of companies that have taken a shot at the new business opportunity. Countries are discussing legalizing this new field, just recently China made a milestone move as the world's largest online car-hailing mar-

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ket by legalizing ride-sharing services. However, this on-demand business model has proven to be transforming more than just the transportation field and its benefits go far beyond boosting brands goodwill through a more sustainable transportation method. So what is the small nation of Estonia doing to be considered a pioneer in this new business field? And who really benefits from ride-sharing?

CURRENT MARKET SITUATION

Many countries around the globe have taken a rather hostile stand against sharing economy services. France, Madrid, Jakarta, Brazil have all witnessed violent protests against Uber – one of Silicon Valley's most successful and dominant start-ups that challenges traditional industries and disrupts their business. Governments have pushed back heavily against Airbnb – only this year Berlin banned tourists from renting out apartments via the platform to protect affordable housing, while the current New York City law only allows a permanent resident to sublet their property for less than thirty days.

With a rather recent emergence as a credible economic field, sharing economy services are no stranger to controversies.

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Supporters claim ride-sharing services to be easy to use, good quality and safe, while opponents argue that government-backed compliance measures are in place for a reason and these illegal services undermine hardworking law-abiding taxi drivers. Concurrently with countries still

trying to make sense of this, Estonia decided to embrace the new model by taking progressive steps towards becoming the first country to even consider legalizing ride-sharing.



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The sharing economy revolution is really led by public demand. The rise of the app economy has happened incredibly quickly. Today, well over 60% of all Internet traffic now comes from mobile, and half of that is driven by apps. Estonians have proven to be open to new technology, with more than 70% of all phones sold in Estonia being smartphones. The impact of this smartphone-based sharing economy revolution is being felt in almost every industry around the world:

from communications and commerce, to banking, entertainment and transportation.

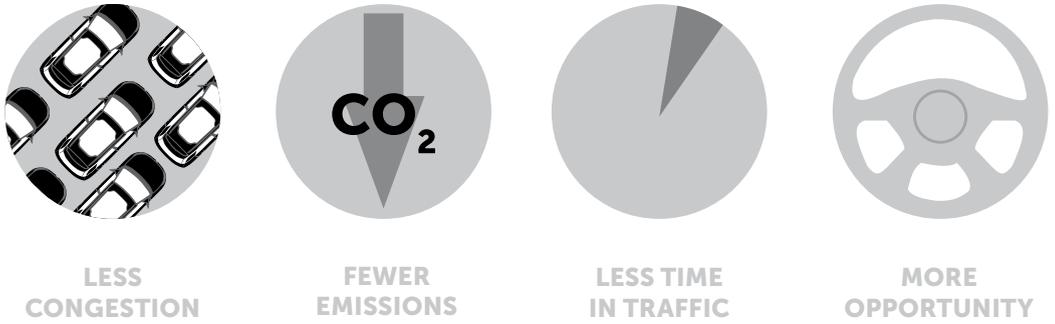
For commuters, ride-sharing offers a great addition to public transportation options. It is affordable, sustainable and a comfortable way to move around the city. People have become more aware of the importance of sustainable transportation models and how these benefit the society – less congested roads, fewer emissions and less time in traffic. A study conducted by Tallinn University on January 2016 found that third of people questioned were willing to share their car with a stranger – a surprising fact for Nordic people who are thought to be predominantly introverted. [See Figure 1.]

Due to the popularity of ride-sharing services in Tallinn, owning a car has become less of a “thing” here. The study by Tallinn University showed that 43% of respondents think that the spread of prearranged services can reduce the desire to buy a second family car. People have realized that a car is a costly thing to own and the same money could go towards their children’s college funds, for example. [See Figure 2.]

While ride-sharing services will probably not make car ownership obsolete, they will definitely help drivers make much better use of their existing cars by sharing their maintenance costs. According to Uber, a whopping 96% of cars are parked, unutilized, taking up valuable urban space at any given time. With the help of technology, a vast amount of data is available to introduce enormous efficiencies that match supply and demand and help drivers become more productive in earning extra money.

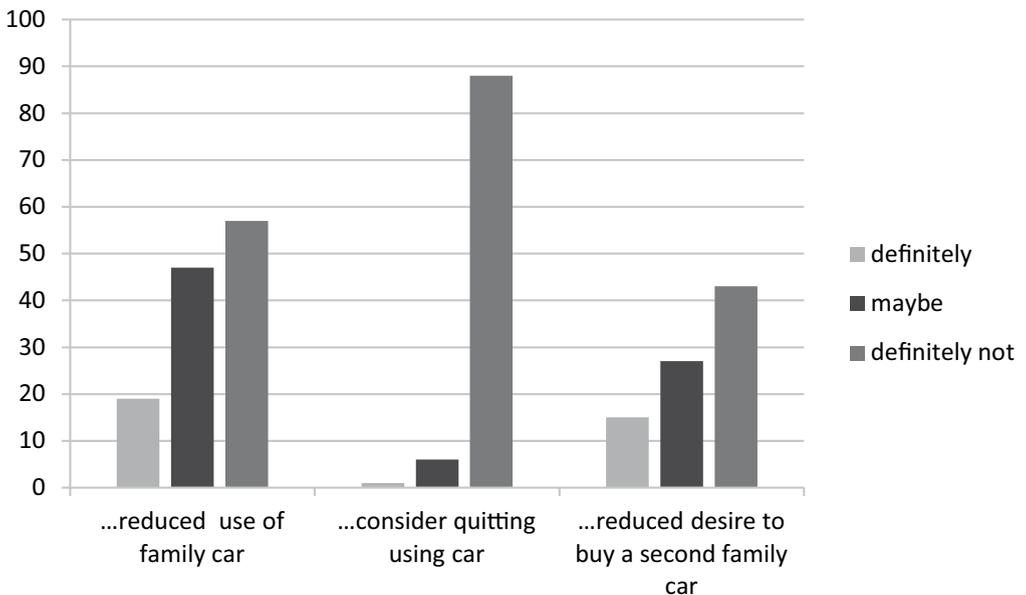
The Institute for Private Finances, an independent part of Swedbank, conducted a study which found that 39% of peo-

Figure 1. Fewer cars in Tallinn means...



Source: Courtesy of Uber

Figure 2. Expected consequences of a large scale usage of pre-arranged services to car ownership



Source: Courtesy of Tallinn University



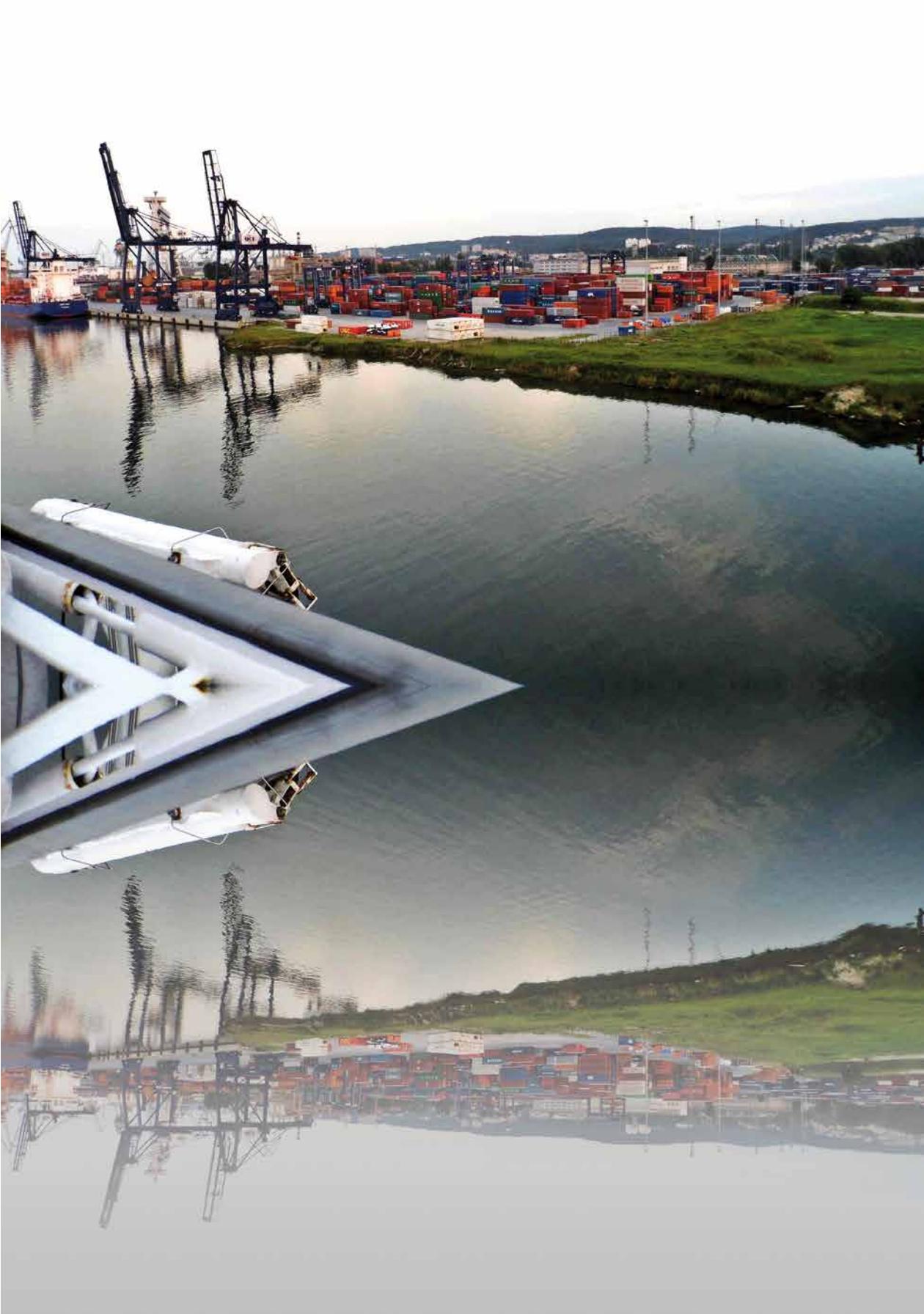
THE POPULATION OF ESTONIA IS ALSO EXPECTED TO INCREASE VASTLY OVER THE NEXT DECADE – NOT BECAUSE OF POSITIVE POPULATION GROWTH OR FLOOD OF IMMIGRANTS WANTING TO COME TO ESTONIA BUT DUE TO THE E-RESIDENCY PROGRAM

ple living in Estonia have earned additional income on top of their wage work over the course of last year. The head of the institute, Lee Maripuu, commented among other things that young people often operate as freelancers and are eager to try out a relatively new phenomenon – sharing economy services, such as Uber or Airbnb, which shows general support and necessity towards ride-sharing services.

ESTONIA'S E-REVOLUTION

Estonia, a country of 1.3 million people in the Northern part of Europe, is one of the most wired countries in the world. After regaining independence in 1991, the country has been on a path of an e-revolution with the government prioritizing to advance the development of a digital society. All residents have a secure digital identity – e-ID card and Mobile ID – to access online services and sign documents digitally. This can also be used for electronic voting in elections (30.5% of votes were cast electronically during the last parliamentary elections in 2015), for picking up e-prescriptions, e-banking, opening up businesses online and for accessing government databases to check one's medical records, driver's data, taxes etc.

The population of Estonia is also expected to increase vastly over the next decade – not because of positive population growth or flood of immigrants wanting to come to Estonia but due to the e-residency program. The program – launched on December 1, 2014 – allows non-Estonians to get access to Estonian services such as company formation, banking, payment processing, and taxation. While not involving becoming an Estonian or physically being in Estonia, the innovative idea lets people open and run businesses from wherever they are, along with its practical purpose to increase the number of companies in Estonia.





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This, of course, is just the beginning. E-residency is being improved as we speak and many new e-initiatives are on the government's 2020 agenda, including building an ultra-fast Internet network and getting 20% of the EU working-age population to use digital signatures by 2020, so our services can expand across borders. For the abovementioned reasons, the idea of Estonia being in the forefront of supporting ride-sharing regulations is not that surprising.

LEGISLATIVE MATTERS

In the spring of 2016, Estonia became the first country in Europe to consider regulating ride-sharing on a state level. A bill introduced by myself would amend the Public Transportation Act to regulate ridesharing. Technology allows us to make use of existing resources in smart, flexible ways. Regulations should be just as smart and flexible—focused on outcomes, like safety or consumer protection, rather than the means by which those outcomes are achieved.

The draft legislation would require all electronic ridesharing platforms to meet certain standards on transparency and safety – for instance, by requiring transparency around how fares are calculated; providing riders with electronic receipts; and displaying a driver's photo and license plate number before the passenger enters a vehicle. At the same time, the legislation also lowers barriers for taxi drivers – for instance, by streamlining some duplicative requirements around training and certification. It also expands taxis' permitted service area, which is currently constricted to an unfoundedly limited territory. And by reinforcing the exclusive right of taxis to pick up passengers on the street by hailing, the legislation encourages fair competition.

When the Act is passed, the term 'pre-arranged services' will be introduced into the Estonian legal language. The sharing economy gives consumers more options, creates flexible opportunities to earn additional income, promotes people to engage in micro-enterprise, and all in all improves the tax receipts of the state sector.

SUMMARY OF THE "PUBLIC TRANSPORTATION ACT DRAFT"

1. The draft act defines ridesharing services as "pre-arranged services". This stands for the carriage of passengers that meets the requirements of the Public Transportation Act with an automobile that has up to nine seats, except occasional services and taxi services.

2. These requirements are defined explicitly in the draft act as the following:

2.1 Prearranged services may be provided only when the provider of prearranged services utilizes an electronic system for prearranged services that meets the requirements set out in section 2.3 of this Act.

2.2. The vehicle used for the provision of prearranged services may not have taxi features¹ or features imitating taxi features. The use of a vehicle that has taxi features or features imitating taxi features for the provision of prearranged services shall be regarded as the provision of taxi services.

2.3 The electronic system for prearranged services must:

1) enable ordering, accepting and monitoring of prearranged services. If the same system enables the ordering of taxi services,

es, the prearranged services and taxi services must be clearly distinguishable to the passenger;

2) display a picture of the driver conducting the prearranged service and the license plate number of the relevant vehicle utilized in providing the prearranged service before a passenger enters the vehicle used for the provision of the prearranged services;

3) enable disclosure of the fare calculation method for the prearranged services and allow the receipt of an estimated fare for prearranged rides before the passenger enters the vehicle used for the provision of the prearranged services;

4) enable the monitoring of the quality of the prearranged services;

5) enable the possibility of making electronic payments between the provider of the prearranged service and passengers;

6) enable the transmitting of a receipt or invoice to the passenger or the client within a reasonable period of time following the completion of a prearranged service. The receipt or invoice shall detail, among others, the name of the provider of the prearranged service, the origin and destination of the trip, the total time and distance of the trip and the total fare paid.

6.1 the receipt or invoice may be transmitted in a format that is at least reproducible in writing.

3. Requirements of the operator of the electronic system for prearranged services:

1) monitor the quality of the prearranged services;

2) implement a system for resolving any complaints made by passengers in relation to a prearranged service;

¹ Taxi features include: taxi roof sign, taximeter and tariff list.

3) retain individual records of a driver conducting a prearranged service and individual trip records of passengers for at least one year from the date each relevant prearranged service was completed;

4) disclose the requirements applied to the providers of the prearranged services, drivers conducting the prearranged services and the vehicles used for provision of prearranged services on its webpage;

5) implement adequate policies and other appropriate mechanisms to ensure the safety, reliability, accessibility and cost-effectiveness of prearranged services.

6) The operator of the electronic system for prearranged services shall not be liable for the performance or obligations arising out of a contract for carriage of the prearranged service, unless the operator of the electronic system for prearranged services is the provider of the prearranged service according to the contract of carriage.

7) The Tax and Customs Board will be given access to the pre-arranged service providers' and electronic system operators' data if there is a tax investigation based on the tax arrangement law. Also, the operators will have to ensure that the data is true and correct.

3.1 Standards for the pre-arranged services operator (requirements to the partner-drivers:)

The operator has to have a good reputation. A reputation is deemed good if the person has not been convicted of a criminal act or has not been convicted of a drunken driving charge or criminal act. The reputation will be deemed good also if the pre-arranged service operator

or owner of the service card² has been convicted of these legal infractions but if after a due process, it is found that loss of a good reputation would be disproportionate given the specific details of the case.

4. The rest of the draft act addresses requirements to the taxi industry, negotiated into it to facilitate coalition support for draft act:

1) The taxi drivers will no longer be expected to pass a "taxi driver training course" as a legal requirement³.

2) Self-employed taxi drivers will no longer need to have a taxi license.

3) The taxi drivers/companies will no longer be required by law to service clients only within the confounds of the service area, where the license to operate has been given. Oversight and enforcement on this has been nil in Tallinn anyway.

4) The taxi drivers will no longer be expected to pass a "taxi driver training course" as a legal requirement⁴. This will also save drivers some money as the courses are paid courses for which they have to pay out of pocket.

² This applies to taxi drivers.

³ This was picked up from the legislators' discussions with us on how Taxify and Uber do their onboarding processes and as they understood that, in fact, the requirements that the pre-arranged service companies have internally are higher because of market forces and not because of regulatory requirements, then they asked us to draft the same solution for the taxi industry.

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5) They will also no longer have to have a certificate of having passed that course, which will also save them some money, as this is also currently paid for out of pocket.

The rest of the requirements (insurance, car technical requirements) that technically also regard Partner Drivers would come from existing acts that are applied to all car owners and drivers.

TIMELINE OF LEGALIZATION

On April 12, 2016, the Economic Affairs Committee of the Riigikogu (Parliament of Estonia) decided by consensus to send the bill regulating ridesharing services to the first reading at the plenary sitting of the Riigikogu on April 19. The members of the Committee supported the legalization of on-demand ridesharing, but as it is the first bill in the area of a sharing economy, it was decided

to continue discussing the principles of the bill and to be open to proposals for amendments.

The Committee reached the position that the law should make a distinction between *professional taxi drivers* and the *drivers providing ridesharing services*, and differentiate their rights and obligations. The possibility of establishing a simpler form of economic activity for ridesharers, e.g. a micro-undertaking, or amending the regulation on self-employed persons in the Commercial Code was also considered. The Bill amending the Public Transport Act, which would allow the provision of on-demand ride sourcing services and the simplification of certain requirements for taxi service, passed the first reading in the Riigikogu on April 19.

The aim of the Bill is to ensure security and reliability of on-demand ride sourcing services. For that, the Bill provides for the establishment of the relevant minimum requirements for providers of on-demand ride sourcing services and for an electronic on-demand ride sourcing system. Also, in the drafting of the Bill, the fact that on-demand ride sourcing should take place as far as possible without interference from the state, and according to market conditions has been taken into account. In the opinion of the initiators of the Bill, the current Public Transport Act is not in conformity with the new digital services that facilitate urban mobility.

Moreover, the Bill will also simplify the requirements for taxi drivers, and delegate responsibility and supervision more to the manager of taxi service. The planned legislative amendments should open a taxi service market to competition that is less weighed down by re-

quirements which have proven extremely problematic to be met and supervised also in practice.

Applications that use mobile communications technology, geo-positioning, and non-cash payments are technologies that are already actively used in the carriage of passengers also in Estonia. At present, Uber and Taxify are the largest operators of the electronic on-demand ride sourcing system in Estonia. In the explanatory memorandum the initiators of the Bill note that, owing to the popularity and wide availability of the



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technological solutions used, it is necessary to update this area of public transport and to ease the current regulation which prohibits the provision of on-demand ride sourcing services. The deadline for motions to amend the Bill was May 10.

The Economic Affairs Committee had a constructive discussion with interest groups on the issues related to the le-

galization of on-demand ride sourcing on May 16. Chairman of the Committee Toomas Kivimägi said that the positions of the interest groups had become closer, but there were still differences of opinion.

As of August 2016, The Bill is waiting to go for a second reading in the autumn session in the Parliament.

HIGH LEVEL SUPPORT

Support for the Bill, however, comes not just from tech savvy Parliament members but also from high level representatives of Estonia.

Vice President for the Digital Single Market on the European Commission, Andrus Ansip, stated at Tallinn's conference on the sharing economy that the sharing economy is here to stay and we should get used to it (February 2016):

"It's not some sort of fast trend. Our legislators must adapt to it. Our entrepreneurs should look at it's vast potential, and think of it on a global scale not merely be oriented on the community".

Minister of Economic Affairs and Infrastructure, Kristen Michal, stated during EU's Competition Authority Council in Amsterdam (January 2016):

"The sharing economy should be given a chance". [...] "The state should not prohibit comfortable services by new business models. Quite the opposite, we're trying to balance traditional services and guarantee that consumers have alternatives and people have a flexible way to participate in entrepreneurship. We must deal with regulations that foster sharing-economy services today since people's preferences and habits change and great economic potential lies there".



The President of Estonia, Toomas Hendrik Ilves, talked about the risks of falling behind in digital development at a plenary session in Strasbourg, France (January 2016):

“Everyone’s complaining about how you get taxes from them [Uber]. In Estonia, Uber has a deal with the tax board and taxes will be forwarded in real time, so there’s no problem. Our people go to Western-Europe and see how primitive things are. Sorry, but this is so. Maybe this could be a motivating factor for others”.

The fact is, you cannot stop progress. Technology should be perceived as a tool, not a problem. By putting the collaborative economy to work for us, it starts operating toward communal benefit.

TAXING SOLUTIONS

One of the top reasons why countries have been discouraged by ride-sharing services is related to the taxing issues. In an attempt



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to modernize laws to fit our everyday lives, Estonian lawmakers have also thought about applying tax policies.

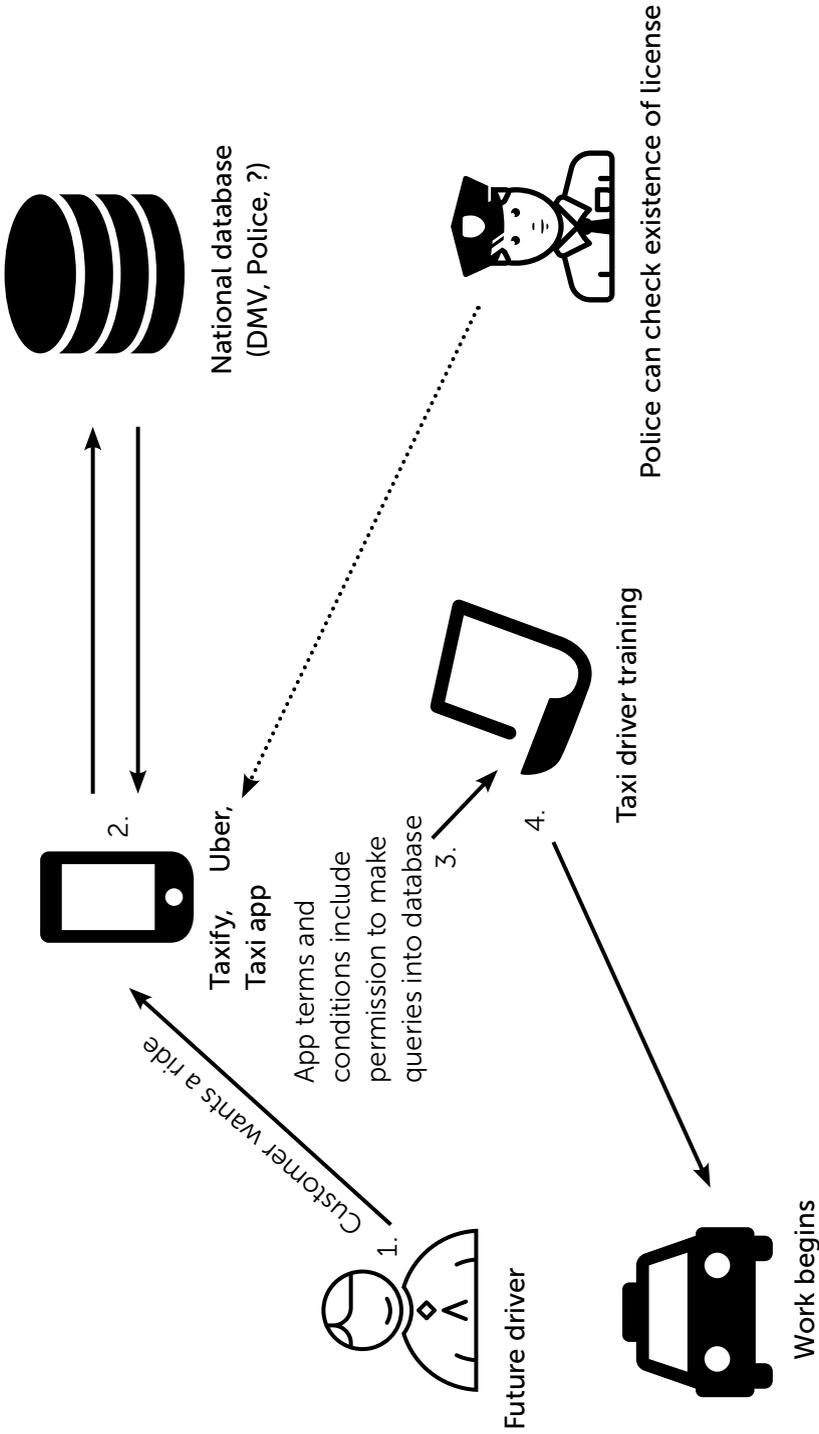
In October 2015, the Estonian Tax and Customs Board and Uber announced the formation of a joint committee to analyze the potential synergy of Uber’s global cashless service experience and EMTA’s innovative plans on how to achieve new tax compliance standards in the transport sector. The working group will analyze potential new measures to implement new and efficient taxing tools applicable in the context of the growing size of sharing economy services across Europe.

As a first step, Uber and EMTA will start working jointly on a pilot project: a new tax declaration platform that aims to simplify the process of declaring taxes by Uber driver partners. The first round of results is expected by the end of 2016. The Uber and EMTA tax conversation is a part of a wider proactive engagement by both sides that will be designed to further the Estonian government’s e-Estonia agenda and Uber’s innovative digital platform, and address the regulatory challenges of the digital age.

TAX AND CUSTOMS BOARD’S VISION OF THE FUTURE TECHNICAL SOLUTION

1. Potential driver-partners would be first identified through the app (mobile ID).
2. App terms and conditions include permission to make database queries about the driver and the car (driving license validity, car’s technical compliance, driver’s background check).
3. If conditions are met, the app owner (Uber, Taxify) guarantees appropriate training and that the driver will meet conditions

Figure 3. Model developed by Estonian Tax and Customs Board



Source: Estonian Tax and Customs Board



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of service (e.g. price is always visible in the app at the time of hailing the ride via the app and during the ride).

4. When the training is completed, the driver can start working, and the database will automatically register the “license to drive passengers”.

5. Surveillance institutions (the police as well as private citizens) can check license through public query into databases, offered by app owners.

6. As an opportunity, the state will offer a joint platform which is fed by all the apps, so that checking the license is more customer-friendly and that the taxi driver only has to apply once⁵. [See Figure 3. and 4.]

The approach Estonia has taken is based on principles of the free market and celebrates new technology, which is breaking down old barriers by making safe and affordable personal transportation available for more people. Technology allows us to reduce state regulations, because the dialogue between the service provider and end-client is direct. And while personal transportation is changing into an affordable option, more and more people in our growing cities are considering dropping the idea of owning a personal car.

CONCLUSIONS

Entrepreneurship is the engine of economy and by now, many other countries have understood the importance of this sector and are having discussions on legalizing the service. The European Commission recently introduced its guidelines to member states on how to regulate new business models like Uber or Airbnb. It stated that banning these new business models

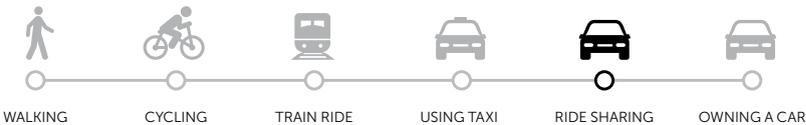
⁵ For example, when you have already gone through the training at Uber, you will not have to repeat the same training using the other apps.

Figure 4. Why sharing economy matters for Estonia and who really benefits from it?

RIDESHARING IS AN ATTRACTIVE ALTERNATIVE

RIDESHARING AS A TRANSPORTATION SOLUTION

Ridesharing provides a great alternative to the standard public transportation options. It allows for cars to be used more efficiently and reduces the need for car ownership.



RIDESHARING INCREASES CAR OCCUPANCY



Ridesharing offers faster travel time and is a great addition to the standard public transportation options

Source: Courtesy of Uber

should be the last resort and countries should work towards creating a regulatory environment for them.

Estonia became a pioneer by being the first EU country to consider legalizing ride-sharing and is taking enormous steps on a government level to getting things done as smoothly as possible.

The benefits of legalizing ride-sharing affect all participants. For commuters, ride-sharing offers a great addition to public transportation options. It is an affordable, sustainable and comfortable way to move around the city. It also helps drivers make much better use of their existing cars whereas the state benefits from earning taxes from all sharing economy services.

The best part is that as far as sharing economy is concerned, there is still room for growth. The PricewaterhouseCoopers report predicts that the five key sharing sectors (travel, car sharing, finance, staffing, and music and video streaming) have the potential to increase global revenues from roughly USD 15 billion today to around USD 335 billion by 2025. In a corporate driven world where few benefit from the actions of many, the arrival of a collaboration economy should definitely be welcomed by all. •



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Member of the Parliament of Estonia, Chairman of the Parliament's European Union Affairs Committee, Member of Reform Party