

Regulatory Impact Statement: Future Framework for Small Passenger Services

Agency Disclosure Statement

1. The Ministry of Transport has prepared the Regulatory Impact Statement. It provides an analysis of options to improve consumer benefits and to maintain driver and passenger safety in small passenger services.
2. The analysis responds to an emerging situation where technology is significantly re-shaping the interactions between drivers and passengers in small passenger services. It establishes a set of objectives, which establish a preferred 'future state'. It then analyses a number of options against these objectives.
3. An initial discussion of the competition effects of the proposed options on the market have been provided. Four main effects are considered around whether the proposed option (1) limits the number or range of suppliers; (2) limits the ability of suppliers to compete; (3) reduces the incentive of suppliers to compete; (4) limits the choices and information available to customers.
4. There are likely to be market impacts on some of the incumbent operators in small passenger services, particularly taxis. There would be no requirement for taxis to maintain a 24/7 operation, dedicated dispatch centres, and no need for operators to have a passenger service licence under the preferred option. There should therefore be more operators entering the small passenger service sector. There would be increased competition from other non-taxi small passenger services, as they would have a stronger ability to compete due to increased flexibility with regard to working hours and the means to connect with consumers.
5. For private hire services, the ability to compete is strengthened due to increased choices of setting fares and connecting to customers. This sector will face more competition from more operators entering into the market due to fewer entry constraints as there would be no need for a passenger service licence.
6. Ridesharing services appear different from traditional forms of passenger services. However, essentially they are part of private hire services. This sector will become more competitive under the preferred option as the overall operating costs will be lower. Risks can be managed as there would be an approved transport operator, and rideshare drivers would be managed in the same way as drivers of private hire services.
7. Maintaining safety for drivers and passengers is a key principle in small passenger services. Currently, only taxis are required to have in-car cameras and 24/7 monitored panic alarms. With the proposed move to a single class of operator, it is not practical to extend this requirement to all passenger service vehicles. Instead, the future framework will require that either an in-car camera is used or an exemption held. Drivers will also

continue to have the right to refuse to carry a passenger where there are concerns about safety.

8. Overall, under the preferred option, a single class where all services operate under the same rules, provides free and fair competition and gives providers incentives to respond to supply and demand. The rules would impose a lower level of cost on the sector, while ensuring a sufficient level of safety and consumer protection. Fares would be transparent to consumers, and more choices would be available due to a more open market. The rules would offer greater flexibility for operators to choose how they meet them, and allow the operators to choose the best technologies or mechanisms to manage the risks and optimise their services.
9. Furthermore, under the preferred option, operators/drivers would be provided strong incentives to innovate or be early adopters of new technology. Reduced costs would enable better service (e.g., reduced waiting time) or lower fares for consumers. As a result, more choices would be available to consumers.
10. The analysis attempts to identify the qualitative costs and benefits of the preferred option. Based on the indicative cost-benefit analysis and the competition analysis, it appears that the wider welfare benefits, particularly to consumers and other operators, are likely to significantly outweigh any costs.
11. There is likely to be an impact on the disability sector, as the requirement to have Braille signage in taxis will not continue under the proposed option. Officials will discuss this with the disability sector and work through these issues. It may be that development of technology can replace the information conveyed through Braille signage, or localised solutions provided for through contract requirements within the existing total mobility scheme.
12. The Ministry of Transport has discussed the scope of likely changes with the sector and government departments¹. A consultation paper was released for public consultation on 14 December 2015 with five proposed options included. There are additional opportunities for public input at the select committee stage of the proposed legislative change, and during the rule-making process.

Ministry of Transport – 15 March 2016

¹ The following departments were consulted: Commerce Commission, Department of Internal Affairs, Local Government New Zealand, Ministry of Education, Ministry of Business, Innovation and Employment, Ministry of Justice, New Zealand Police, the New Zealand Transport Agency, Office for Disability Issues, Office of the Privacy Commissioner, Treasury, and WorkSafe New Zealand.

Introduction

13. Section 2 of the Land Transport Act 1998 currently defines a small passenger service vehicle as any passenger service vehicle that is designed or adapted to carry 12 or fewer persons, including the driver.
14. The small passenger service sector has traditionally been made up of:
 - taxis, which can take passengers from pre-bookings or from a taxi rank or street hail
 - private hire vehicles, which can only take passengers through pre-bookings
 - carpooling, where payment to the driver can only be for vehicle operating costs (not the driver's time) – provided these conditions are met, carpooling lies outside the regulated small passenger service sector.
15. Some key trends are changing demands on the transport system. These include a growing and ageing population, uncertainty around future demand for personal travel, and the impact of technology on daily life.
16. Technology is bringing together the operation of different classes of small passenger services. For example, private hire vehicles are using technology (apps) to take a booking and turn up immediately (just like a taxi). Internationally, ridesharing services (an extension of carpooling where a third party smart phone app or website connects drivers with passengers that are travelling to similar destinations) are increasing.
17. A policy review has been undertaken and a Cabinet paper developed which contains proposals for regulatory change in the small passenger services sector. The review has considered whether the current regulations are 'fit for purpose' both in the present and for the future.
18. The review proposes a package of regulatory amendments which will remove much of the prescriptive regulation in the sector. The package provides a framework that will enable the sector to make the most of opportunities to innovate and deliver services that are of maximum benefit to consumers. This Regulatory Impact Statement supports the proposals in the Cabinet paper.

Status Quo – current situation

The evolution of the New Zealand regulatory environment for small passenger services (SPS)

19. The SPS sector and its supporting regulatory framework have undergone significant change over a long period. Prior to World War Two, concern existed about the financial viability of many taxi operators. The policy response was to place restrictions on the number of taxis allowed to compete in the market place, and fares were set and controlled by central Government, this was in order to ensure a minimum income level for taxi operators and their drivers.
20. Regulation was used to limit the number of licence holders and vehicles allowed to compete in the market place. There were two licence types during his period - continuous taxi cab service licences (CTSL) and a general passenger service licence. A CTSL generally could only be purchased from an existing holder and each CTSL had a stipulated number of cab authorities with it, each taxicab needed to display a cab authority. A CTSL could be obtained where the applicant was able to satisfy the licensing authority as to their financial viability. Economic regulation was the main justification but safety was also a factor, particularly the safety of any vehicles being used in the service. Any risk to passengers were addressed through the driver licensing system where drivers had to have special taxicab licences which included police checks. However, the checks were not annual and it was rare for a driver's licence to be revoked or suspended as the system did not readily allow for this. However, the current regulatory environment is prescriptive in terms of both economic and safety regulation.
21. The significant changes in the regulatory environment in the last 25 years include the following.
 - The Transport Services Licensing Act 1989 introduced significant changes to the sector, including the removal of the CTSL and cab authorities controls over the number of operators and vehicles allowed and their fares. Regulators also had more powers to suspend or revoke an operator's or driver's licences. These could be suspended or revoked for serious safety breaches or behavioural issues, or to protect the public from organised crime. The Land Transport Amendment Act 2005 Land Transport Amendment Act 2006 removed the treatment of all SPS vehicles as a taxi and categorised SPS as taxi services, shuttle services, private hire services, dial-a-driver services or other services.² In addition, it also prohibited drivers with certain specified convictions (serious violence or sexual matters) from applying for or holding a P endorsement.
 - In 2010, Land Transport Rule: Operator Licensing Rule 2007 was amended to provide greater levels of taxi driver safety (following the death of two taxi drivers), by mandating in-vehicle cameras and panic alarms externally monitored 24/7. In-vehicle recording cameras have had some flow-on benefits for passenger safety.

² Under the 1989 system, all small passenger services vehicles were considered to be taxis unless specifically exempted.

Transport Services Licensing Act 1989

22. The coming into force, in 1989, of the Transport Services Licensing Act signalled the most significant change in SPS regulation. The Act removed any quantitative restrictions on the number of taxis and allowed innovation and expansion in the number of non-taxis offering SPS. There was a sudden increase in the number of taxis plying for hire and the appearance of new forms of SPS – particularly in airport shuttles, point-to-point transfer services, and tours.
23. The policy behind the 1989 changes was to retain a viable taxi sector, particularly in providing services 24 hours per day, 7 days a week (24/7) in main centres, while allowing innovation and increased competition from and among new types of SPS. This was achieved through requiring all SPS to operate as taxis, unless they were operating under a special exemption issued by the Ministry of Transport (which had regulatory functions then).
24. An exemption would be given to a passenger service licensee, but only for a specific vehicle. The Ministry used the exemption process to develop special rules for the main types of non-taxi services that were established after the 1989 changes – airport or point-to-point transfer shuttles, private hires (tours, wedding cars and limousines) and special one-off types. The main point of difference was that any exempt service had to be pre-booked. This retained casual hires (from a street or from a rank) as taxi work.
25. There were no limits on the number of exemptions that could be granted, nor on the number of exemptions any passenger service licensee could have.

Land Transport Amendment Act 2005

26. As a result of the 2005 amendments, in 2007, the exemption process and the rules around the various types of SPS were codified into the Land Transport Rule: Operator Licensing 2007. This removed the administrative and compliance costs associated with applying for a vehicle-specific exemption. Passenger service licensees were then responsible for ensuring their vehicles complied with the conditions associated with the SPS types they operated as.
27. As a result of these changes (and the relaxation of vehicle import requirements increasing the availability of cheaper, second-hand, good-quality vehicles) the number of taxis and exempt SPS vehicles rapidly increased in the late 1980s, from around 3,000 vehicles (of which around 2,600 were taxis), before the rate of growth slackened off. Currently there are around 9,000 SPS vehicles (of which around 6,500 are taxis).
28. The main regulatory categories in the current SPS sector are as follows. Each category, except carpooling, requires the operator to hold a passenger service licence, each driver to have a passenger endorsement and identification card and comply with work time requirements, and each vehicle to have a Certificate of Fitness (CoF). Additional mandated requirements are highlighted for each category:

Taxi

- Taxi operator must belong to a taxi company (approved taxi organisation) approved by the New Zealand Transport Agency (NZTA), operating 24/7, and with a call centre (unless exempted by the relevant Regional Council)

- Can take pre-bookings, or collect a passenger from a taxi rank or a 'hail' street hire
- Must be fitted with a taxi top sign, and use approved signage (including fare schedules) – livery is unique between companies
- Fares must be registered with the NZTA and charged by a meter or at an agreed price
Cars must have in-vehicle recording cameras and 24/7 monitored panic alarms

Private hire

- can only take pre-bookings (could be immediate, or weeks in advance)
- fares must be for an agreed price (no taxi meter allowed)
- can not display a top sign (other than a shuttle sign on a shuttle service)

Carpooling (exempt service)

- payment to driver can only be for vehicle operating costs (not driver's time)
- carpooling is, by definition, exempt from the SPS regulatory system
- drivers only need a current class 1 licence
- vehicles only need a current Warrant of Fitness.

New business models for providing passenger services

29. New business models for providing SPS are being developed, drawing on different technologies, such as smartphone apps.
30. Uber is one example of a new business model operating in New Zealand. It operates legally in New Zealand at present as a private hire operation. Its partner-drivers hold passenger service licences and P endorsements. Their vehicles hold current Certificates of Fitness. Uber partner-drivers' compliance with private hire requirements has been questioned as to whether it was a pre-booked service, or its app was too much like a taxi meter.

The following diagrams provide an overview of the current regulatory arrangements for SPS:

Figure 1: Overview of regulatory arrangements for a taxi service

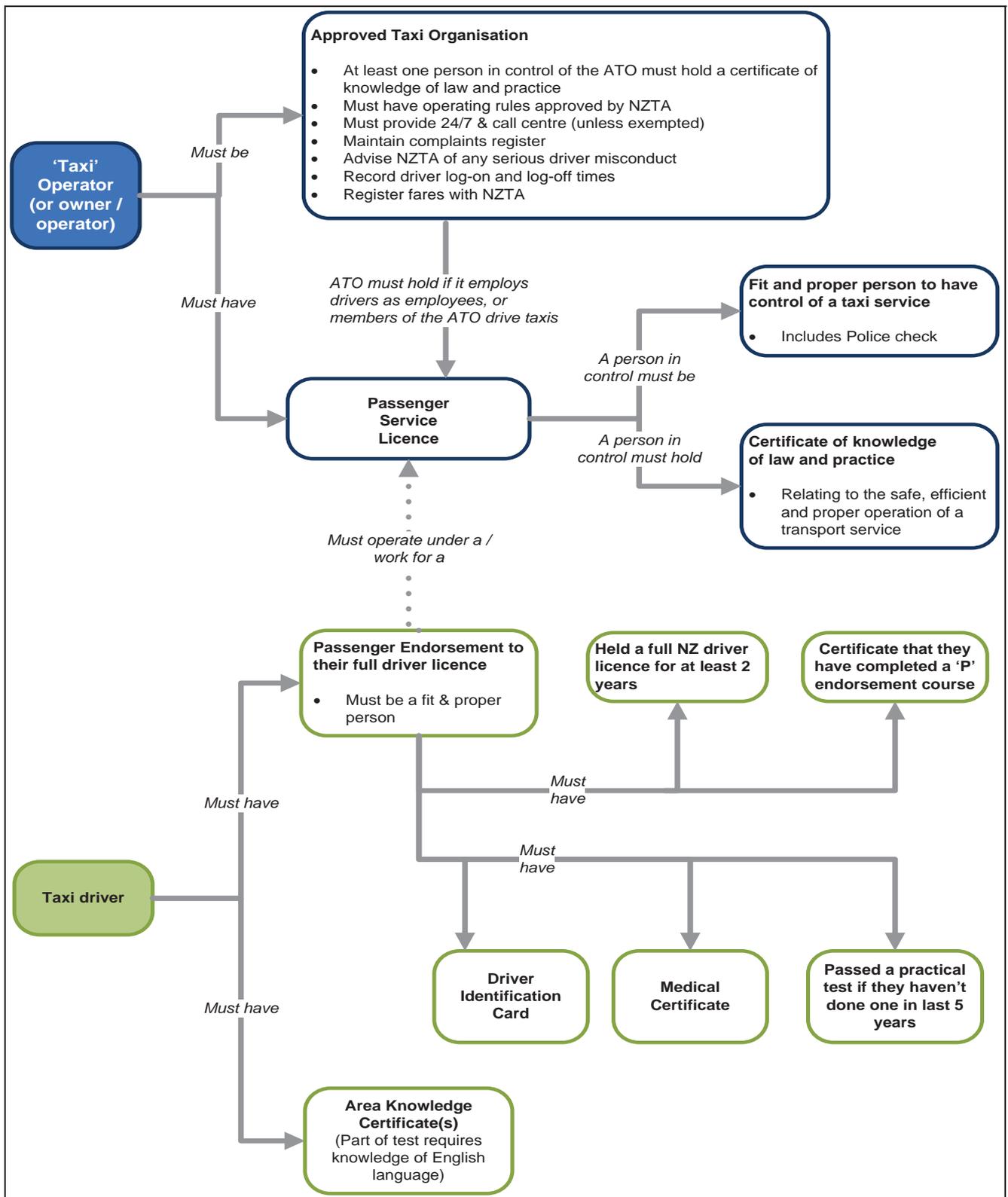
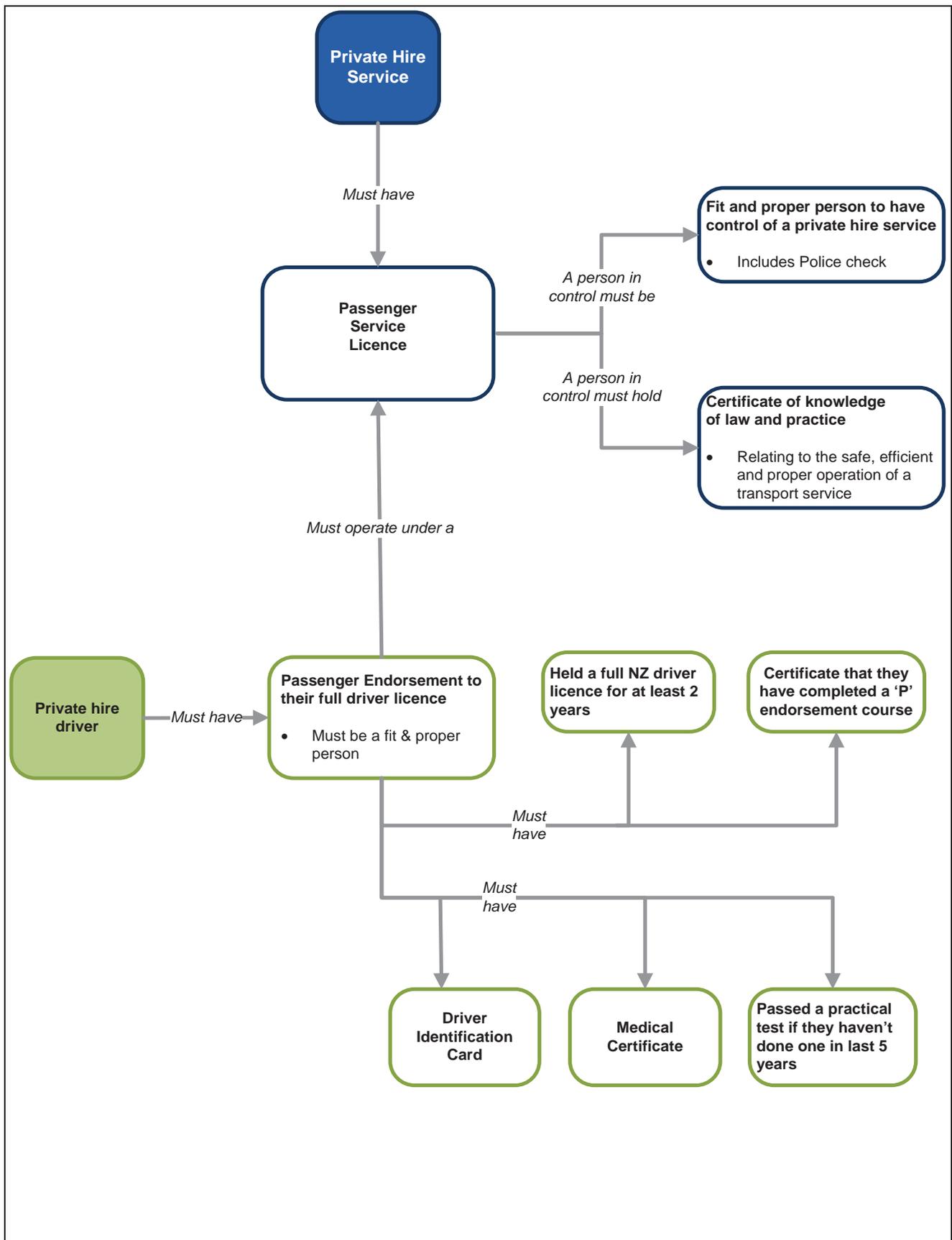


Figure 2: Overview of regulatory arrangements for a private hire service



Problem definition

31. The circumstances in which services were provided by the sector when the regulatory framework was first established in the late 1980s were very different from today. Technology, the range of services offered, and consumer expectations have changed greatly since then.
32. There are two main strands to the problem with the existing regulations.
33. First, they impose significant levels of compliance costs and restrictions on all operators for limited benefits.
34. The existing regulations establish clear distinctions between the types of services that operate within the sector (taxi, private hire, shuttles, dial-a-driver and carpooling). These regulatory distinctions apply varying levels of compliance burden and restrictions across the types of operator.
35. Taxi operators are required to ensure they develop and run their services according to an approved set of operating rules, provide 24/7 coverage, maintain approved in-vehicle cameras and panic alarms, register fares with the NZTA, use meters to charge passengers, and comply with mandatory signage requirement. Compliance with these requirements permits taxi services to operate on a taxi rank and to accept passengers that hail taxis from the street, as well as taking pre-bookings.
36. In comparison, the wider private hire (non-taxi sector) operators commonly provide specialist wedding vehicles, tours, or limousine services. These services are restricted to only taking customers that have pre-booked and on an agreed fare basis, and are prohibited from using a meter.
37. There is little evidence that these requirements contribute to the efficient operation of SPS. Much of the existing regulation is outdated and imposes costs on the services that can no longer be justified. For example, in-vehicle cameras are not the only or the most cost effective means to obtain a visual record from consumers.
38. The second strand of the problem is that the current regulations stifle the development of innovative approaches to services. Technology is enabling innovative business models (that operate broadly within private hire rules) to take pre-bookings for immediate hire through the use of smart phone apps. Technology is allowing these services to compete with taxis for passengers but with lower compliance costs.
39. Internationally, ridesharing services (an extension of carpooling but where a third party smart phone app or website connects drivers with passengers that are travelling to similar destinations) are increasing. The opportunity for ridesharing in New Zealand could provide significant benefits, such as improved customer service, reduced congestion, increased transport choices, and reduced emissions.
40. Amending the Regulations, to achieve a simpler and more market-based approach, does not remove the need for Government regulatory involvement. The Government's role should be to provide a regulatory framework that facilitates safe operations.

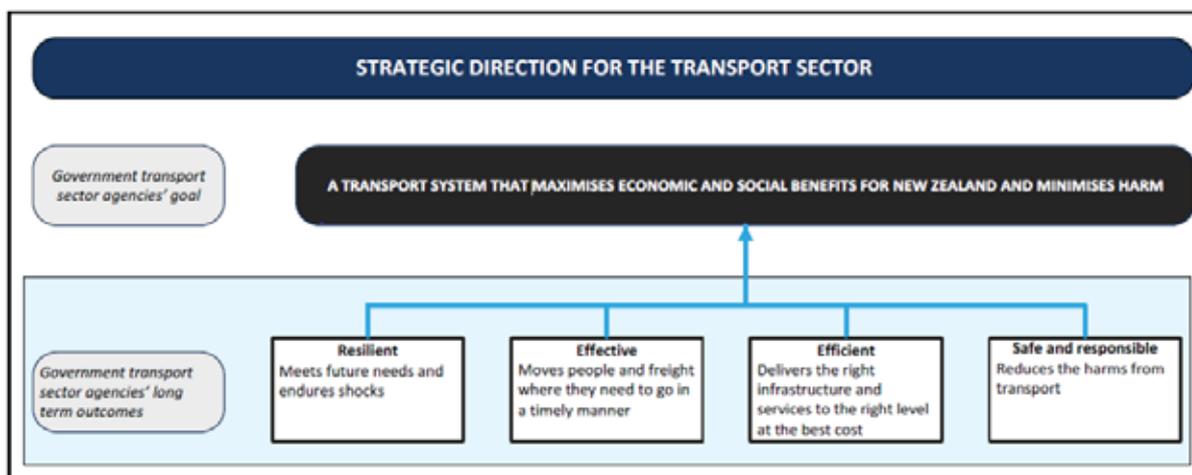
Objectives: A set of future state for the small passenger services sector

41. The proposed SPS regulatory reform seeks to ensure that New Zealand's regulatory environment for SPS is fit for purpose, and flexible enough to accommodate new technologies and changing circumstances.
42. The wider context of the proposals is that the Government has a clear focus on the removal of regulations that impose unnecessary costs on business or individuals, and it looks to its departments to take a similar approach when developing new regulations. Therefore, in recommending our preferred regulatory reform approach, we have sought to identify the option that will sufficiently achieve the desired outcome, without imposing unnecessary regulatory burden or government intervention.

Strategic framework

43. The review process has considered whether the current regulatory framework is effective for the operation of the SPS system, and what outcomes the regulatory framework should incentivise in the future. We have applied the Government transport sector strategic framework as a basis for developing the future state for the SPS system, as well as competition analysis about how the different policy options could impact the structure and openness of the SPS market.

Figure 4: Transport sector strategic framework³



44. The future state objectives set out on the following page have been used as criteria to assess the key issues and the review's regulatory reform options.
45. Further, a competition checklist in accordance with OECD competition guidelines⁴ has been used to conduct an initial competition assessment. The following four effects would be considered to assist with a good understanding of the impacts on the taxi sector and the private hiring sector:

(A) Whether the proposed option limits the number or range of suppliers

³ Ministry of Transport Statement of Intent

⁴ OECD, Competition assessment toolkit: Volume II guidance.

- (B) Whether the proposed option limits the ability of suppliers to compete
- (C) Whether the proposed option reduces the incentive of suppliers to compete
- (D) Whether the proposed option limits the choices and information available to customers.

The desired future state

46. The future state objectives has been designed with the following elements:

An efficient system

- The system is **responsive to supply and demand** – passenger service providers operate in a competitive market(s) that is responsive to both supply and demand signals (meeting customer needs).
- The system imposes the **lowest level of compliance burden to achieve the regulatory objective** – the compliance burden on operators should be as low as possible, while ensuring there are appropriate requirements in place to meet any specified objectives.
- There is **transparency over fees and charges** – passengers should have access to meaningful information about what the costs of the services are, enabling them to make informed choices.

An effective system

- The system provides **effective choice for people to move where they need to go in a timely manner** – the system should provide passengers with a range of service offerings (quality and price) to meet their expectations.

A resilient system

- The system incentivises the provision of improved customer service – the regulatory framework should act to incentivise innovation and improve customer service over time.

A safe and responsible system

- The system **manages the safety risk for passengers, for drivers, and from vehicles** – reducing passenger, driver and vehicle safety risks is of fundamental concern to the SPS sector. Drivers and passengers need to have confidence that they can safely participate in the small passenger system.

Options and impact analysis

47. In determining the best approach for the regulation of SPS, a range of options were considered, as set out in the table below.

48. The options presented offer a range of alternative approaches for the regulatory system. They range from an incremental change to a significant reduction in the regulatory burden on the SPS sector. Each option has been considered in terms of the future state objective and the likely competition impact on the market. In considering the relative

benefit of each option, we have used the current situation as a benchmark, i.e. we ask whether an option will provide more or less of the future state objective that we want, and whether the policy change would contribute to a competitive market and to deliver maximum benefits to consumers, while managing the risks efficiently.

49. The options considered are listed in Table 1. The proposed options can be generally split into three groups: (1) retaining different classes of operators; (2) lower level of regulation and remove distinctions between types of operators to establish a single class; and (3) establish a single class of operator based on taxi standards.
50. Detailed analysis on how these proposed policy options would impact on the future state objective is provided in Table 2.
51. Under the group 1 options, weak competition can be expected compared with the current situation. New regulations for ridesharing, or restrictions on pre-booking, would be expected to reduce the operator's or driver's ability to compete.
52. Under the group 2 options, we would expect the barriers to entry for operators to be lower due to no requirement for a passenger service licence or mandated need to belong to an approved taxi organisation or provide services on a 24/7 basis, no requirement to obtain a certificate of knowledge of law and practice, and as well no requirement for an area knowledge certificate. Reduced compliance costs would also help to reduce fares or improve service quality as operating costs are expected to be lower.
53. We would expect lower prices and/or better service, and more choices would be available for consumers under this group.
54. Ridesharing services appear different from traditional forms of passenger services. However, essentially they can be deemed as part of private hiring services. Risks can be managed as there would be an approved operator or network provider, and drivers would be managed in the same way as drivers of private hire services.⁵
55. Under the group 3 options, all operators have to meet the current regulatory requirements for taxis. Overall there would be higher entry barriers to the SPS market. The compliance burden would increase significantly for the non-taxi service providers, and their ability to compete would be limited.
56. Under this option, consumers would still have limited information to estimate the cost of a ride.

⁵ Some issues may evolve while technology and the use of digital services develop. However, the whole small passenger services sector would face the same challenge, not just ridesharing services.

Table 1: Broad approaches and regulatory reform options

General approach	Regulatory reform options
<p>Retaining different classes of operator</p>	<p>Option 1 – Minimal change to the status quo,</p> <ul style="list-style-type: none"> • Retain status quo, with new regulation for ridesharing • The current regulatory framework separates the sector into segments that operate under different regulatory requirements. This option would introduce a new ridesharing definition clarifying that ridesharing is a licensed service.
	<p>Option 2 – Modified status quo</p> <ul style="list-style-type: none"> • Retain status quo, with new regulation for ridesharing • Clarify the distinction between taxi and private hire services by imposing a requirement that private hire services must be booked at least an hour prior to a trip.
<p>Lower level of regulation and remove distinctions between types of operators to establish a single class.</p>	<p>Option 3A – Reduced regulatory burden for a single class, with individual driver focus</p> <ul style="list-style-type: none"> • This option would remove the existing differentiation between the types of passenger services by establishing a single class of SPS. This single class of SPS (taxi, private hire, shuttle, ridesharing, carpooling, dial-a-driver, and transport network companies all operate under single regulatory framework) • Reduced compliance burden – This option would remove much of the existing detailed prescription that controls how passenger services may be operated, leaving a range of matters to be taken as business decisions by individual operators • Regulatory compliance focused at the individual driver level – An individual driver would have the key responsibility for meeting the regulatory requirements. Passengers could have confidence in the safety of passenger services through the retention of the fit and proper person test for drivers, driver work time limits and the requirement for vehicles to have a CoF every six months.
	<p>Option 3B – Reduced regulatory burden for single class of Approved Transport Operator</p> <ul style="list-style-type: none"> • This option would remove the existing differentiation between the types of passenger services by establishing a single class of SPS operated through a new entity - an

	<p>approved transport operator (ATO) - which would replace the current requirement for passenger service licences.</p> <ul style="list-style-type: none"> • Reduced compliance burden – This option would remove much of the existing detailed prescription that controls how passenger services may be operated, leaving a range of matters to be taken as business decisions by individual operators • Regulatory compliance focused at the ATO level – An ATO would, in addition to the need to comply with its regulatory obligations, would be incentivised by maintaining its own business reputation to manage the quality of its drivers and their vehicles.
<p>Establish a single class of operator based on taxi standards</p>	<p><i>Option 4 – Single class of Approved Transport Operator that meet taxi standards</i></p> <ul style="list-style-type: none"> • This option would remove the existing differentiation between the types of passenger services by establishing a single class of SPS. Taxi, private hire, shuttle, ridesharing, dial-a-driver, and transport network companies would all operate under single regulatory framework • All operators would have to meet the current regulatory requirements for taxis.

Table 2: Analysis of options against future state objectives

Outcomes	Option1 Status Quo with minimal change	Option 2 Reinforce distinctions between taxi & private hire	Option 3A Reduced regulatory burden for a single class, with individual driver focus	Option 3B Reduced regulatory burden with single class of approved transport operator	Option 4 Single class, regulated to current taxi standards
An efficient system					
-responsive to supply & demand	Partially Services generally meet demand and are responsive.	Partially Similar to Option 1	Yes A single class of SPS with reduced compliance burden applied consistently across the sector provides significant incentives for the market to respond to supply and demand.	Yes Similar to option 3A.	No Requirements applied equally across the sector, but higher barriers to entry likely to reduce both competition and the sector's responsiveness to market signals, particularly for the private hire and rideshare sectors.
-lowest level of compliance burden	No Significant compliance burden through prescriptive and comprehensive regulations	No Similar to Option 1	Yes Imposes a low level of compliance burden. Responsibility for compliance with the law would sit with individual passenger service drivers.	Yes Low level of compliance burden, but the introduction of an approved transport operator will promote a higher level of regulatory compliance compared to Option 3A.	No Compliance burden would increase significantly for the non-taxi sector. Requirements would be applied to the wider passenger service sector without a clear rationale.
-transparency over fees & charges	Partially Pricing information available to consumers, but difficult to access and distinguish services based on cost.	Partially Similar to Option 1	Yes Passengers and service providers/drivers would be required to agree the basis for the fare or a fixed price before the commencement of the trip.	Yes Similar to Option 3A	No Under this option, all passenger services operators could charge using either a set fare, or through a meter. It would still be difficult for passengers to estimate the cost of a ride. Would not promote competitive pricing.
An effective system					
-effective choice to move in a timely manner	Partially Generally provides a range of services in urban areas, with less choice and availability in small centres and rural areas	Partially Similar to Option 1	Yes A regulatory framework that has limited barriers is likely to result in services that are highly tailored to customer needs and demands.	Yes Similar to Option 3A	Partially A range of services are still likely to be delivered but within a less competitive market. More difficult for service providers to meet specific customer needs.
A resilient system					
-regulatory framework acts to incentivise innovation & improved customer service	No Does not create environment that encourages new services. Limits the pace at which the sector innovates, denying passengers the early benefits of technology.	No Clarifying the distinction between taxi and private hire services by imposing a requirement that private hire services must be booked at least an hour prior to the trip would lower levels of competition and reduce incentives to innovate.	Yes This option will future-proof the regulatory framework, and will incentivise development of new technologies and changes in the delivery of services.	Yes Similar to Option 3A	No More difficult (and there will be fewer incentives) for operators to deliver improved customer services, as the prescriptive nature of the regulatory framework imposes a particular set of 'solutions' on the sector.
A safe & responsive system					
-mitigates the safety risk for passengers, drivers & from vehicles	Yes Provides safety through P endorsement, work time limits and COF. Further requirements such as cameras and panic alarms in taxis reinforce the distinctions.	Yes Similar to Option 1	Partially Regulation should reduce the level of risk (through the fit and proper person test, driver work time limits and CoF for the vehicle). Fewer mandated safety-related solutions. Service providers can choose to use cameras and panic alarms. GPS tracking & ability to share trip details instantly provide a safeguard.	Partially The introduction of an approved transport operator that has responsibility for managing compliance for drivers having a P endorsement and working within their work time limits, and vehicles having a COF will mitigate the safety risk.	Yes Safety would be maintained through the P endorsement on the driver licence, work time limits and vehicles having a CoF. Safety features (e.g., cameras) would be spread across the whole sector.

Preferred option for regulatory reform

57. Overall, we consider Option 3B to provide the benefits most closely aligned with the future state objective, promoting competition to the market and maximising the benefits to the consumers. The proposed future regulatory framework is then based around a reduced level of regulatory burden overall, with a single class of approved transport operator.
58. Option 3B is preferable over Option 3A, as we expect fewer entities that the NZTA will be responsible for auditing. Regulatory compliance focused at the approved transport operator level under Option 3B, therefore allowing many drivers to operate under a single approved transport operators who will be responsible for their drivers, as set out in paragraph 60 below. This should make the NZTA's regulatory efforts more manageable.
59. This single class of regulated SPS will cover taxis, private hire, shuttles, ridesharing, and dial-a-driver services.
60. Any person or company that operates a SPS will have to be approved by the NZTA as an 'approved transport operator'. The NZTA will register an approved transport operator provided it has assessed the person(s) who will be in control of it as being a fit and proper person to run the passenger service. The approved transport operator will be responsible for:
- ensuring drivers hold current P endorsements
 - ensuring drivers comply with work time limits (via logbooks or e-logbooks)
 - ensuring all vehicles have a current certificate of fitness
 - ensuring all vehicles have approved in-vehicle cameras, or an exemption (unless they operate outside areas requiring this)
 - advising NZTA or New Zealand Police of serious behavioural issues or serious complaints about a driver
 - supporting the NZTA or New Zealand Police when they undertake any regulatory or compliance activity.
61. An approved transport operator will set its own fares and be able to accept jobs from passengers via pre-bookings, or be engaged off a rank or via street hail. This would increase the operators/drivers' overall ability to compete in terms of being able to provide a range of choices for getting the jobs. Consumers would have more choices and would expect improved services and/or lower fares.
62. A driver will have to be associated with an approved transport operator (an owner driver could be their own approved transport operator). An individual driver will also be responsible for having a P endorsement (that they are a fit and proper person to drive passengers), driving within their work time limits (particularly where they drive for more than one approved transport operator) and that their vehicle has a valid CoF. A driver identification card is issued by NZTA as part of a P endorsement, and a driver will continue to be required to display it in their vehicle.
63. The NZTA will, if they meet the requirements for entry, approve applications for new transport operators (on the basis that the person in control of it is a fit and proper

person). It will register an approved transport operator and undertake regulatory activity to ensure that an approved transport operator, or driver, complies with the law (drivers have P endorsements, drivers work within time limits, and vehicles have a CoF).

64. The NZTA will issue passenger endorsements for drivers (having made an assessment that they are a fit and proper person to drive a small passenger vehicle).
65. In-vehicle cameras would continue to be required in areas that currently have them to support driver safety. In certain circumstances the NZTA will be able to issue an exemption from the requirement to have a camera.
66. The NZTA will be able to suspend or revoke an approved transport operator or a driver's right to operate if they are in breach of the law, and the New Zealand Police will continue to have an enforcement role.
67. Table 5 below discusses the key issues of the current regulatory system and how we propose to deal with these issues in the future.

Table 5: Further information on the key issues and rationale for the recommendation

Key issue	Summary comment
Regulation of carpooling and ridesharing	<p><i>Carpooling and ridesharing all involve drivers transporting other people to a destination along a route that the drivers were already travelling.</i></p> <p><i>It is proposed that carpooling continue to be exempt from the regulatory framework, while ridesharing be made subject to regulation to promote safety.</i></p>
Managing passenger safety	<p><i>Safety risks arise for passengers as they usually do not know the driver, and once a passenger is inside the vehicle, the driver is in a position of control and power.</i></p> <p><i>The preferred option recommends that, to provide confidence to passengers that they can use passenger services safely, drivers should be subject to a fit and proper person test (including police checks), hold and display a 'P endorsement' identification card, and operate under work time limits. Vehicles should have a 6-monthly Certificate of Fitness test. It is proposed to remove the requirement for a driver to have passed a practical driving test in the last 5 years.</i></p>
Restrictions on how passenger service companies connect with passengers	<p><i>Currently, private hire services can only take pre-booked customers. Taxis can take pre-booked or street hail customers or customers from a taxi rank.</i></p> <p><i>It is proposed that the restrictions on how passenger service operators can connect with customers be removed. This will promote enhanced competition and improved customer service. Consumers would have a greater ability to decide from whom they purchase the service. Private hire operators, and shuttle services in particular would also have improved ability to compete with taxi sector service providers.</i></p>

<p>Consumer protection, pricing and fares</p>	<p><i>There are a range of rules that apply to different passenger service operators. Taxi operators must register their fares with the NZTA and can charge a fixed price or use a meter. Private hire operators can only charge a fixed price. Carpooling must operate on a cost recovery basis.</i></p> <p><i>It is proposed that that the rules governing pricing be removed. All drivers should have a duty to agree the basis of pricing with the passenger prior to the commencement of the trip.</i></p>
<p>Key issue</p>	<p>Summary comment</p>
<p>Area knowledge certificate</p>	<p><i>Taxi drivers in urban areas are required to have passed an area knowledge test. The purpose of the requirement is to ensure that drivers are able to take passengers on a direct route to their destination.</i></p> <p><i>It is proposed that the area knowledge requirement be removed. Technology, such as GPS systems, provide alternative means to achieve this objective. Passengers are also able to use this type of technology to track the route that the driver is using.</i></p>
<p>English language requirement</p>	<p><i>Taxi drivers are required to have a sufficient knowledge of the English language. There is no standard as such, this is assessed by having part of the Area knowledge test conducted in spoken English. If the applicant can not understand the question or the answer the Area knowledge certificate can not be issued by the assessor. The NZTA can require an existing driver to be re-assessed if it considers they can not reasonably communicate in English.</i></p> <p><i>It is proposed that the English language requirement be removed. The NZTA considers that very few drivers need to be tested, as most immigrant drivers have had to demonstrate their knowledge as part of immigration processes. This would reduce the barrier and more drivers can be available to the operators.</i></p>
<p>Access to SPS on a 24/7 basis</p>	<p><i>Taxis are required to provide services 24/7 in large cities. There is no similar requirement for private hire operators (or carpooling or ridesharing).</i></p> <p><i>It is proposed that the regulatory requirement for taxis to provide a 24/7 service be removed. The requirement is very difficult to enforce.</i></p> <p><i>Consequently, taxi operators have largely been providing levels of service in response to their understanding of demand. This would encourage more operators entering the market⁶. Further, potential increases in service from other non-taxi service providers would likely help to fill this gap in response to market demand.</i></p>

⁶ Entry condition plays an important role in determining concentration and the extent of potential competition. See W. Kip Kiscusi, John M. Vernon, and Joseph E. Harrington, JR, Economics of regulation and antitrust, 3rd edition, The MIT Press, Cambridge, Massachusetts, London, England.

<p>Meeting the needs of people with particular requirements</p>	<p>Taxis are currently required to provide signs in Braille that detail information about the taxi operator. As there will no longer be taxis, the review recommends the removal of the requirement for taxis to have signs in Braille. The Total Mobility Scheme provides a mechanism to subsidise the cost of transporting people with specific requirements (for example, people in wheelchairs). This scheme could allow communities to continue to require Braille signage.</p>
<p>Key issue</p>	<p>Summary comment</p>
<p>Driver safety</p>	<p>Safety risks arise for drivers, as they usually do not know the passenger. Currently, taxis are required to have in-vehicle security cameras and panic alarms. There are no mandated driver safety requirements for private hire drivers.</p> <p>The review recommends that the mandatory requirement for panic alarms be removed. Drivers should be able to refuse to accept a passenger where they consider their personal safety could be compromised and passenger service operators should have a duty to promote driver safety.</p> <p>Cameras will continue to be required in areas where cameras are currently required, unless the NZTA provides an approved transport operator with an exemption from the in-vehicle recording camera requirement, where it meets each of the following criteria:</p> <ul style="list-style-type: none"> • Providing services to registered passengers only – An approved transport operator only provides services where the passenger is registered with the approved transport operator. • Collection of driver and passenger information – When registering with an approved transport operator, a passenger/driver must provide their name, photo, address, and phone number. • Availability of driver and passenger information – In advance of commencement of each trip, the approved transport operator makes the name and photo of the passenger and driver available to each other. • Retaining a record of each trip – The approved transport operator retains a record of each trip undertaken, including the start and end points. The minimum retention time for this record will align with that of the in-vehicle recording camera requirements. <p>The exemption will apply to all drivers under that approved transport operator. While there will be a yet-to-be-determined fee for this, it would have to be justified on a full cost-recovery basis so we still expect reduced compliance costs from this provision and increased ability to compete through a lower fare rate.</p> <p>A driver would not be required to take a photo of their passenger or the passenger of their driver as this would be expected to be provided to each party by the ATO through the booking app. Provision of a photo by each party would be a condition of the exemption (see 1.2, above).</p>

<p>Certificate of knowledge of law and practice</p>	<p><i>To hold a Passenger Service Licence (required for taxi and private hire operators), a person must hold a certificate of knowledge of law and practice. The certificate demonstrates that the holder has acquired the necessary knowledge of the laws and practices as they relate to the safe, efficient and proper operation of a transport service.</i></p> <p><i>The review recommends removing a significant amount of the detailed rules governing the SPS sector. These form the bulk of the content of the certificate of knowledge of law and practice. Consequently, there is less need for the Certificate of Knowledge of Law and Practice, and it is recommended that this be removed. It is also recommended that the Passenger Service Licence be removed. This would largely reduce the entry barrier of providing taxi and private hiring services.</i></p>
<p>Responsibility for managing the fit and proper person assessment</p>	<p><i>The NZTA is currently responsible for assessing if an individual is a fit and proper person to participate in the SPS sector. The timeframe for making these decisions has lengthened since 2014 and some stakeholders have suggested that they should be able to undertake this function themselves.</i></p> <p><i>The review recommends that the NZTA should continue to be responsible for the fit and proper person assessments – with improved service delivery.</i></p>
<p>Managing for regulatory compliance</p>	<p><i>Regulatory compliance is managed through a range of mechanisms including Approved Taxi Organisations, Passenger Service Licence and driver obligations.</i></p> <p><i>The review recommends that all passenger service operators should be an Approved Transport Operator – with a key responsibility to ensure that all of their drivers have a P endorsement, work within work time limits, and that their vehicles have a valid Certificate of Fitness.</i></p>

Market Impacts

68. The following section outlines the impact on different players in the market arising under our preferred option:

Taxi sector

69. As discussed earlier, there will be more operators entering the market due to lower entry barriers. More drivers will be able to become taxi drivers as the requirements are less strict.

70. Under consistent rules across the taxi market, the taxi sector will become more open. Taxi operators will be able to differentiate their products and services from each other and other SPS to meet various demands to a far greater extent than at present.

71. It is likely the supply of drivers will increase due to lower entry costs. The administration costs will also be significantly lower due to the removal of existing taxi requirements, for example the need to provide 24/7 services.

72. As a result, it is likely there will be lower taxi fares due to more competition within the taxi sector and with other non-taxi operators, with lower operating costs as discussed above.

73. The taxi sector will be able to continue to compete if it is able to provide services and products based on what the passengers need. This could be the case even if taxis are still more expensive than other non-taxi services, as some passengers will pay for a premium on safety and retention of in-vehicle recording cameras.
74. We expect that in the future, taxi services will innovate and improve the way they engage with customers. On this basis, we expect the taxi sector to continue largely unchanged under the new system.

Private hire services

75. Under the preferred option, similar to taxi industries, there will be no requirement for a passenger service licence so the barriers and associated administration costs are lower. Therefore, there would be lower operating costs for private hire operators and more operators would be expected to enter the current private hire market.
76. As there will not be a requirement for pre-booking services under our preferred option, private hire services will be able to use meters. Private hire operators will be in a better position to compete with the taxi sector.

Ride-sharing

77. Under the preferred option, there will be approved transport operators, which is not the case at present. For ridesharing services, compared to the current situation, there will be more operating costs to operators. However, ridesharing drivers will have lower costs, as they will no longer need a passenger service licence (see figure 2). Overall, this may contribute to lower fares for passengers.
78. Whether the market share will be larger for ride-sharing, will depend on the relative cost difference between all types of operators. Some passengers may be happy to use this type of service regardless of whether the risk appears to be different from traditional SPS. On the other hand, some passengers may be cautious about this emerging service, and may not be satisfied by the way it connects with customers. They will continue to use the taxi sector even if the service is more expensive.
79. We expect that there will be more ride-sharing operators in the future, as emerging technologies develop and became more pervasive and accepted by society. Our preferred option provides lower costs therefore allowing different players to enter the market. However, international experience shows us that in the short to medium term, only a small number of players can be sustained.

Car-pooling

80. Carpooling continues to be exempt from regulation but we expect the impact to be minor from these types of services.
81. The focus of this approach is to promote competition within the market through fewer rules and operators taking their own decisions about how they operate. In addition to the need to comply with the rules, an approved transport operator would have its own incentives to manage the quality of drivers and vehicles.

82. This option would promote competition between SPS providers and other providers such as public transport, because rules would apply consistently across all SPS and associated costs to comply with rules (including administration costs) would be largely reduced.
83. If the SPS as a whole are able to provide much cheaper and better services they could compete more evenly with traditional public transport models. However, just as with SPS, public transport service providers are also looking for ways to innovate, reduce operating costs, and provide better services to customers. On top of this, we expect that the current public transport operating model will continue and therefore public transport will continue to be competitive and the impact on public transport to be marginal.
84. Overall, under the preferred option, a single class where all services operate under the same rules provides free and fair competition and gives providers incentives to respond to supply and demand. The rules would impose a lower level of cost on the sector, while ensuring a sufficient level of safety and consumer protection. Fares would be transparent to consumers, and more choices would be available to consumers due to a more open market. The rules would offer more flexibility for operators to choose how they meet them, and allow the operators to choose the best technologies or mechanisms to manage the risks and optimise their services.

Costs and benefits of the preferred option

85. The Ministry of Transport undertook an assessment of the benefits and costs associated with regulatory changes recommended under the preferred option 3B.
86. Additional details of this assessment are set out in Annexes B, C, and D.
87. The assessment attempted to identify the impacts of regulatory changes on the following parties:
- passengers
 - drivers
 - operators
 - the wider economy
 - other social and environmental impacts.
88. The major benefits of the proposed regulatory changes were identified as a potential price reduction; increased travel choices and mobility; improvements in service quality; reduction in congestion; reduction in emissions; improvements in safety and security; lower compliance burden; and optimal use of the country's stock of passenger vehicles.
89. The study identified three types of costs that would occur due to regulatory changes: cost of adaptation to the new regulatory system; the possible decrease in income to drivers and operators that are currently operating in the SPS market; and a low rate of return to drivers (when measured as revenue per kilometre).

90. The benefits and costs have been identified through a high-level qualitative assessment rather than a detailed investigation. A lack of data means it is not feasible to quantify the costs and benefits or the level of uncertainty. Therefore, the findings and conclusions in the cost benefit assessment should be considered as indicative.
91. Given the range of potential benefits identified in the assessment, it is reasonable to expect that the proposed new regulatory system will create an environment for efficient market operation, and will bring benefits to all involved parties – passengers, drivers, operators and the wider economy.

Consultation

Engagement with stakeholders

92. As part of the review process, the Ministry of Transport held two sets of meetings with a range of sector stakeholders. These included taxi, private hire and shuttle operators, technology companies, and passenger representative groups. The purpose of the first set of meetings was to hear, from the sector's perspective, what the issues with the current system were, and what the key features for the future system might be. The second set of meetings was used as a means to test the review's thinking and receive feedback.
93. While a number of the stakeholders chose to make written submissions to the Ministry of Transport following the second set of stakeholder meetings, we would not characterise this stakeholder engagement as formal consultation (and it was not intended to be). However, we have reflected on the written submissions and many of the matters raised in stakeholder submissions are referenced in, and have influenced, the review's advice and proposals set out in the Cabinet paper.

NZTA's views

94. The NZTA agrees that the SPS sector needs to be reformed. It agrees that there is a need to reduce compliance burdens and costs, that many of the current obligations on taxi operators are outdated, and that the future system needs to provide freedom for competition and innovation. It is satisfied that the proposed system, at a high level, will achieve these outcomes.
95. The NZTA's primary interests in the reform process are the regulatory functions that it will be required to support and in the safety management outcomes. In this context it is considering the operational implications of the proposed system so it can prepare for change.
96. The NZTA agrees that it considers the recommended option best meets the policy objectives of the review. From an enforcement perspective, the proposed framework removes many obligations on sector participants and enables the NZTA to focus its resources, through approved transport operators, on core safety requirements.
97. While the proposed framework provides a clear compliance focus, the NZTA considers unintended consequences may result in suboptimal outcomes and diversion of compliance resource. In particular, it is concerned there may be an increased incidence

of fare disputes and potential safety implications for vulnerable passengers (e.g. intoxicated, elderly, young or intellectually disabled persons) if unmarked passenger service vehicles become prevalent. It also considers that, should transport operators not need to demonstrate how they will meet regulatory obligations prior to licensing, this could generate auditing costs being passed on to operators that are higher than the additional licence compliance burden.

The New Zealand Police's view

98. The New Zealand Police currently undertake limited regulatory activity for the taxi sector. However, this is generally as part of wider public safety initiatives (for example, prior to New Zealand's hosting of the Rugby World Cup in 2011 New Zealand Police assisted with undertaking compliance audits on taxis). Any activity undertaken by NZ Police is done so in support of the NZTA as the primary regulator.
99. New Zealand Police apply a risk-based approach in targeting resources and for the future system. It advises that undertaking regulatory activity in the SPS sector is not likely to be a priority against other demands.

Public consultation

100. The future of SPS consultation paper was released for public consultation on 14 December 2015 outlining the five proposed options to reform the sector (note that option 3A and 3B were renumbered 3 and 4 for public consultation). Public consultation took place over nine weeks, closing on 12 February 2016.
101. Seventy-six submissions were received on the future of the SPS consultation paper.
102. Submitters were asked about their views on the review's objectives and whether they supported the review's preferred option (referred to as option 4), or one of four other options the review had considered. They were then asked their views on proposed changes to current operator or driver licensing rules or requirements arising from the regulatory system proposed by option 4.

Main stakeholder views

Uber – alternative regulatory model: Modified status quo with new rideshare provisions added-on

103. Uber does not support any of the consultation paper's five options. It proposes its own three-class system – taxis, hire cars, and rideshare – with different rules and requirements for each. This is based on risk to passengers and drivers. Uber considers this the only means of supporting ridesharing.
104. Taxis would be the only service allowed to collect passengers from ranks or casual street hail and would operate under the same set of rules as at present.
105. Rideshare would only be allowed where both the driver and passenger were registered on and connected through Uber's platform (via a smartphone app). In Uber's view this has the lowest risk level, as both parties details are available to each other, they are able to see previous ratings of each, the fare is cashless and GPS-tracked. As a result, this

class would have the lowest level of rules. A driver would be checked by Uber, or an approved other party, using the person's conviction history. The rideshare vehicle would only require a warrant of fitness.

Ministry's comment

106. We consider Uber's proposal as essentially continuing the same hierarchical style system as current. The description of risk and required regulatory responses are too broad. We are also concerned that the three-class system would require Government intervention every time a new class entered the sector, to establish what type of service they were operating as. The review's aim was to create a system that allows change to happen – new entities would be able enter the sector, and operate with minimal compliance burden. We are also looking for a dynamic and flexible sector. Constraining the type of services by separate classes, as in Uber's proposal, would limit the flexibility of the regulatory system to accommodate any different types of services in the future. For these reasons Uber's proposal is not supported by officials.

NZ Taxi Federation – conditional support for preferred option, but leave P endorsement largely unchanged

107. The NZ Taxi Federation (NZTF) is critical of the consultation paper claiming a lack of evidence to support many of the proposals. It accepts option 4, but considers passenger service licences (PSL) should be retained. The NZTF is concerned that this will remove a level of accountability (presenting the NZTA, as regulator, with too many drivers to adequately manage without substantial resource increases). Under the NZTF's proposal a PSL holder would operate through an approved transport operator. This would place the responsibility for compliance with the retained provisions (Certificate of Fitness, worktime and logbooks, P endorsements and serious complaint reporting) at the highest possible level and assist the NZTA by providing it with fewer operators to audit and manage. Drivers would also be prohibited from working for more than one approved transport operator.
108. The NZTF strongly supports the retention of in-vehicle cameras, which it considers have been very valuable in improving driver and passenger safety. It does not support the exemption provision provided from cameras for Uber-type ridesharing, and would be concerned if there were any other concessions from this requirement. It has concerns that new technology can lead to ATOs being domiciled off-shore and questions how proper regulatory oversight of these could occur. This issue has not previously arisen in transport licensing regulation. Officials will suggest a change to the ATO approval requirements to include an acceptable New Zealand presence, to enable proper compliance with an ATO's mandated duties.

Ministry's comment

109. We do not recommend retaining the PSL as it will add unneeded cost. Most of the safety learning required for a PSL relates to knowledge of the special rules, which will no longer be needed. The NZTA will continue an auditing role. While there may be more operators to audit than at present, the matters that need to be audited against will be much fewer than at present.

110. In regard to offshore-based operators, this issue has not previously arisen in transport licensing regulation. The intent of the review is that all approved transport operators will be subject to the same level of regulatory oversight. Officials will suggest a change to the operator approval requirements to include an acceptable New Zealand presence, to enable proper compliance with an approved transport operator's mandated duties.

Bus and Coach Association

111. The Bus and Coach Association (BCA) has 92 members who operate around 800 SPS alongside buses or coaches – usually in small-scale tour operations, or carrying special needs students as part of longer-term Ministry of Education school transport contracts.

112. The BCA is not opposed to options 1 or 2, but does not support the preferred option 4 nor option 3 as these would create a regulatory system inconsistent with the operation of its members' SPS. It is strongly opposed to option 5 as this would apply all taxi requirements (and costs) to services provided by its members.

113. BCA requests that any transitional legal provisions covering the creation of approved transport operator status recognises that BCA members would continue to need to hold a Passenger Services Licence (PSL) to legally operate their large passenger services. In addition, new entrants in this situation should only be required to hold either a PSL or an approved transport operator status. This would reduce compliance costs.

114. The BCA opposes the in-vehicle camera requirement on extra compliance costs grounds. We consider limiting in-vehicle cameras to areas which already require taxis to have these, would significantly address the BCA's concerns in this area.

115. The BCA is also opposed to the proposal to standardise the maximum driver work period before a 30 minute break is taken, at seven hours. This would create inconsistencies with BCA members' bus and coach drivers who are subject to a 5.5 hour work time period before the 30 minute break is taken. We do not consider any change in this requirement is needed – 7 hours is the current time period for taxis and reducing it to 5.5 hours would be a significant reduction.

Ministry's comment

116. Officials do not intend that there should be regulatory double-up on ATO and PSLs. Accordingly officials will address this as part of any transitional arrangements.

117. Taxi companies currently successfully manage shuttle and taxi drivers who have differing work time requirements, so officials see no need to change the work time periods.

Councils & Local Government New Zealand/Groups interested in disability issues – removal of Braille signage, English language and area knowledge

118. Eleven regional and city councils, along with Local Government New Zealand submitted as well as 15 respondents with interests in disability issues. These 27 submitters had similar general concerns with the proposals, in particular, the removal of mandated signage, particularly Braille signage, area knowledge and English language requirements.

119. Respondents were concerned that removal of mandated signage would disadvantage users with disabilities. This applies particularly to the removal of mandated Braille signage. In the proposed single class system, continuing the mandated requirements for Braille signage would mean all vehicles would be subject to it. This has practical implications where vehicles involved in offering ridesharing services are not full-time passenger services, or in the case of wedding cars, the signage is likely to offer limited benefit.
120. Another issue raised is identifying SPS if they do not have signage. While taxi top lights will no longer be mandated, it is likely that drivers/operators will continue to use such signage.

Ministry's comment

121. We recognise that without the mandated requirement, many operators may choose not to have signs in Braille. However, changes are also occurring in the way people engage and use services. For blind passengers (and all passengers), pre-booking a trip by phone or through an app can make the trip safer as more information about the driver, company, time and details of the trip, are obtainable. In addition, technology allows other mechanisms for customers to capture the information that is currently provided through Braille signage. For example, using a smartphone app that exchanges information with the passenger and the driver could offer immediate audio information as well as collecting and retaining information for future reference.
122. An option could be to have a requirement for Braille signage to continue as part of an operator's contract to participate in the Total Mobility scheme. While this has the benefit of allowing a localised solution to the issue of what the signage should contain, it is recognised that this is a not a perfect solution as some areas are not part of Total Mobility and not all disabled users use Total Mobility all the time.
123. Officials consider there is no need to change the signage proposals, also noting that Government has directed officials to monitor and report back on how the level of services to disabled users changes after the new regulatory model is in place. Information gathering to benchmark current service levels for this purpose has commenced.
124. Officials consider an operator seeking to continue with rank or hail services will have a clear business interest to clearly mark their vehicles, including displaying signage. Otherwise, prospective passengers seeking casual hail or rank hires would be unable to identify that the vehicle is available for hire.

Chariot – a business model at risk as it will be designated ridesharing rather than carpooling as at present

125. Chariot is a carpooling app-based service. Chariot acts as a facilitator and manages the collection and distribution of money to cover cost-sharing, taking a fee for this. Currently this is an exempt service.
126. The main issue raised by Chariot is over the proposed definition of the carpooling exemption. Chariot is directly affected by this definition, as it does not fall under it and it would therefore be regulated under proposed option 4. This directly impacts its business

model and will not allow them to operate under it without added cost. Chariot makes the argument that, within the carpooling exemption, commercial operators and councils are being separated arbitrarily as they are fundamentally providing the same services. The review team differentiates this, however, based on whether revenue is being received. If there is (as in Chariot's case) then licensing applies.

Other issues raised by submitters including recommendations to change aspects of the system

Mandated in-vehicle cameras

127. There is good support for the policy of mandated in-vehicle cameras, with provision for the NZTA to issue an exemption from this when an operation is providing a similar level of record as a camera.
128. Currently, cameras are only required for taxis operating in 18 large towns or cities specified in the Operator Licensing Rule. Existing private hire operators and operators in smaller centres not currently required to have cameras (for example, Levin, Picton or Oamaru) do not support extending mandated cameras into their operations. We consider it difficult to justify extending cameras to locations that are currently exempt based on earlier risk assessments, which we understand are highly unlikely to have changed. To address this we propose that this policy be amended so that mandated in-vehicle cameras would only apply to vehicles operating in areas currently required to have in-vehicle cameras. We would propose to use the same descriptions for these areas as is currently contained in the Operator Licensing Rule. The proposed exemption provisions would remain unchanged. It would only need to be used for a service operating within one of their areas.
129. Further consideration is needed on possibly exempting existing private hire or limousine operators operating within the 18 locations – for instance Queenstown. These operators would have to incur costs to either: obtain, fit and operate approved cameras, or change their existing systems to meet the grounds of the current exemption. The difficulty in addressing this is not to create inconsistencies in our policy to have a single class. We will continue to investigate this provision, and this matter could be dealt with as part of any replacement Land Transport Rule.

Driver's duty to accept first hire

130. A number of submitters suggested that the above duty (which is currently in the Operator Licensing Rule and applies only to taxi drivers) needs a slight amendment to be able to operate effectively. This provision needs to recognise services carrying multiple hirers, such as shuttles or UberPool⁷. In these cases, the driver will wait after the first hirer is accepted until more hirers have been accepted. In this case, the first hirer understands that there will be other passengers who they need to wait for, and in so doing they will all have a cheaper fare. The current wording of this policy suggests this may not be permitted. We have proposed that the policy be clarified.

⁷ UberPool is a service that Uber runs in some American cities where riders can travel at a discounted rate with the possibility of sharing the ride with other passengers.

Fare accuracy

131. The review is proposing that a fare, or the basis of a fare, should be negotiated between the driver and passenger before the journey commences. The Ministry of Business, Innovation, and Enterprise (MBIE) submitted that, in the interests of consumer protection, where a driver chooses to calculate that fare using distance travelled and/or time taken then the recording device (either a meter, the vehicle's odometer, or an app) should be accurate. MBIE suggests this could be achieved by specifying standards the device should be certified to.
132. Officials consider this is a reasonable step. However, we do not, at this stage, know precisely how this could be achieved – whether consumer law would automatically apply or whether special provision would need to be made in the proposed Land Transport Rule.
133. The Government will consider the Land Transport Amendment Bill early in 2016. This will provide an opportunity for additional public input at the select committee stage for the legislative amendments necessary to implement the proposed future system.
134. In addition to the proposed changes to the Act, implementing the policy proposals in this paper will require significant changes to transport rules. Changes to the relevant rules are required to undergo public consultation on the draft Rule amendments. It is proposed that this is undertaken in parallel with the progress of the Land Transport Amendment Bill.

Implementation issues

135. The Land Transport Act 1998 will need to be amended to give effect to the proposed changes in this paper. Cabinet agreed to include a Land Transport Amendment Bill in the 2016 legislative programme with a priority of three.
136. The policy proposals in this paper will require significant changes to Land Transport Rule: Operator Licensing 2007 and Land Transport Rule: Work Time and Log Books 2007, together with consequential amendments to the Land Transport (Offences and Penalties) Regulations 1999 and other regulations. Changes to the relevant Rules are required to undergo public consultation. It is proposed that this will be undertaken in parallel with progress on the Land Transport Amendment Bill.
137. As with any regulatory reform initiative, there are some risks, particularly in relation to stakeholder views on the changes. The Ministry will develop communication material to support any announcements about the review, and specifically address stakeholder risks as part of that material.

Monitoring and evaluation

138. Once a decision has been made to amend the legislation governing the SPS sector, then a monitoring and evaluation framework will be developed. It is likely that the Ministry of Transport and NZTA will develop this framework.

139. Monitoring would follow the current practice whereby the NZTA checks that the sector follows the relevant regulatory requirements.
140. The key indicators for the evaluation are likely to be based on the costs and benefits of the preferred regulatory option. They would cover passengers, drivers, operators and the wider economy. The evaluation could be quite challenging, as it would attempt to compare a future state situation with the current situation. The lack of data on the current situation is likely to make quantitative comparisons difficult.
141. Competition assessment criteria are to be developed, including clear screening devices. Experts will be engaged from the implementation stage to carry out or review the competition assessments.

Conclusion and recommendations

142. Option 3B, or 4 in the public consultation paper (as set out in the proposals in the Cabinet paper) will deliver the outcomes most closely aligned with the future state objective. It will promote competition by requiring operators to compete under the same rules. Much of the current detailed regulation will be removed. Approved transport operators will be able to respond to market signals, and take their own business decisions to both promote driver safety, and provide new or improved customer services.

Annex A

Explanation of the terminology used for SPS vehicles

	Vehicle type	Definition
Definitions under the current system	Taxi	<ul style="list-style-type: none"> • A SPS vehicle • Fitted with a sign on its roof displaying the word "taxi" and any other signs required by the regulations or the Rules • For use, or available for use, for hire or reward for the carriage of passengers other than on defined routes
	Private hire	<ul style="list-style-type: none"> • SPS vehicles designed or adapted to carry 12 or fewer persons (including the driver) • Carry passengers for hire or reward • Are pre-booked on an agreed fare basis
	Carpooling	<ul style="list-style-type: none"> • Where two or more people have a pre-existing knowledge of each other and, are travelling to a similar destination agree to travel in one vehicle, with the passenger(s) entering into a cost-sharing arrangement, which includes (but is not limited to) fuel costs and reasonable wear and tear of the vehicle; but does not include any infringement fee incurred in the course of the journey, or compensation for the drivers travelling time • Where a driver and passenger (who may not know each other) are travelling to similar destinations at similar times and use a third party to connect them. The driver and passenger have a cost-sharing arrangement (as described under carpooling) and the third party (e.g. www.letsarpool.govt.nz) does not receive any revenue for facilitating the carpooling trip
	Ridesharing	A carpooling arrangement that is facilitated by a third party, receiving revenue (directly or indirectly from the driver or passenger) for their work in facilitating the ridesharing trip
	Shuttles	Part 2 of the Land Transport Rule: Operator Licensing 2007 defines a shuttle as a SPS vehicle: <ul style="list-style-type: none"> • that was originally designed to carry no fewer than eight persons and no more than 12 persons, including the driver • used for hire or reward for the carriage of passengers who must begin or end their journey at an airport, a bus or ferry terminal, or a railway station
	Dial-a-driver	Part 2 of the Land Transport Rule: Operator Licensing 2007 defines 'dial a driver' as a passenger service in which the carriage of passengers is facilitated using the vehicle provided by one of the passengers, where the driver is paid for providing the carriage or for the transport of the passenger's vehicle; but does not include a service where a vehicle is driven by a private chauffeur

Definitions under the preferred approach	Carpooling	Outside the system
	Single class of SPS	<ul style="list-style-type: none"> • There would be a single class of regulated SPS, which would cover taxis, private hire, shuttles, carpooling, ridesharing and dial-a-driver services • Any person or company that operates a SPS would have to be registered with the NZTA as an 'approved transport operator'. The NZTA would register an approved transport operator, provided it had assessed the person(s) who would be in control of the Approved Transport Operator as being a fit and proper person to run the passenger service. The approved transport operator would be responsible for ensuring that: <ul style="list-style-type: none"> ○ drivers have a passenger endorsement (P endorsement) – that they are a fit and proper person to drive passengers (they would also notify the NZTA if a serious complaint or allegation is received about a driver) ○ drivers only work within their work time limits ○ vehicles have a CoF (not including dial-a-driver services) • An approved transport operator would set its own fares and be able to accept jobs from passengers via pre-bookings, or be engaged off a rank or via street hail

Annex B

Changes due to the introduction of a new regulatory system can be expected. The table below provides the details of the possible changes in demand. Identifying the possible movement of passengers assists in understanding the change in benefits and costs.

The passengers considered include existing passengers, mode changers, and induced passengers. The table below indicates increases or decreases in the use of the services for traditional services or new/emerging services under the preferred option.

User Type	Change to		Taxis/shuttles/private hire	New/emerging services (e.g. Ride share/car pooling etc.)
	Change from			
Existing passengers	Taxi/shuttles/private hire (e.g. Wellington Combined, Corporate taxis)		Use may increase/decrease/not change depending on passengers' choice. Examples: <ul style="list-style-type: none"> • safety concerns (given that current safety standards are not compromised) • availability of taxi and shuttle stands e.g. at airports, railway stations etc. • promotional campaigns of drivers/operators 	Use may increase as emerging services: <ul style="list-style-type: none"> • can be cheaper/cost saving • can have less waiting time • become familiar/friendlier through continued use • are more convenient e.g. online payments; GPS tracking
	Emerging services (i.e. Ride share/car pooling/Dial-a-driver)		Use may increase due to (examples): <ul style="list-style-type: none"> • competitive price • safety concerns (given that current safety standards are not compromised) • better service quality 	Use may increase/decrease/not change depending on passengers' choice. Examples: <ul style="list-style-type: none"> • safety improvements • promotional campaigns • technological advancements/innovations
Mode changers	PT users (Train/bus passengers)		Existing PT users may change mode. The reasons for change (examples): <ul style="list-style-type: none"> • competitive/economical price • more convenient than PT • saves time • more privacy • door-to-door service However, this is possible if any price reduction (or factors that are considered) are significant enough to encourage mode change.	
	Private car drivers/passengers		Private car drivers/passengers may change mode to avoid (examples): <ul style="list-style-type: none"> • cost of car purchase/maintenance • parking space issues/costs • inconveniences/restrictions of driving (e.g. health reasons, being intoxicated) This is a theoretical possibility, but the actual number of people who change may be very small.	
	Walkers and cyclists		Walkers and cyclists may change mode due to (examples): <ul style="list-style-type: none"> • competitive price • convenience/comfort • quicker/safer service 	
Induced passengers	Previously didn't travel/transport disadvantaged people		Induce travel can occur due to (examples): <ul style="list-style-type: none"> • competitive price • affordability • door-to-door service • more options 	

Annex C

Benefits

Benefit to Benefit type	Passengers (Note 1)	Traditional taxi sector	Private hire services	Wider economy (Note 3)
Potential price reductions	<p>Removal of entry barriers opens up the market and increases competition. Passengers benefit from cost savings due to potential price reductions.</p> <p>This is a private benefit. Cost saving to passengers due to a price reduction is a transfer from drivers' revenue. Society does not see an increase in total benefit through transfers. Therefore, transfers are not included as benefits to society.</p> <p>Any increase in consumer/producer surplus due to a price reduction can be considered as a benefit to society. Please see welfare effect in section 3.5 .</p>	<p>Removal of entry barriers can create the following benefits:</p> <ul style="list-style-type: none"> • a free and fair market with competition for drivers and operators • potential price reductions that could increase the number of trips for drivers • enhanced business for operators. 	<p>Under the preferred option, similar to taxi industries, there will be no requirement for a passenger service licence so the barriers and associated administration costs for operators (and for ridesharing drivers) are lower.</p> <p>There may be slightly higher administration costs as ridesharing operators need to be approved by NZTA.</p> <p>The overall operating costs for operators and drivers would be lower. This would provide room to reduce price or improve quality of service.</p>	<p>There are indirect and induced benefits of regulatory change (Section 2.4).</p> <p>Indirect benefits occur when the extra income of drivers, and the savings of passengers, are spent on other goods and services. This increases demand for inputs to produce these goods and services.</p> <p>The result is increased income to suppliers of such inputs. These indirect effects are also called flow-on effects. An example of an indirect effect is the income a mechanic receives for servicing a SPS vehicle, where the mechanic otherwise would not.</p>
Increased travel choices and mobility	<p>Opening up the market attracts small passenger service vehicles. This increases travel choices and mobility for passengers. Examples:</p> <ul style="list-style-type: none"> • Availability of a wide range of service vehicles and greater differentiation in vehicle types under new regulatory system • Increase in mobility to induced passengers. These are trips made that would have been foregone in the absence of regulatory change. Please see section 2.1.3. 	<p>Higher customer satisfaction can lead to increase in business.</p>	<p>No requirement of pre-booking would enable a fair competition with taxi sector. This can lead to increase in business.</p>	<p>Induced effects occur when the people employed in passenger services and its input supplying sectors spend their income to purchase goods and services. An example of an induced effect is the expenditure of a person employed in a shop that sells spare parts to SPS vehicles.</p>
Improvement in service quality	<p>In a competitive environment, drivers/operators have to offer better service to compete with other drivers/operators:</p> <ul style="list-style-type: none"> • Passengers benefit from better customer service • Passengers also benefit from use of new technological innovations, e.g. online payments, GPS tracking, etc. 		<p>The requirement of network operators to be approved by NZTA will be helpful in terms of managing risks and uncertainty caused by development of new technology/digital services.</p> <p>Reliable and sustainable emerging business model would help to improve the services received by consumers, therefore contributing to increase in demand in future. This may help to build up and enhance the reputation of this type of service in the long term.</p>	

Reduction in congestion	<p>New regulatory system encourages car-pooling, ride sharing, and may discourage private car use.</p> <p>This may reduce the number of small passenger services on roads and therefore may reduce traffic congestion.</p> <ul style="list-style-type: none"> This leads to travel time savings. If private car use is avoided, then individuals can save on parking costs. This will reduce various kinds of parking demand such as residential parking demand, on-street parking demand, non-residential and commercial parking demand. (NCTR - 2014 p.12). 	<p>Reduction in vehicle operating cost due to travel time saving. This can happen when there is a significant increase in car pooling, ride sharing, etc., which reduce the number of vehicle trips.</p>	<p>It is likely more people will switch from private cars to ridesharing when these types of services are widely accepted (e.g., people have access to app via tablet or phone etc), which will reduce traffic congestion as fewer number of vehicles will be on roads.</p>	<ul style="list-style-type: none"> Less pressure on road use and reduction in public expenditure on road maintenance. Ability to use parking spaces for alternative uses. If private car use is reduced, then over time, the reduced parking demand can provide economic, environmental and aesthetic benefits (NCTR -2014 p.12).
Reduction in emissions	<p>This depends on the reduction of vehicle use in peak hours.</p> <p>Increase in use of services such as carpooling and ridesharing can reduce number of vehicles on roads as more people travel in the same vehicle. This will reduce emissions and improve environmental quality. (MoT- 2015 para 127)</p>			
Improvements in safety and security	<p>Under the new regulatory system, passenger and driver safety can be improved. This is because:</p> <ul style="list-style-type: none"> Passenger safety is promoted through the fit and proper person test for all drivers; and the CoF requirement for all vehicles. (Please see MoT-2015 para 151-163) For drivers' safety, the review report recommends: <ul style="list-style-type: none"> (a) power for passenger service drivers to refuse to accept some passengers (b) passenger service operators to promote driver safety and that they should make their own business decisions on how they will give effect to that (Please see MoT- 2015 para 274-285) Passenger and driver safety and security can be improved through new technological advancements such as an ability to check passengers and drivers history and ratings. 			
Lower level of compliance burden	<p>Reduction in compliance cost can be passed on to passengers as price reductions.</p>	<p>Reduction in compliance burden and reduction in cost to drivers and operators.</p> <p>For example, taxi operators will not have to meet the compliance burden associated with registering their fares, taxi meters, security cameras etc.</p>	<p>There will be less compliance burden to ridesharing drivers as no passenger service licence is required.</p>	<p>Fewer regulatory controls by the Government.</p> <p>However, there is uncertainty whether the new system will involve more involvement by regulators.</p>
Optimal use of country's stock of passenger vehicles	<p>Expansion of service beyond main centres e.g. to city suburbs, un-served areas, and rural areas.</p>	<p>Extra income to private car owners as they are able to operate a SPS on a commercial basis.</p>	<p>Extra income to private car owners as they are able to operate a SPS on a commercial basis.</p>	<p>Optimal and efficient use of existing passenger vehicle stock.</p>

Note 1: Passengers include existing passengers, mode changers and induced passengers.

Note 2: Drivers include taxi, shuttles, private hire and other drivers.

Note 3: Wider economy includes all communities regardless of whether they are part of the SPS market or not. This also includes the Government.

Annex D

Costs

Cost to Cost type	Drivers/operators	Wider economy
Cost of adaptation to regulatory change	<p>Application and transaction costs. Examples:</p> <ul style="list-style-type: none"> • Obtaining licensees/CoF for vehicles currently not regulated (e.g. car pooling, ride share) • Transaction cost to drivers and operators to change to new regulatory system. 	<ul style="list-style-type: none"> • Implementation cost to regulators (i.e. NZTA) of the regulatory change. This includes: <ul style="list-style-type: none"> ○ Initial cost of implementation of new regulatory system ○ Operational cost under new system can be higher or lower. This will depend upon uptake of new vehicle registration required due to regulatory change.
Decrease in income	<p>Potential decrease in income to existing drivers/operators of taxis, shuttles and private hire.</p> <p>This could happen if a significant number of their existing passengers begin to use other passenger service options e.g. car pooling, ride sharing.</p>	<ul style="list-style-type: none"> • Reduction in PT use, walking and cycling may occur. This will have other negative impacts, e.g. environmental effects, health effects.
Low rate of return (PWC/NSW/MoT - 2005 p.30)	<p>Low rate of return to drivers may occur if the price goes down due to the new competitive environment i.e., the price per km/trip may go down.</p> <p>However, if there is a significant increase in business i.e. increase in number of vehicle trips, then total revenue may go up.</p>	