

# Regulating Innovation in Urban Mobility in India

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## Abstract

In December 2016, the Ministry of Road Transport & Highway (MoRTH), Government of India had issued the draft Taxi Policy Guidelines to promote Urban Mobility<sup>1</sup>. These guidelines may not be necessarily adopted by states but can be used to prepare their own guidelines. Consequently, on 4<sup>th</sup> March 2017, the Government of Maharashtra issued the Maharashtra City Taxi Rules, 2017 (Rules) for regulating the taxis linked with app based aggregators.

CUTS International has applied the RIA framework to estimate costs and benefits of select provisions of the Rules. The analysis has been informed by in-person interactions with 1,000 drivers and 1,000 users of city taxi services in Mumbai Metropolitan Region and consultations with relevant stakeholders. This policy briefs assess the cost imposed by the Rules and gauge the potential benefits it entails.

## Background

On 04 March 2017, the Government of Maharashtra notified the Maharashtra City Taxi Rules, 2017 (Rules).<sup>1</sup> The intent of the Rules is to regulate the licensing of taxis linked to mobile apps of taxi aggregators. The Preamble to the Rules states that a large number of such taxis have been operating with the AITPs issued under section 88(9) of the Motor Vehicles Act, 1988 (Act), but are essentially operating as city taxis.

The preamble to the Rules also states that there is a difference in regulation of city taxis and taxis

operating with AITPs in cities of Maharashtra, which calls for regulatory convergence. Such convergence must retain the advantages of app based taxis, viz. efficient demand/ supply matching, dynamic price discovery, better commuter experience and upgradation/modernisation of taxi services. As a result, the Rules retain several features of existing regulations applicable to city taxis in Maharashtra. The table below provides a snapshot of such attempted regulatory convergence.

Attempt to bring regulatory convergence between incumbents and app based taxis		
Type of Regulation	Requirement under Rules	Attempted convergence with
Minimum engine capacity	980 CC	Black and yellow taxi regulation
Fleet composition	At least 30 percent of taxis attached with aggregator should have engine capacity of 1400 CC or more	Fleet Taxi Service Scheme and Phone Fleet Taxi Scheme
Fuel	Vehicles should be driven on clean fuel i.e. unleaded petrol or CNG or LPG or Hybrid or Electric power. Existing diesel fuel based vehicles should be converted to clean fuel within a period of one year from the date of commencement of the Rules	Black and yellow taxi regulation, Fleet Taxi Service Scheme and Phone Fleet Taxi Scheme
Permit & fee	INR 25,000 per vehicle below engine capacity of 1400 CC and INR 2,61,000 per vehicle above engine capacity of 1400 CC App based city taxi permits (ABCTP) will be applicable instead of All India Tourist permit (AITP)	Black and yellow taxi regulation and Phone Fleet Taxi Scheme
Need for Public Service Vehicle (PSV) Badge	Yes	Black and yellow taxi regulation, Fleet Taxi Scheme and Phone Fleet Taxi Scheme

Source: Author

However, the validity of the Rules has been challenged by the drivers/ owners linked with app based taxi aggregators and aggregators themselves before the Bombay High Court and the matter is sub-judice.<sup>2</sup> In the interim, the Government of Maharashtra constituted an expert committee to review fare and other related matters of taxis and autos, under the chairmanship of Mr. B.C. Khatua.

The committee has recently released its report: the Taxi Auto Fare Committee Report 2017 (Khatua Committee Report),<sup>3</sup> wherein it has suggested amendments to some of the Rules. The government has submitted that it will not take coercive action under the Rules till further directions issued by the Court.<sup>4</sup>

Given the unique nature of urban mobility situation in Mumbai<sup>5</sup>, it is pertinent to closely review the Rules and assess potential impacts on

different stakeholders. In the light of the above, CUTS International has applied the RIA framework to estimate costs and benefits of select provisions of the Rules. The analysis has been informed by in-person interactions with 1,000 drivers and 1,000 users of city taxi services in Mumbai Metropolitan Region and consultations with relevant stakeholders.

## Research Findings

It is estimated that the Rules have varied impacts on different stakeholders, including consumers,

drivers, aggregators, and government. In aggregate, based on cost benefit analysis, the costs imposed by select provisions of the Rules are likely to outweigh their benefits. In addition, it appears that the Rules affect the dynamics of congestion on the road and environment of the city.

Even in some cases wherein regulatory objective are likely to be met, it appears to happen at a prohibitively higher cost wherein other economical options might be available.

The aggregate impact is highlighted below:

Rules/ Stakeholders	Minimum Engine Capacity	Fleet Composition	Permit and Fee	Requirement for PSV badge	Need to operate taxis on clean fuel	Colour standardisation
Consumers (actual)	-39.89	-30.77		-25.33		
Consumers (inconvenience)	-76	-20.94		-80		
B/Y taxi	122.23	27.87		128.67		
Compact Hatchback taxi	-950			-950		
Hatchback taxi	114	707.08	1.26	-0.05	-31.24	-26.03
SUV taxi		-2106.09	-7.75		-1.64	-1.37
A/C Bus	22.16	5.05		23.33		
Permit & Fee		0.82	0.8	0.1		
Aggregators	-36.1	-4.62		-41.54		
<b>Net impact</b>	<b>-843.6</b>	<b>-1421.6</b>	<b>-5.69</b>	<b>-944.82</b>	<b>-32.88</b>	<b>-27.4</b>
	<b>Negative</b>	<b>Negative</b>	<b>Negative</b>	<b>Negative</b>	<b>Negative</b>	<b>Negative</b>

It is appraised that net impact on all stakeholders (other than government) is negative. While the government is likely to generate miniscule additional revenue, the same might not be its primary objective.

**Consumers and taxi drivers are likely to be adversely impacted by the Rules. The estimation suggests that the cost of the daily commute for the consumers is likely to increase by 40%<sup>6</sup> from INR 310 to INR 426 while the cost per day to taxi drivers is likely to increase by 93%<sup>7</sup> from INR 1500 to INR 2899.** While there will be some benefits to Black & Yellow taxis, income of Black & Yellow taxis are likely to increase by 6%.

## Recommendations

**Minimum Engine Capacity should be rationalized.** Taxis with engine capacity less than 980CC (compact hatchback taxis) are likely to exit the market, resulting in loss of income for drivers and inconvenience to consumers. Therefore it is recommended that to ensure consumer safety and comfort, better alternatives such as prescribing power to weight ratio, should be explored, while undertaking cost benefit analysis. The restriction on minimum engine capacity should be rationalised to allow taxis with engine capacity of 600 CC and above to link with app based aggregators.

**Minimum Fleet Capacity requirement should be removed.** The proposed fleet composition is unlikely to match consumer demand. Consumers are likely to bear inconvenience by shifting to AC Buses, or may have to pay the high fare to hire SUV Taxis or B/Y Taxis. Therefore, it is recommended that the minimum fleet capacity requirement should be removed. However, a periodic market analysis should be conducted to assess if supply of taxis is corresponding to demand and artificial barriers are present. Also, a market for tradeable fleet composition certificates could be created wherein aggregators who link more than desired number of taxis should be in a position to sell the certificates to aggregators who are unable to do so.

**Existing AITP Permit should be allowed and Fee should be reduced for all types of taxis.** The proposed Rule is likely to increase the cost of operations for drivers. Also, drivers who will be unable to afford the higher fee requirement may exit the market. This may result in increase in fare for consumers. Therefore, it is recommended that taxis with AITPs should be permitted to operate under the Rules without surrendering their existing permit. Further, the permit fee should be reduced for all types of taxis and should be

nominal and uniform. Fee paid under different rules should be set off from the permit fee applicable under the Rules.

**Requirement of PSV should be replaced with other identification document.** A significant proportion of taxi drivers associated with app based aggregators are not eligible to apply for PSV Badge under the Rules. Such drivers may lose income generating opportunity. Also, consumers may shift to other modes of transport owing to unavailability of required number of taxis. Therefore, it is recommended that mandatory conditions such as permanent residence of Maharashtra should be avoided as they put artificial restrictions on employment while entrepreneurship should be promoted. Moreover, the requirement of PSV Badge can be replaced with conditions like Aadhaar number, residential address proof, and contact details of two family members, while conditions like reasonable awareness of topography and local language may be retained.

**Regulate emission standards, not fuel type.** The taxis drivers associated with app based aggregators are likely to experience increase in cost as the taxis running with diesel fuel will need to stop operations under the Rules, and the drivers may need to procure new taxis with clean fuel. It is observed that Rules may be able to reduce air pollution marginally but at a prohibitively higher cost. Therefore, it is recommended that instead of regulating type of the fuel, government may regulate emission standards. This is likely to promote innovation and benefit environment. Further, the transition period to comply with clean fuel requirement must be reviewed and can be decided after consultation with stakeholders. Also, use of clean fuel taxis may be incentivized.

**Colour standardisation requirement can be done away with.** The taxi drivers associated with app based aggregators are likely to incur high cost in getting their taxis repainted. This cost is most likely to be passed on to consumers. Therefore, it is recommended that colour standardisation requirement can be done away with, and if there is a need to differentiate taxis from other vehicles, a sticker of the name of aggregator, or the logo of such aggregator at all sides of the taxis should suffice.

## Way Forward

The above exercise showcases that despite having widespread impacts; rules and regulations may not always achieve their intended objectives. Thus, it is crucial to estimate in advance potential impacts of regulatory proposals and adopt such proposal which is most likely to achieve the objectives with minimum costs and maximum benefits. RIA helps in doing so. It further necessitates justification of regulation and consequently aids in avoiding adoption of unnecessary regulations. In-depth, structured and continuous stakeholder consultations are integral to RIA, thus facilitating stakeholder buy-in for regulatory proposals.

Nevertheless, to ensure the adoption of RIA in the regulatory process, political will is necessary.

Various expert committees have already recommended adoption of RIA in India. These include the erstwhile Planning Commission of India in its report on Business Regulatory Framework, Damodaran Committee, Financial Sector Legislative Reforms Commission, et al. The policy makers have appreciated the benefits of RIA and steps are underway for adopting the same. The Government of India have constituted Better Regulatory Advisory Group. The Group advised the formation of a sub-group on RIA consisting of CUTS International and Federation of Indian Micro and Small and Medium Enterprises (FISME). The Sub-Group was tasked to suggest a mechanism for RIA in India, for ministries and regulators under the Central Government to improve regulatory processes.<sup>8</sup>

Moreover, to enable institutionalisation of RIA, training and capacity building of relevant government institutions to undertake in-depth RIA would be required. Building such capacity and conducting periodic RIAs would put significant strain on exchequer. However, the consequent benefits of improved regulatory governance and imposition of minimal costs on stakeholders to achieve regulatory objectives are expected to outweigh the costs of institutionalisation and conducting RIA.

<sup>1</sup> <https://transport.maharashtra.gov.in/Site/Upload/Pdf/mahacts17%20.pdf>, accessed on 15th December 2017

<sup>2</sup> Writ Petition 1329/2017 in the Bombay High Court, accessed on 15th December 2017

<sup>3</sup>The report is available at <https://transport.maharashtra.gov.in/Site/Common/ViewPdfList.aspx?Doctype=421c4209-3a6e-4eba-9248-47bfb7533389>, accessed on 15th December 2017

<sup>4</sup> Maharashtra taxi rules discriminates between black-and-yellow cabs and app-based taxi services: Bombay HC, Indian Express, 03 August 2017, available at <http://indianexpress.com/article/india/maharashtra-taxi-rules-discriminates-between-black-and-yellow-cabs-and-app-based-taxi-services-bombay-hc-4780461/> accessed on 15th December 2017

<sup>5</sup>Urban Transport in India: Challenges & Recommendations, Indian Institute for Human Settlements. [http://iihs.co.in/knowledge-gateway/wp-content/uploads/2015/07/RF-Working-Paper-Transport\\_edited\\_09062015\\_Final\\_reduced-size.pdf](http://iihs.co.in/knowledge-gateway/wp-content/uploads/2015/07/RF-Working-Paper-Transport_edited_09062015_Final_reduced-size.pdf), accessed on 15th December 2017

<sup>6</sup> Assuming that average per day cost to consumer at present is around INR 360

<sup>7</sup> Assuming that average per day cost to driver at present is around INR 1500

<sup>8</sup> <http://pib.nic.in/newsite/PrintRelease.aspx?relid=176264>



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