



**Asia-Pacific
Economic Cooperation**

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Agenda Item: 12

Disruptive Innovation: Implications for Enforcement of Competition Law

Purpose: Information
Submitted by: Singapore



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Outline

- 1) Introduction
- 2) Case Study: Third Party Taxi Booking Apps
- 3) ICN 2016 Special Project
- 4) Conclusion



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Introduction

➤ Disruptive innovation –

“a new competitor creates *radical change* in an existing industry, launching a *new product or service*, often with some *distinctly novel features* or an entirely different business model”

- Technological advancement (world wide web) resulted in many new e-commerce /digital markets emerging
- Sharing economy– peer to peer lending, AirBnB, Uber



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Case Study: Third party Taxi Booking Applications

Singapore Taxi Market & Third Party Apps

- Third party apps appeared in early 2013 with growing usage of smartphones
- 5 main third party apps – compete with taxi operators’ taxi booking services (exclusive to drivers that rent their taxis)
- Benefits:
 - Wider source of bookings for drivers – especially for those under smaller taxi operators
 - Increased taxi utilisation
 - More choices of booking platforms
 - Access to information analytics – uptime, downtime, earnings
 - Allow passengers to be matched more quickly and easily to drivers
 - Value-added services – non-cash payment options



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Case Study: Third party Taxi Booking Applications

Competition Concerns

- **Complaint** – One of the third party apps was offering loyalty discounts targeted at the most active taxi drivers (i.e. make high number of trips a day) on condition that they would not use other third party apps (**exclusive contract**)
- **Theory of harm** – foreclose significant proportion of taxi drivers from other competing apps;
 - Downward spiral: given network effects of 2 sided market, competing apps would be unable to attract passengers as a result, which would result in even fewer drivers using these competing apps
 - Result in a single third-party app having monopoly power – would have ability to increase prices, reduce quality, and little incentive to innovate



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Case Study: Third party Taxi Booking Applications

Competition Assessment

- Passengers choose to use apps that would give them higher chance of booking a taxi
 - Singapore's largest taxi operator had >60% of total fleet – incumbent's booking application would have a large enough driver base
 - Other operators are too small and, hence, their booking services are not popular
 - Unlikely that drivers from smaller operators would/could switch to hiring taxis from the largest taxi operator to make use of the taxi booking system
- Competition concerns would arise – to a greater degree – for drivers that hire taxis from smaller operators should the alleged abusing third party app be able to price discriminate



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Case Study: Third party Taxi Booking Smartphone Applications

Competition Assessment

- **Market Definition** –Market shares very dynamic, significant changes in market shares in response to promotions, pricing behaviour, entry barriers etc.
- **Abuse** – loyalty discounts in return for restriction on use of competing third party apps not explicit but had been informally conveyed and compliance monitored
 - But, number of drivers under the loyalty schemes were small proportion of active taxi driver base
 - Impact presently not significant and unlikely to harm competition
- **Conclusion** – premature to conclude on dominance and abuse at the point of assessment. CCS closely monitor market developments to safeguard healthy growth of market



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Case Study: Third party Taxi Booking Smartphone Applications


Industry Developments

- Easy Taxi – wound up operations in Singapore
 - Focus core markets in Latin America, Middle East and Africa
- Highly funded competition – third party taxi apps providers tended to have strong financial backing, not simply SME start-ups
- Uber gaining traction – not just a third party taxi app
 - Private drivers compete with taxi drivers
 - Policy issues – safety, insurance, reliability etc.




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International Competition Network 2016



Special Project: "Disruptive Innovations and Government Advocacy"

- **Motivation** – disruptive innovations bring unique challenges to competition authorities as they create tensions between regulation and competition policy
- Competition authorities should advocate for regulations that strike balance between promoting public policy objectives (e.g. consumer protection) and enabling entry and expansion of disruptive firms
- Case Study: CCS assisted Land Transport Authority to derive a set of regulations for third party taxi booking services – provide space for third party apps to grow, while ensuring safeguards for consumers within a legislative framework



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International Competition Network 2016



Special Project: "Disruptive Innovations and Government Advocacy"

- Broad themes:
 - How ICN members have successfully advocated competition considerations to GLEs
 - A study on the similarities and differences in approaches taken by ICN members in such advocacy work
 - Recommendations for advocating competition considerations to GLEs



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International Competition Network 2016

Special Project: *"Disruptive Innovations and Government Advocacy"*

- Survey –

Key Questions: How ICN members have advocated competition considerations relating to disruptive innovation to governmental and legislative entities (GLEs) in their respective jurisdictions?

- i. Objectives of each agency's government advocacy in relation to disruptive innovations;
- ii. Criteria in determining if advocacy efforts are successful;
- iii. Importance of concern/focus on disruptive innovation;
- iv. Existence of statutory powers to review regulations implemented by GLEs;
- v. Proactive scanning or triggers that result in engagement with GLEs in relation to disruptive innovations;
- vi. Sectors covered in government advocacy efforts;
- vii. Tools used in government advocacy efforts and rationale;
- viii. Non-competition related considerations that are taken into account.



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Conclusion

- Traditional tools of competition assessment can be adapted to market with disruptive innovation
- Special characteristics of digital/disruptive markets need to be factored in: 2 sided market, network effects, scalability
- But digital/disruptive markets can be tied to the real economy (e.g. size of job market) with implications for remedies
- Dominance in a market with disruptive innovations can be very dynamic – may need to be monitored over time before concluding that there dominance
- Existing regulatory frameworks based on current business models may be ill-suited to disruptive innovation and may need to be updated to accommodate new entrants with disruptive business models
- Competition authorities need to work with government and legislative entities to advocate for disruptive innovation which are in the public interest



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Thank you