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<CASE/Mobility Update>

Developments for Ride-hailing in Japan

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Introduction

On March 29, 2024, the Ministry of Land, Infrastructure, Transport and Tourism (“MLIT”) established a new regime allowing for the provision of paid transportation services by local private vehicles and non-professional drivers under the management of taxi business operators (“**Private Vehicle Utilization Business**”), and issued a guideline (“**Guideline**”) regarding permits for the provision of such services under the Road Transport Act¹. The Guideline stemmed from the “Interim Summary of Digital Administrative and Fiscal Reform”² decided in December 2023, which established a regime (based on Article 78, Item 3 of the Road Transport Act) for taxi business operators to utilize local private vehicles and drivers to supply transportation services in areas in which the number of taxis is insufficient. The Guideline also took into account public comments gathered from February to March 2024. Going forward, the permits allowing for the provision of paid transportation services by local private vehicles and non-professional drivers will be issued in accordance with the Guideline when a shortage of taxis is recognized in certain areas, times or periods.

The Private Vehicle Utilization Business regime has been seen as partially lifting ride-hailing restrictions in Japan, not only increasing convenience for local residents and tourists alike, but also expanding and creating business opportunities for, among others, taxi business operators and taxi hailing application providers, as well as creating income-generating opportunities for citizens.

In this newsletter, we will introduce an overview of the Private Vehicle Utilization Business regime and the requirements and conditions of the permit under the Guideline.

New regime to utilize private vehicles**1. Paid transportation by private vehicles**

The Road Transport Act generally prohibits paid transportation by private vehicles (i.e., vehicles which are not used for business purposes), with exceptions granted in limited circumstances: (1) when urgently needed due to a disaster, (2) when municipalities or non-profit organizations registered by the MLIT, provide transportation for local residents, tourists, etc., and (3) when it is necessary to ensure public welfare, and permitted by the MLIT, to conduct transportation within specified regions or periods (Article 78 of the Road Transport Act).

The Guideline permits paid transportation by private vehicles under the aforementioned category “(3)” in cases of insufficient taxis in certain regions, times or periods. It is important to note that the new regime does not generally endorse ride-hailing in Japan, since the Private Vehicle Utilization Business presupposes that taxi business

¹ <https://www.mlit.go.jp/report/press/content/001734883.pdf> (written in Japanese)

² https://www.cas.go.jp/jp/seisaku/digital_gyozaikaikaku/pdf/chukan_honbun.pdf (written in Japanese)

operators (as opposed to individuals) conduct the relevant transportation business and are responsible for managing and supervising non-professional drivers, and because it is limited to specific regions and times and a certain number of vehicles. Discussions regarding the legal framework generally allowing ride-hailing for business entities other than taxi business operators are slated to be held through June 2024, as outlined in the “Interim Summary of Digital Administrative and Fiscal Reform.”

2. Requirements for permission

In order to conduct the Private Vehicle Utilization Business, corporate taxi business operators are required to apply for permission to the competent transport bureau authority. Upon receiving the application, it will be examined to determine whether it meets the following requirements; if it is found to meet these requirements, permission will be granted.

	Requirements	Overview
(1)	Target areas, periods, time slots, number of shortage of vehicles	Areas, periods, and time slots where taxis are in short supply, along with the number of shortage of vehicles designated by the MLIT.
(2)	Qualification	Holding a permit for general passenger car transportation business under the Road Transport Act (i.e., a taxi business operator).
(3)	Management and operational systems	<p>(i) The operating management regulations must include the following provisions:</p> <ul style="list-style-type: none"> • In offices where the total number of business vehicles and operable private vehicles is five or more, at least one qualified operations manager is appointed for every 40 vehicles in that total. • Officers or personnel responsible for operations management have been appointed, ensuring a clear chain of command for operations management. • A system for roll call, supervision, and training has been established, with appropriate facilities provided. • An education and guidance system for accident prevention, as well as a responsibility system for accident handling and reporting in accordance with the regulations for reporting automobile accidents, have been established, including the establishment of emergency contact and cooperation systems. <p>(ii) A system must be established to provide guidance and equivalent training to drivers involved in the Private Vehicle Utilization Business (“Private Vehicle Drivers”), which are equivalent to the Regulations for Passenger Car Transportation Business under the Road Transport Act.</p> <p>(iii) The maintenance and management regulations must include provisions regarding the maintenance and management system for private vehicles used in the Private Vehicle Utilization Business. In offices where the total number of business vehicles and operable private vehicles is 5 or more, there should generally be a full-time qualified maintenance manager appointed.</p> <p>(iv) The working hours of Private Vehicle Drivers in other occupations must be monitored in order to avoid any safety concerns in transportation.</p>
(4)	Financial capacity for damages	For the Private Vehicle Utilization Business, it is required to have insurance or mutual aid coverage with liability limits of at least JPY 80 million for bodily injury and JPY 2 million for property damage. Alternatively, there should be a specific plan in place to obtain such insurance or coverage before commencing operational activities.

Regarding (1) above, on March 13, 2024, the shortage of vehicles per day and time slot was disclosed for 4 regions: Tokyo's 23 wards, Musashino City and Mitaka City; Keihin area (Yokohama City, Kawasaki City Yokosuka City, etc.); Nagoya area (Nagoya City, Seto City, Nisshin City, etc.); and Kyoto area (Kyoto City, Uji City, Nagaokakyo City, etc.).³ Additionally, it is anticipated that vehicle shortage data will be disclosed for the regions of Sapporo, Sendai, Saitama, Chiba, Osaka, Kobe, Hiroshima, and Fukuoka by April 2024, expanding the areas in which the Private Vehicle Utilization Business regime can be implemented.

Regarding (3) above, the requirement to “monitor the working hours in other occupations” for the Private Vehicle Drivers implies that they do not need to engage exclusively in transportation services using private vehicles. As detailed later, however, the permit conditions for the Private Vehicle Utilization Business include measures for preventing overwork, among other things, as part of operational management by taxi business operators. Therefore, taxi business operators are expected to manage the labor of the Private Vehicle Drivers appropriately, taking into account their working hours in other occupations. It is also notable that the Private Vehicle Drivers are supposed to become “employees” (as opposed to independent contractors) of taxi business operators.

3. Permission conditions

For the permission of the Private Vehicle Utilization Business, the following conditions are imposed, and the permission period is set to 2 years. Violation of these conditions inhering in the granted permission may result in administrative penalties such as suspension of business or revocation of permission.

	Conditions	Overview
(1)	Private vehicles to be used	<ul style="list-style-type: none"> (i) The number of vehicles available for each operator must be within the range notified by the local transport bureau authority (the notified number of vehicles falls within the range of shortage of vehicles specified by the MLIT for each permitted area and within the range of the total number of business vehicles at the office, except when the number of vehicles at the office in the permitted area is significantly low, as recognized by the chief of the local transport bureau). (ii) To register the private vehicles used by contracted Private Vehicle Drivers for the Private Vehicle Utilization Business and manage the information related to the registered vehicles appropriately (there is no limit to the number of registered vehicles). (iii) To visibly display that the vehicles are used for the Private Vehicle Utilization Business during their usage and take measures to ensure that the business operator's name is identifiable from the outside. (iv) The seating capacity of the private vehicles must be 10 passengers or fewer.
(2)	Private Vehicle Drivers	<ul style="list-style-type: none"> (i) Holding a Class 1 or Class 2 driver's license (excluding those within the initial driving period), and having no accidents in the 2 years prior to engaging in the Private Vehicle Utilization Business, as well as not being subject to a driver's license suspension penalty. (ii) Conducting training and supervision similar to that conducted based on the provisions of the Transport Regulations. (iii) Issuing a driver's certificate (which may be in electronic format) to the Private Vehicle Drivers, containing the operator's name, the driver's name, the expiration date, and the date of issuance of the driver's license, and ensuring that it is carried by the driver.
(3)	Operations management and vehicle maintenance management	To conduct operations management and vehicle maintenance management based on related guidelines.

³ <https://www.mlit.go.jp/report/press/content/001730147.pdf> (written in Japanese)

(4)	Transportation mode and manner	<ul style="list-style-type: none"> (i) A transportation contract is concluded between user and the taxi business operator, with the taxi business operator assuming transportation responsibility. (ii) The transportation is confirmed with designated pick-up and drop-off locations at the time of acceptance. (iii) Prior consent from user is obtained regarding the provision of transportation services through the Private Vehicle Utilization Business at the time of acceptance. (iv) The fare and charges adhere to the taxi business operator's predetermined fare system. (v) Payment methods for fares and charges are cashless in general. (vi) Either departure place or destination of transportation service is within the area where the taxi business operator has the permission. If it is found difficult to ensure adequate transportation service tailored to the demand for local passenger transportation service, the taxi business operator that has the office within the area next to such area may be permitted to provide transportation service in such area.
(5)	Reporting of operational status	To keep records of the operational status of available private vehicles and to report these records upon request from the transport bureau.

These conditions not only require taxi business operators to apply the same management and supervision to the Private Vehicle Drivers as they do to their employed taxi drivers, but also necessitate additional management and measures due to the use of private vehicles. Taxi business operators are expected to design systems, including the establishment of organizational systems and development/introduction of relevant IT systems, to ensure adequate compliance with the permit conditions.

Furthermore, as per condition (4) above, the use of taxi hailing applications is anticipated in the Private Vehicle Utilization Business. Applicants for permission are required to specify the names of the applications used for hailing and fare calculation in their application forms.

Further developments

While the Private Vehicle Utilization Business was established under Article 78, Item 3 of the Road Transport Act, measures are being implemented and considered to improve the system of private paid passenger transportation under Article 78, Item 2 ("**Private Paid Passenger Transportation**"). Specifically, by the end of 2023, the following measures were taken or considered:

- (i) Providing guidelines for "transportation shortage areas" and incorporating the concept of "shortage by time slots" such as nighttime.
- (ii) Clarifying that corporations can participate through subcontracting from the business operators of the Private Paid Passenger Transportation.
- (iii) Encouraging shared vehicle utilization by accommodation facilities in tourist areas.
- (iv) Setting the guideline for the "consideration" of the Private Paid Passenger Transportation at approximately 80% of equivalent taxi fares.

Additionally, measures such as the introduction of dynamic pricing and the establishment of cooperative mechanisms with taxis have been discussed.

It is expected that the use of private vehicles for paid passenger transportation will increase under both the Private Vehicle Utilization Business and the system of Private Paid Passenger Transportation. While there has already been a great deal of discussion regarding the legalization of ride-hailing businesses in Japan compared to other countries, there will be further consideration of the general legal framework for non-taxi ride-hailing business operators

through June 2024. Therefore, it is essential to continue monitoring the progress and direction of, and legislative developments issuing from, these discussions.

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