

# Detailed Proposal on Legislative Measures to Advance the Sharing Economy

October 30, 2015

**Hello, Future!**



Task Force on the Sharing Economy Promotion

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# 1. Introduction

# 1-1 Background of this Proposal

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- ✓ Since the development of social media, the sharing economy, in which individuals trade and share their idle properties, has been expanding rapidly, mainly in Europe and North America
- ✓ The domestic market size of this economy is expected to grow to more than 10 trillion yen by 2025.  
(see *Japan Ahead*, JANE's policy proposal on May 14, 2015)
- ✓ The *Japan Revitalization Strategy* (Cabinet decision on June 30, 2015) calls for taking “necessary legislative measures” for the sharing economy in the next ordinary Diet session.
- ✓ Taking these situations, JANE's Task Force on Sharing Economy Promotion compiled this proposal for Sharing Economy with focusing on home-sharing and ride-sharing.

# 1-2 The Expansion of the Sharing Economy and Examples of Companies

A variety of sharing economy business has been expanding around the world

## Vehicle-Sharing

### • Car-Sharing



### • Ride-Sharing



### • Carpooling services



## Others

### • Deliveries



### • Experiences



### • Wi-Fi



### • Equipment



## Space-Sharing

### • Residences



### • Farmlands



### • Other facilities (meeting spaces, parking lots, etc.)



Source: May 9 2013 issue of The Economist, "The sharing economy"

## Goods Sharing

### • Auctions, flea markets



### • Rental services



## Free-time / Labor (Human Resources) / Skills Sharing

### • Housekeeping, personal shopper services



### • Nursing, childcare



### • Knowledge



## Money-Sharing



# 1-3 Global Movement toward the Sharing Economy

**The sharing economy has already become an international trend.** In many countries, policy framework for the sharing economy is being developed on the assumption of its expansion.

- ✓ The European Commission has **issued questionnaires on “Collaborative Economy\*” as a part of its Online Platforms Consultation** for the purpose of gathering basic information to examine the impact of the sharing economy such as economic growth, innovation, employment creation, and the regulatory environment.
- ✓ The new “Digital Single Market Strategy” unveiled by the European Commission clearly states that the Commission will issue a guidance on the application of **existing EU laws (service directives, e-commerce directives, etc.) to the Collaborative Economy and conduct evaluation for the regulatory gap that should be addressed** by the end of 2016 .
- ✓ In some states in the United States (i.e., California and others), **the sharing economy has been legalized, and adequate administrative procedures have been introduced.**
- ✓ **The U.S. Federal Government (the Federal Trade Commission) cautions, from the perspective of promoting fair competition, that state and local governments not to impose legacy regulations on new business models** simply because they happen to fall outside of existing regulatory schemes.

\*Collaborative Economy: A business model that allows individuals and corporations to connect through an online platform (collaborative economy platform) to exchange services, properties, resources, time, or skills, temporarily and without transferring ownership rights.

(From the European Commission’s Public consultation on the regulatory environment for platforms, online intermediaries, data and cloud computing and the collaborative economy)

## 2. Proposal on Home-Sharing

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2-1 The Current Status of Home-Sharing

2-2 Why is Home-Sharing Needed Now?

2-3 Response to the Issues

2-4 Detailed Proposal on the Legal Framework

## 2-1 The Current Status of Home-Sharing (1/4)

Sharing economy business, including home-sharing, have already been an international trend and has been expanding across the world.

- ✓ Home-sharing (also referred to “*Min-Paku*” in Japanese) is generally referred to the lodging service using a portion of one’s own residence or an entire residence (such as cottage, villa, apartment unit) which are currently vacant.
- ✓ Over the past few years, this kind of business has been expanded across the world since emerging of websites which mediate hosts who want to rent out their vacant room and travelers or tourists who wish to stay at such rooms via the internet.



[Reference] *Outlook on Various Issues for the Development of ICT Services in the Near Future* (October 6, 2015)  
(a policy report published by the Ministry of Internal Affairs and Communications of Japan)

2. Structural change in the industry brought by ICT –Future aspects of the IoT –

(5) The Sharing Economy

The use of ICT is giving rise to a culture in which all of the goods that people use on their own are not “owned” but “shared.” It is also creating a new form of business, such as car sharing, home sharing, and internet auctions, in which unused resources are passed on to the people who need them. This new form of business so-called the “sharing economy” can be the bud of a new trend shifting from B2C to P2P.

## 2-1 The Current Status of Home-Sharing (2/4)

The current views of Japan government on home sharing are as follows:

- ✓ Mediating rental of vacant rooms to travelers (platform business) itself is not subject to the regulations of the Inns and Hotels Act, but hosts those who repeatedly and continuously provide rooms for a fee through these sites must obtain license to do so under the Act beforehand.

Source: MHLW explanatory documents for the Regulatory Reform Council (Oct. 5, 2015)

(Reference) Inns and Hotels Act (Act No. 138 of July 12, 1948)

Article 2 – Within this Act, “the hotel business” refers to hotels, ryokan inns, public lodging houses and boarding houses... [...].

Article 3 – Those who are to run hotel businesses must receive the permission of the Governor of their municipality (for cities or special wards with a health center, businesses must receive the permission of the city mayor or ward mayor. Excluding Paragraph 4, the same applies hereinafter). However, this shall not be the case when those who have received permission to run a hotel, ryokan inn, or public lodging house wish to run a boarding house in the same facilities... [...].

## 2-1 The Current Status of Home-Sharing (3/4)

The Government has indicated to promote the sharing economy, including home sharing

### ■ Japan Revitalization Strategy (Cabinet decision on June 30, 2015) (excerpt)

#### Section 1 Overview

#### II. Key Policy Measures in the Revised Strategy

##### 1. Revolution in productivity by investment in the future

##### ○ New legislative measures to promote the utilization of IT

“Shift from the general rule of utilizing person-to-person interaction and written documents and implement a general rule of utilizing IT. Additionally, take legislative measures necessary to achieve the “one-stop” streamlining of various administrative procedures (for deaths, when moving, etc.) and to vitalize the “Sharing Economy” and other new markets”. (partially omitted).

[Target: sequential submission of bills from the next ordinary Diet session]

### ■ Regulatory Reform Implementation Plan (Cabinet decision on June 30, 2015) (excerpt)

“Concerning lodging services that solicit lodgers to stay in personal residence, and seasonal house, through the internet, the relevant ministries and agencies are to figure out the actual situation of these services and to examine how to regulate from a wide perspective including competition with ryokan inns and hotels.”

[Deliberation shall be commenced in 2015 and shall be concluded in 2016]

## 2-1 The Current Status of Home-Sharing (4/4)

(Cont'd) The Government has indicated to promote the sharing economy, including home sharing

- **Prime Minister Abe's remarks at the 50th Meeting of the Regulatory Reform Council (October 15, 2015) (excerpt)**

“This is no end to regulatory reform. In aiming to achieve Japan's greatest postwar economy with a GDP of 600 trillion yen, we must bring a productivity revolution in every field. Going forward, we will implement regulatory reforms to eliminate obstacles to these efforts without “sanctuary.”

(partially omitted)

“An urgent issue currently appears to be how to ensure sufficient lodging facilities. As such, we will embark on regulatory reform in order to allow private residences to take lodgers temporarily.”

- **Prime Minister Abe's remarks at the 16th Meeting of the Council on National Strategic Special Zones (October 20, 2015) (excerpt)**

“We must make the experience of staying in Japan more convenient and pleasurable for visitors from other countries. To that end, we consider to allow short-term accommodation facilities other than ryokan (traditional Japanese inns). We also consider to allow the use of privately-owned car as a means of transport for tourists in sparsely populated areas and others.”

## 2-2 Why is Home-Sharing Needed Now? (Overview)

Home-sharing through the use of IT offers many outstanding characteristics. Not only having an economic impact, but it will contribute to resolving various problems Japan is facing.

- ✓ This proposal defines the “home sharing” as the service which hosts, who want to make effective use of their vacant rooms/residence, are matched to guests who want to stay in their premises via platform.
- ✓ Hosts and guests rate each other via the platform’s rating system, and those with low ratings are eliminated from the service.
- ✓ Home-sharing creates flexible supply because it allows people with idle properties to be suppliers.
- ✓ Home-sharing is expected to contribute to economic growth, and to address various issues Japan is facing.  
(E.g. abandoned property, regional vitalization, the dynamic engagement of all citizens, the realization of Japan as a tourism-oriented country, etc.)

## 2-2 Why is Home-Sharing Needed Now? (1. Economic Impact (1/2))

Home-sharing will generate **10 trillion yen in total of economic impact**, including inbound consumption by the guests. It will contribute to the realization of “Japan’s greatest postwar economy with a GDP of 600 trillion yen.”

1. Number of Prospective Home Sharing Properties

Approx. 2 million

\*Assumed that 60% of the properties are vacant, the rest of 40% are occupied by hosts; and that there are 1.2 million vacant properties. (It is assumed that at least 30% of the 3.91 million prospective properties are without decay or damage and therefore could be offered for home-sharing).

2. Number of Foreign Visitors that shared properties can accommodate

Approx. 25 million

\*Calculated based on the following assumption:  
1. 1 million out of the above 2 million are stayed by foreign visitors, and that 20% of those would be under operation  
2. One property will be stayed by two people for six nights

3. Estimated Economic Impact

10 trillion yen in total

1. Consumption by guests – Approx. 3.8 trillion yen (see next page)
2. Investments by hosts – Approx. 1 trillion yen (see next page)
3. Inbound consumption by guests – Approx. 7.5 trillion yen  
(based on the estimation that each foreign visitor spends 30 thousand yen on average, as mentioned in the JANE proposal, “Tourism-oriented country 2020”)

# 2-2 Why is Home-Sharing Needed Now? (1. Economic Impact (2/2))

(Cont'd) Home-sharing will generate **10 trillion yen in total of economic impact**, including inbound consumption by the guests. It will contribute to the realization of “Japan’s greatest postwar economy with a GDP of 600 trillion yen.”

## 1. Economic impact of guests’ stay and expenditure

- ✓ As many of home-sharing offer only lodging, not dining, and they are often located outside of the hotels and inns zones, spending by tourists is not focused on the specific area. Therefore, it has huge economic impact on the various areas.
- ✓ Positive economic impact on the entire local regional tourism industry is expected, since the tourists will tend to use tourism facilities nearby their accommodation.



**Estimated economic impact:  
Over approx. 3.8 trillion yen**

\*Based on JANE estimation that 2 million properties could be served for home sharing, with an average of 20% under operation

### Examples of Consumption by guests

- Dining at local restaurants
- Shopping at local stores
- Visiting hot springs and other facilities of nearby hotel or inn
- ✓ In addition, it will contribute to the target that export of agricultural, forestry, and fishing products and food expands to 1 trillion yen by 2020 as foreign travelers experience excellent Japanese cuisine and that generates demand of import Japanese food products.
- ✓ Home-sharing can be an opportunity to showcase local specialty products if these products are displayed at the shared homes.

## 2. Economic impact by investment by hosts and creation of peripheral industries

- ✓ Competition among hosts encourages investments into properties in order to make them more attractive.
- ✓ The operation of home-sharing generates peripheral industries such as proxy operation services.
- ✓ It is also conceivable that hotels and inns will offer such operation services.

### Examples of investments by hosts and peripheral industries

- Property renovation & repairs, furniture purchases & rentals
- Daily necessities, electricity, gas, water, Telecommunications (Wi-Fi, etc.)
- Room cleaning services, key transfer services, etc.



**Estimated economic impact:  
Over approx. 1 trillion yen**

\*Based on JANE estimation that 2 million properties could be served for home sharing, with an average of 20% under operation

## 2-2 Why is Home-Sharing Needed Now? (2. Regional Vitalization)

Home-sharing will satisfy demands of countryside related to various local events: therefore it will **contribute to regional vitalization**.

Due to the Lack of lodging facilities, Japanese countryside misses out on attracting potential tourists.

- ✓ Regions of Japan boast many attractions that could draw 1 million or more tourists, such as the Nebuta Festival (Aomori Prefecture), the Hakata Dontaku Festival (Fukuoka Pref.), the YOSAKOI Soran Festival (Hokkaido) and so on.
- ✓ However, the supply of lodging facilities are overwhelmingly scarce in these areas due to soaring of construction prices, lack of labor force at hotels and inns, and so forth.

\*To secure sufficient staffing at accommodations, necessary measures such as relaxation of visa requirements should be taken.

\*MHLW has acknowledged home-sharing (so-called “*Min-paku*”) during an event only when these strict requirements are fulfilled: 1) the event is held annually (for around 2-3 days); and 2) the local government request its citizens to offer their residence for tourists because scarce of lodging facilities is clear.

(The administrative notice by MHLW on July 1, 2015 and September 1, 2015).

Event Name (2014 Schedule)	No. of Visitors (2014)	No. of Rooms Used (Event Month, 2014)
Nebuta Festival (August 2 to 7)	Approx. 2.59m people	Approx. 360,000 rooms
Hakata Dontaku Festival (May 3 to 4)	Approx. 2m people	Approx. 910,000 rooms
YOSAKOI Soran Festival (June 4 to 8)	Approx. 1.9m people	Approx. 1.68 million rooms

Source: Japan Tourism Agency  
Lodging and Travel Statistics, etc.

Compared to the number of visitors of each 2-3 days event, fewer rooms were used during the month in the prefectures where the events were held. This shows that lodging facilities are scarce overwhelmingly.

Home-sharing can meet these Limited-time demands: it can provide accommodations flexibly. Furthermore, it spreads positive effect on the local economy: the tourists using the service may spend money on a variety of things in the region.

## 2-2 Why is Home-Sharing Needed Now? (3. Entrepreneurship and “a Society in Which all One Hundred Million-plus Citizens are Each Dynamically Engaged”)

Home-sharing will start a revolution in work style and contribute to growing entrepreneurship and realizing so-called “a society in which all one hundred million-plus citizens are each dynamically engaged” which the Prime Minister of Japan is advancing.

- ✓ Home-sharing gives people with vacant places a new option of earning living expenses, allows them to work more flexibly, and creates new lifestyles.
- ✓ Home-sharing grows entrepreneurship: hosts become more innovative to attract more guests through the competition.
- ✓ For example, the following people are likely to be suitable for hosts:
  - Retired seniors whose children have left their home: they can make use of empty rooms of their houses.
  - Young people with dreams of being an entrepreneur or an artist: they can make money through home-sharing while pursuing the goal.
  - People who want to mingle with foreign tourists and study English.



Growth of entrepreneurship and realization of “a society in which all one hundred million-plus citizens are each dynamically engaged”

## 2-2 Why is Home-Sharing Needed Now?

### (4. Responding to Vacant Housing Issues, the Productivity Revolution)

Home-sharing can address the abandoned property issue by turning the **8.2 million vacant homes existing nationwide into tourist lodges**: It can turn idle properties into occupying properties, and make a **productivity revolution**.

The issue on abandoned properties should be addressed urgently.

- ✓ There are 8.2 million vacant homes\* across the country, that accounts for 13.5% of total housing in Japan. It is anticipated that this number will rise if we keep ignoring this situation.  
\*FY2013 Housing and Land Statistical Research
- ✓ Increasing the number of tenants of properties is difficult due to the decreasing of total population of Japan. Owners and real estate management companies lack ways of utilizing their properties. There is also no way to meet the owners' needs of short-term rentals in case of the property cannot be offered for a fixed long-term rental.
- ✓ Homes abandoned for a long time may collapse, and cause hygiene concerns.



The number of vacancies can be reduced by home-sharing: thus it contributes to resolving these issues. It also dramatically increases productivity by turning idle properties into performing assets.

- ✓ Among the 8.2 million vacant homes, approx. **3.91 million** could potentially be used for home-sharing.
- ✓ Assuming that 30% of those homes are actually used, the number of vacant homes, mainly around big cities, would decline by **approximately 1.2 million**.

## 2-2 Why is Home-Sharing Needed Now?

### (5. Reducing Corporate and Household Financial Burdens)

Expansion of accommodation supply will **stop sharp increase of lodging costs** and can reduce corporate and household expenditure.

Lodging expenses are rising sharply, and that becomes obstacles for corporate economic activities and individual's travel planning.

Average Hotel Rates in Major Domestic Cities (1<sup>st</sup> Semester, YoY)

City	2015 (Yen)	2014 (Yen)	Increase (YoY)	City	2015 (Yen)	2014 (Yen)	Increase (YoY)
Tokyo	16,659	15,458	8%	Sapporo	12,813	10,893	18%
Kyoto	15,408	13,808	12%	Hiroshima	11,144	10,525	6%
<b>Osaka</b>	<b>14,502</b>	<b>11,810</b>	<b>23%</b>	Nagoya	10,849	8,873	22%
Yokohama	13,932	12,082	15%	Fukuoka	10,845	10,230	6%
Okinawa	13,276	12,070	10%				

Price paid per one room for one night (incl. taxes and service fees)

Source: Hotels.com "Hotel Price Index 2015 1st Semester"

#### Minutes of the 49th Meeting of the Regulatory Reform Council (Oct 5, 2015) (Excerpt)

[Morishita] I want to change our focus. The domestic issues mentioned by Osaki-san are certainly important, but on the other hand, I think that there are extremely large issues related to visitors from overseas. There is really an overwhelming number of foreign visitors to Osaka now, such that people on business trip from Tokyo can't find hotels. I think that this is becoming an extreme obstacle for economic activities. And at any rate, the people who come to Japan make reservations in advance, so they get a cheap rate. On the other hand, domestic travelers, particularly business travelers, tend to make reservations on the week they travel. If they do that, hotels charges them two or three times of the normal rate, or they may not be able to make reservations at all, such that most business trips to Osaka are now day-trip. Or at least it has become hard to have a long-term business trip to Osaka. This is becoming an obstacle for economic activities. [...] It was mentioned that the number of hotel rooms in Osaka is being increased by 3,000 or 4,000 rooms, but that is the situation up to 2020. Honestly, under the current situation, it is absolutely impossible to reserve a hotel room on the weekend in Osaka. We have this weird situation where it has become normal to see a room charging 100,000 yen for one night.

The increase of lodging facilities through home-sharing will stop the rapid rise of lodging fees and promote smooth economic activities by companies.

## 2-2 Why is Home-Sharing Needed Now?

### (6. The Realization of Japan as a Tourism-Oriented Country)

Home-sharing can meet the lodging demands of foreign visitors to Japan during huge events such as the opening of the 2020 Tokyo Olympic and Paralympic Games and contribute to **the realization of Japan as a Tourism-Oriented Country**.

Large-scale events attracting tourists from around the world will be held in Japan one after another.

- ✓ 2019 – Rugby World Cup
- ✓ 2020 – Tokyo Olympic and Paralympic Games

However, only with hotels and inns, lodging facilities are insufficient to meet the demands.

- ✓ The number of foreign travelers to Japan is increasing, already having reached 12.875 million people as of August 2015.
- ✓ City hotels in Tokyo and Osaka are currently under occupation at the high capacity of 80% to 90% usage.

Source: Japan Tourism Agency explanatory documents for the Regulatory Reform Council (October 5, 2015)



Home-sharing can flexibly provide sufficient number of rooms and enable the realization of “Japan as a Tourism-Oriented Country”.

## 2-2 Why is Home-Sharing Needed Now? (7. Host and Guest interaction)

Interaction between host and guests generates many tangible and intangible effects

### Examples of effects generated through interaction between hosts and guests

- ✓ Seniors whose children have already left their home: By offering the empty rooms for home-sharing, they can interact with younger generations, and fill their lives with vigor.
- ✓ Understanding of other cultures and their acceptance of diversity are increased.
- ✓ Each host can act as a “tourism ambassador” for Japan and offer hospitality to tourists, that increases the number of repeaters to Japan.
- ✓ For foreign tourists who wish to experience “normal Japanese lifestyle,” home-sharing experience itself is attractive.
- ✓ Home-sharing hosts can improve their English through their hospitality to foreign guests and communication with them (ex: answering their questions about Japan). They can also make friends with their guests, and that enriches their global experiences.

\*The JANE’s policy proposal, “*Tourism-oriented country 2020*”, released in February 2015, proposes that a kind of “*Tokiwa House*” be created for interaction with foreign visitors.

## 2-3 Response to the Issues (Overview)

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In addition to using the technology such as ratings systems, certain rules are necessary to address the issues.

- ✓ Technology such as rating systems can fill the information asymmetry lying between hosts and guests, and exclude hosts and guests with low ratings.
- ✓ On the other hand, it is necessary to consider appropriate measures to address a variety of issues that have been pointed out such as:
  - 1) identity verification; 2) ensuring hygiene; 3) proper taxation; and 4) securing peace of neighborhood.

## 2-3 Response to the Issues (1.Identity verification)

Don't we need to verify the identity of guests of home-sharing, from the perspective of anti-terrorism and prevention of the spread of infections?



Hosts can learn about guests prior to their arrival by some tools such as SNS. It is also possible to upload guest passport information onto platforms before booking.

In addition to the above, identity verification is possible through the following means.

- ✓ In case of where the host is present, the host can personally verify the identity of the guest.
- ✓ Even though the host is not present, it is still possible to verify identities (By the use of videos, proxy services, etc).

\*It is thought that the platforms might provide an app to hosts that would make it easy to verify identities through videos or other methods.

The current Inns and Hotels Act requires inns and hotels to maintain a lodging guest registry (including the nationality and passport number in the case of foreign guests). The extent of requirements of information needs to be considered in planning laws and regulations.

## 2-3 Response to the Issues (2. Ensuring Hygiene)

Are the countermeasures for infection sufficient?



Appropriate measures can be taken by the platform and hosts such as:

- ✓ Platforms notify hosts of appropriate information at the time of an infectious disease outbreak (not only through postings on their website, but also through push notifications and other secure methods that could reach out to their hosts).
- ✓ Hosts notify the relevant authorities if they find an outbreak of an infectious disease.

\*When guests get sick (ex: vomiting), they should contact the host.

\*It is also considerable that Platforms offer their hosts online courses related to hygiene.

## 2-3 Response to the Issues (3. Proper Taxation)

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Are income taxes and taxes on lodgings collected appropriately?



- ✓ The platforms shall inform that hosts are responsible for income tax filing.
- ✓ The issue whether home-sharing is subject to the lodging tax should be carefully examined. If taxable, platforms may be able to collect the tax from hosts on behalf of authority.

## 2-3 Response to the Issues (4. Securing Peace of Neighborhood)

Doesn't home-sharing disrupt peace of neighborhood?



Rating systems can exclude bad guests and hosts who would disturb the peace. It is also possible for platforms to encourage hosts to take appropriate measures to pay the maximum possible attention to neighborhood.

- ✓ Rating systems exclude bad guests and hosts who would disturb the peace.
- ✓ Hosts give their guests appropriate instruction of facility rules about trash and others.
- ✓ Neighbors should be notified about the contact of host in case of any trouble with his guests.
- ✓ Those who plan to rent out their apartment unit, should fully comply with the covenant of the apartment, and highly respect the opinions of other residents before joining to home-sharing.

## 2-4 Detailed Proposal on the Legal Framework

Regarding home-sharing as a new service, we propose to set rules with obligations to hosts and platforms, and that hosts **should not be subjected to the Inns and Hotels Act**:  
To the extent possible, home-sharing shall be governed by flexible way like guidelines and other documents.

(Reference: Guidelines on Matching Services Websites for After-Hour Childcare Services (MHLW, June 2015))

Platform Obligations/Requirements	Host Obligations/Requirements
<ul style="list-style-type: none"> <li>✓ Notifications to supervisory ministries and agencies</li> <li>✓ Providing rating systems</li> </ul>	
	<ul style="list-style-type: none"> <li>✓ Maintaining a lodging guest registry (including passport information for foreign guests), identity verification measures (such as verification through videos and by proxy services)</li> </ul> <p>*the extent of requirements and the relationship of these acts to the current regulations of the Inns and Hotels Act should be carefully examined.</p>
<ul style="list-style-type: none"> <li>✓ Notify hosts appropriate information hosts should understand such as hygiene and taxes</li> </ul>	<ul style="list-style-type: none"> <li>✓ Notify guests appropriate information on items related to hygiene</li> <li>✓ Notify relevant authorities if the outbreak of an infectious disease is suspected.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Notify hosts information on appropriate measures hosts should take to avoid trouble with neighbors and keep neighborhood in peace.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Offer information to guests on how to use facilities.</li> <li>✓ Make effort to get the understanding of other residents of the apartment before joining home-sharing.</li> <li>✓ Ensure that neighbors can contact hosts if there is any trouble.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Enroll in insurance.</li> </ul>	

\*Foreign platforms holding Japanese users should also be subject to these obligations.

\*Existing out-of-date provisions of the Inns and Hotels Act should also be constantly examined and keep up with the trend.



## 2. Proposal on Ride-Sharing

# Table of Contents (Ride-Sharing)

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3-1 The Current Status of Ride-Sharing

3-2 Overview

3-3 Why is Ride-Sharing Needed Now?

3-4 Safety on Ride-Sharing

3-5 Detailed Proposal on the Legal Framework

## 3-1 The Current Status of Ride-Sharing (1/3)

Sharing economy businesses, including ride-sharing, have already been modern trend and expanding across the world.

- ✓ Ride-sharing refers to transportation services that drivers carry passengers by their privately-owned car when they have room for passengers on the car and time.
- ✓ Ride-sharing platform companies are growing rapidly throughout the world.



Reference: *Outlook on Various Issues for the Development of ICT Services in the Near Future* (October 6, 2015)  
(an official report issued by the Ministry of Internal Affairs and Communications)

2. Structural industry change by the ICT – the approaching phase started by the IoT –

(5) The Sharing Economy

The use of ICT creates a culture of sharing all the goods that people use rather than owning by each. It also creates a new form of business services in which unused resources are passed on to the people who need them, such as car-sharing, home-sharing, online auctions. This new form of business known as the “sharing economy” is a sign of a new trend shifting from B2C toward P2P.

## 3-1 The Current Status of Ride-Sharing (2/3)

The current views of Japan government on ride-sharing are as follows:

- ✓ In terms of transportation safety and other reasons, it is not appropriate to allow private car owners to use their own cars for passenger transportation without obtaining safety licenses.

Source: The MLIT's response to a JANE Proposal submitted via the regulatory reform hotline

### Road Transport Vehicle Act (Act No. 183 of June 1, 1951)

#### Article 2 (partially omitted)

3 In this Act, "the passenger vehicle transport business" means a business that transport passengers at their request for a fee, and is provided in the following Article.

**Article 3** The types of passenger vehicle transport businesses are as follows.

1. General passenger vehicle transport businesses (passenger vehicle transport businesses other than specified passenger vehicle transport businesses)
  - a. General ride-sharing passenger vehicle transport businesses (General passenger vehicle transport businesses that transport multiple passengers)
  - b. General chartered passenger vehicle transport businesses (General passenger vehicle transport businesses that transport more passengers by chartering vehicles carrying than the number of passengers designated by the regulations of Ministry of Land, Infrastructure, Transport and Tourism under a single contract)
  - c. General travel-use passenger vehicle transport businesses (General passenger vehicle transport businesses that transport passengers by chartering vehicles carrying less than the number of passengers designated by the regulations of the Ministry of Land, Infrastructure, Transport and Tourism under a single contract)
  - d. (omitted)

**Article 4** People who intend to run a general passenger vehicle transport businesses must get permission from the Minister of Land, Infrastructure, Transport and Tourism.

2 (omitted)

**Article 78** Except for the following circumstances, privately-owned vehicles (vehicles that are not business-use vehicles. The same definition applies hereafter) may not be used to transport passengers for a fee.

1. When an emergency situation occurs due to disaster.
2. When municipalities (including special wards, the same applies thereafter), specified non-profit organizations provided in Paragraph 2 of the Article 2 of the Act on Promotion of Specified Non-profit Activities (Act No. 7 of 1998) or others specified by the regulations of the Ministry of Land, Infrastructure, Transport and Tourism shall transport residents within the jurisdiction of municipalities provided in the following Article, or when passengers provided by the regulations of the Ministry of Land, Infrastructure, Transport and Tourism are transported (hereafter, passenger transportation by "privately-owned vehicle for-fee passenger transport").
3. In case when it is inevitable to secure the public welfare, transportation by privately-owned vehicles are allowed within the period and the area permitted by the Minister of Land, Infrastructure, Transport and Tourism.

## 3-1 The Current Status of Ride-Sharing (3/3)

The Government is considering to promote the sharing economy, including ride-sharing

### ■ Japan Revitalization Strategy (The Cabinet decision on June 30, 2015) (excerpt)

#### Section 1 Overview

#### II. Key Policy Measures in the Revised Strategy

##### 1. Revolution in productivity by investment in the future

##### ○ New legislative measures to promote the utilization of IT

“Shift from the general rule of utilizing person-to-person interaction and written documents and implement a general rule of utilizing IT. Additionally, take legislative measures necessary to achieve the “one-stop” streamlining of various administrative procedures (for deaths, when moving, etc.) and to vitalize the “Sharing Economy” and other new markets”. (partially omitted).

[Target: Bills to be submitted sequentially from the next ordinary Diet session]

### ■ Prime Minister Abe’s remarks at the 16th Meeting of the Council on National Strategic Special Zones (October 20, 2015) (excerpt)

“We must make foreign visitors’ experience in Japan more convenient and comfortable. To that end, we will allow to serve personal residences as short-term accommodation in addition to *ryokan* (Japanese traditional inns). We will also allow to use privately-owned cars as transportation for tourists such as in sparsely populated areas.”

## 3-2 Overview (1. What is Ride-Sharing?)

“Ride-sharing” in this proposal means a service that enhances user convenience and transparency through the use of IT.

### 1. Mediation by platforms

- ✓ Platforms offer opportunity for drivers who want to operate their car to earn money when idle can find passengers who need a ride to get somewhere, and vice versa.

### 2. User convenience and transparency

- ✓ Highly convenient services that enable to dispatch cars(on demand dispatches) to wherever users are waiting simply and instantaneously through a device such as smartphone.
- ✓ Safety and security of the service are guaranteed and its service transparency is ensured through the use of IT, including ratings systems.

### 3. Flexible supply of services

- ✓ Because service suppliers are the general public (drivers owing their own car) and prices are set flexibly in line with supply and demand, ridesharing service can be flexibly supplied.

### 4. The realization of flexible work styles and new lifestyles

- ✓ Drivers can work only when they want to and as much as they want, that creates new lifestyles.

## 3-2 Overview ((Cont'd) 1. What is Ride-Sharing?)

Ride-sharing which JANE is proposing, does not cause any of concerns associated with unlicensed taxi.

Concerns from users	Ride-sharing as proposed by JANE	Unlicensed Taxi
Payment Methods	<ul style="list-style-type: none"><li>✓ Cashless payment system powered by platform: No cash transactions with drivers are occurred.</li></ul>	<ul style="list-style-type: none"><li>✓ Cash transactions usually occur.</li></ul>
Drivers' Background	<ul style="list-style-type: none"><li>✓ Users can check basic driver information, such as name, prior to a ride.</li><li>✓ Drivers with problem can be excluded during the background check by platform.</li></ul>	<ul style="list-style-type: none"><li>✓ Users cannot learn about drivers' background.</li><li>✓ There is no way to exclude problematic drivers.</li></ul>
Drivers' Driving Skills	<ul style="list-style-type: none"><li>✓ Drivers with major accident history can be excluded during the background check.</li><li>✓ The rating system excludes drivers with low driving skill scores.</li><li>✓ Platforms can avoid hiring drivers with accidents or other trouble record.</li></ul>	<ul style="list-style-type: none"><li>✓ There is no way to ensure driving skills.</li></ul>

### 3-3 Why is Ride-Sharing Needed Now? (1. Economic Impact)

By improving the productivity of society, ride-sharing will generate an economic impact at least more than **3.8 trillion yen**, and therefore contribute to the realization of “Japan’s greatest postwar economy with a GDP of 600 trillion yen.”

#### 1. Productivity revolution

- ✓ According to MLIT\*, traffic congestion in Japan is depriving people of 3.81 billion hours in total, which are equivalent to approximately 12 trillion yen.
- ✓ As it is thought that ride-sharing can reduce daily traffic volume by increasing vehicle occupancy rates, it is expected that it would have a major impact on improving productivity.

\*Source: MLIT website: <http://www.mlit.go.jp/road/ir/ir-perform/h18/07.pdf>

#### 2. The spillover effects on other markets induced by enhancing mobility

- ✓ The enhancement of mobility will make it easier for people to go out; and that increases expenditure at the places they visit and the expenditure of drivers. There can be spillover effects on other markets and that will be worth approximately **3.8 trillion yen in total**.

##### Examples of Expenditure of Passenger

- ✓ Shopping
- ✓ Dining

##### Examples of drivers' expenditure

- ✓ Car accessories
- ✓ Gasoline

\*Based on the JANE estimation that 200,000 cars will be used.

### 3-3 Why is Ride-Sharing Needed Now? (2. Entrepreneurship and “a Society in Which all One Hundred Million-plus Citizens are Each Dynamically Engaged”)

Ride-sharing will start a revolution in work styles and grow **entrepreneurship and that contributes to realization of “a society in which all one hundred million-plus citizens are each dynamically engaged”**.

- ✓ Ridesharing drivers can work only when they want, that creates more flexible work styles and new lifestyles. People can work as a ridesharing driver even if working as a full-time taxi driver is difficult for them.
- ✓ Ride-sharing will grow entrepreneurship among the public: since drivers will innovate their operation in order to attract more passengers.
- ✓ For example, the following people could be prospective ridesharing drivers.
  - Young people with dream: they can make money by ride-sharing while pursuing their dreams.
  - Women who want to work a part-time during their kids at child daycare when having time to spare from housekeeping.
  - People who want to earn while having sufficient time to spend with their families.
  - People who want to learn English: they can offer hospitality to foreign tourists and interact with them in English as a host.



Ride-sharing grows entrepreneurship and realizes “a society in which all one hundred million-plus citizens are each dynamically engaged”.

### 3-3 Why is Ride-Sharing Needed Now? (3. Enhancing Mobility in Cities)

Ride-sharing contributes to the **enhancement of residents' mobility in cities** by increasing convenient transportation service.

It is presumed that there are certain demands of people in cities who need to travel short distance, but hesitate to call a taxi due to cost and feeling sorry for taxi drivers to travel only a short distance (i.e, only for minimum fare).

- ✓ People who want to ride a car for the last mile in combination with public transportation.
- ✓ Women going home from shopping with their children.
- ✓ Those whose available transportation methods for shopping are very limited.

[Reference: Survey on Taxis (MLIT, March 2015) (excerpt)]

Q19 – What sort of transportation services do you expect in the future? (free answer)

- Cheaper transportation for short-distance trips
- Taxis with low initial charges

Q20 – What sort of taxi do you prefer as a passenger? (free answer)

- A taxi with a nice driver even if the ride is only for a short distance or time, and cheap fares.

Ride-sharing will improve mobility of urban residents

- ✓ By using ride-hailing app, passenger can call a car easily whenever necessary and wherever they are: in front of a train station or one's house.
- ✓ Passenger can take a ride even only for a short distance without hesitation, since the destination is accepted by the ridesharing driver in advance.
- ✓ Automatic cashless payment systems are available.
- ✓ Fares of ridesharing service are generally lower of than taxis.

### 3-3 Why is Ride-Sharing Needed Now? (4. Regional Vitalization)

Ride-sharing will ensure mobility in regions lacking methods of transportation, and thereby **contribute to regional vitalization**.

The urgent issue in the regions lacking methods of transportation is to enhance mobility.

- ✓ Underpopulated areas account for 40% of all municipalities in Japan, and take up 50% of the land of Japan.
- ✓ Every year nearly total 2,000 kilometers of bus routes are discontinued: The areas without public transportation are increasing annually.
- ✓ Therefore, regions which cannot secure certain public transportation their local residents are expanding.

Source: MLIT "The Current Status of Privately-owned Vehicle Passenger Transport"

- ✓ Although ride-hailing for-fee in the regions without public transportation has already been legally allowed, there are strict conditions to be satisfied such as obtaining consent of the city council (i.e., they hardly grant one), and that only NPOs are allowed to be operators of ride-hailing service.



Ride-sharing will ensure mobility in regions lacking methods of transportation, and contribute to regional vitalization.

- ✓ Rural areas in Japan are dominated by car rather than public transportation, therefore residents having own car can play role in ride-sharing.

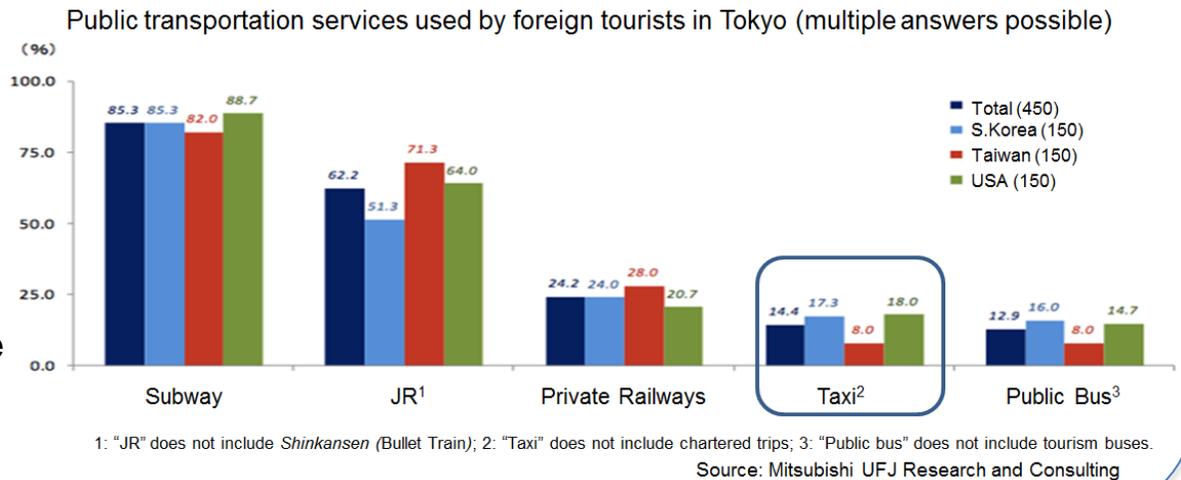
# 3-3 Why is Ride-Sharing Needed Now?

## (5. the Realization of Japan as a Tourism-Oriented Country)

Ride-sharing gives tourists a new transportation option, therefore, will be able to meet demands of foreign visitors during the 2020 Tokyo Olympics, and would contribute to the realization of “Japan as a Tourism-Oriented Country”.

Current public transportation systems are not sufficient for tourists, including foreign visitors to Japan.

- ✓ The public transportation services used the most by foreign travelers are the subway systems (85.3%), while taxis are used by only around 14%. Door-to-door transportation services is missing chances.
- ✓ Various methods of transportation need to be secured in order to satisfy with the rapid and temporary demand increase during the 2020 Tokyo Olympics.



Ride-sharing offers foreign visitors to Japan a new transportation option and would contribute to the realization of Japan as a Tourism-Oriented Country.

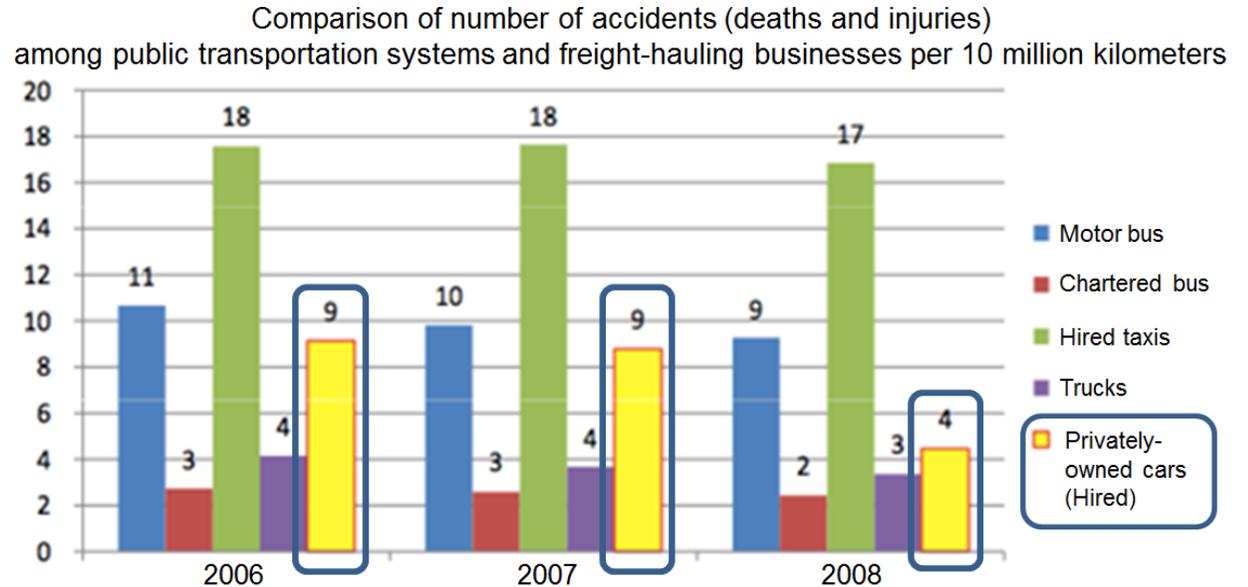
- ✓ Rides-sharing can offer transportation flexibly. Thus it satisfies rapidly increasing demand
- ✓ Ride-sharing can provide door-to-door transportation which is convenient and familiar to foreign visitors.

## 3-4 Safety on Ride-Sharing (1. Overview)

Certain rules can ensure ride-sharing safety.

### [Reference]

- ✓ The accident rate of privately-owned cars for fee is lower than of taxi.



Source: MLIT "The Current Status of Privately-owned Vehicle Passenger Transport"

- ✓ Rating systems can exclude drivers with poor ratings from the service.
- ✓ In addition, if introduced, certain rules could further ensure ridesharing safety.

## 3-4 Safety on Ride-Sharing (2. Ensuring Driver Quality)

Following measures regarding, 1) driving skills and 2) crime prevention, can ensure quality of ridesharing drivers.

### 1. Requirements to guarantee driver driving skills

- ✓ Drivers must be older than age 21 and younger than age 75.  
\*[Reference] Owner-driven taxi drivers must retire at age 75.
- ✓ At least a year must have passed since the driver got driver license.
- ✓ Drivers must submit their driving history certificate to the platform.
- ✓ Drivers must take certified courses.  
\*Similar to the minister-certified courses for the privately-owned vehicle passenger transportation.  
\*The course must be easy to attend/access, such as online courses.

### 2. Requirements to prevent crime committed by drivers

- ✓ Drivers' background check by the platform
- ✓ Obligation to use a cashless payment system  
\*SNS could also be used as a payment tool.

## 3-4 Safety on Ride-Sharing (3. Vehicle Maintenance and Inspections)

Although Japan's vehicle inspection system is thought as sufficient to ensure vehicle safety, the following additional requirements could further ensure it.

- ✓ Under the Motor Vehicle Inspection and Registration System in Japan, safety of privately-owned vehicles is guaranteed.
  - \*As for privately-owned cars, owners must renew their vehicle inspection certificates three years after the first registration, and thereafter every two years.
  - \*It can be considerable to oblige ridesharing drivers to take for sure the every-12 months inspection, which is legally encouraged, by the agreement between the platform and each ridesharing driver.
- ✓ As additional requirements, it is considerable that, for instance, vehicles older than 10 years might be barred from ridesharing service.
- ⇒ It would be a secondary effect of urging to replace car periodically (i.e., number of car sales will be increased)

## 3-4 Safety on Ride-Sharing (4. Operations and Management)

Drivers take the basic responsibilities for the operation, however, platforms should also be required to take certain measures to ensure ridesharing safety.

A Ride-sharing contract is made between a driver and an user (as a passenger); therefore, the driver is initially responsible for the ridesharing service.



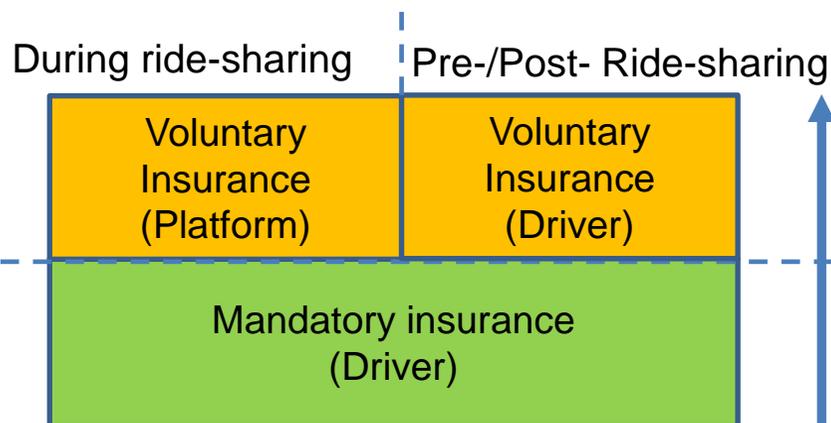
In addition, ridesharing safety could be further ensured by the following measures by the platform.

- ✓ Because platforms administrates drivers' operation record, they can set daily limits on driving hours: If a driver's operation exceeds the limit, the driver shall be suspended from operation for a certain period by the platform.
- ✓ Ridesharing drivers shall be suspended from operation by their platform in case of accident (Or they could be completely barred from the service if necessary)
- ✓ If drivers' ratings fall below a certain level, they could also be suspended from operation.
- ✓ When a ridesharing driver causes a serious accident, the platform could notify the supervisory ministries and agencies.

### 3-4 Safety on Ride-Sharing (5. Compensation in case of Accidents)

By obliging platforms to enroll in ridesharing insurance, passengers could be fully compensated in case of an accident.

- ✓ By the Automobile Liability Security Act, all drivers in Japan have already been obligated to enroll in an automobile liability insurance plan.
- ✓ In addition, by obliging platforms to enroll in ridesharing insurance which covers ridesharing period (during the period from an acceptance or ride request to arrival at the destination), the coverage of insurance can expand for passengers.
- ✓ Furthermore, it is considerable to require ridesharing drivers to enroll in voluntary insurance by an agreement between the platform and the drivers to fully cover ridesharing passengers.



Damages exceeding mandatory insurance would be covered by the platform if they are incurred during ride-share, or by the driver's voluntary insurance if they occur at pre-/post-ride-sharing.

## 3-5 Detailed Proposal on Legal Framework

We propose that ridesharing drivers be exempted from the permission provided by Paragraph 1 of Article 4 of the Road Transportation Act: Instead, we propose to create a new legal status for ride-sharing as a new transportation service category, and require both platforms and ridesharing drivers to comply with certain rules like described below.

Platform Obligations/Requirements	Driver Obligations/Requirements
<ul style="list-style-type: none"> <li>✓ Notification to supervisory ministries and agencies</li> </ul>	
<ul style="list-style-type: none"> <li>✓ Providing rating systems</li> <li>✓ Drivers' background checks</li> </ul>	<ul style="list-style-type: none"> <li>✓ Must be at least age 21 but no older than 75</li> <li>✓ A year must have passed since driver license is issued</li> <li>✓ Submitting a driving history certificate to the platform</li> <li>✓ Enroll in certified courses</li> </ul>
<ul style="list-style-type: none"> <li>✓ Set the maximum operating hours of drivers per day</li> <li>✓ Report accidents to supervisory ministries and agencies</li> <li>✓ Take measures to suspend drivers from service after accidents, and other incidents.</li> </ul>	
<ul style="list-style-type: none"> <li>✓ Enrolling in voluntary ridesharing insurance plan (for an accident during ride-sharing)</li> </ul>	
<ul style="list-style-type: none"> <li>✓ Transparent payment systems for users to confirm fare on the platform.</li> <li>✓ Cashless payment systems</li> </ul>	<ul style="list-style-type: none"> <li>✓ If a driver gives a ride to someone not hailing via the platform, the driver is subject to punishment due to violation of the Road Transportation Act.</li> </ul>
	<ul style="list-style-type: none"> <li>✓ Vehicles for ride-sharing should not be more than 10 years old.</li> </ul>

\*Foreign platforms holding Japanese users should also be subject to these obligations.

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