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COMPETITION COMMITTEE**

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**Working Party No. 2 on Competition and Regulation**

**TAXI SERVICES REGULATION AND COMPETITION**

**-- Hungary --**

**15 October 2007**

*The attached document is submitted by the Hungarian delegation to Working Party No. 2 of the Competition Committee FOR DISCUSSION under item III of the agenda at its forthcoming meeting on 15 October 2007.*

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1. A comprehensive overview of the taxi sector in Hungary cannot be given, because only the prerequisites of providing taxi-service are regulated at national level (e.g. requirements for taxicab and taximeter etc.). Generally these requirements do not compose significant entry barriers to undertakings, however on local level there are variable types of regulations as tariffs setting, taxi rank designation. The overall outcome appears to be generally competitive, because the regulations do not or in very few cases limit the number of cabs/taxi stand licence or set minimum or fixed fares.

2. For the taking up and pursuit of taxi business the following licenses are necessary:

- *Taxi confirmation card* – which relates to the automobile, and justify the conformity with the technical conditions. The National Transport Authority issues the confirmation card upon presentation of the taxi licence.
- *Taxi licence* – is issued by the National Transport Authority for the name of the undertaking, for specified operational area and registration plate.
- *Taxi driving licence* – is issued by the National Transport Authority on request submitted by an undertaking to a natural person. The taxi driving licence shall authorize the driving of taxi vehicle.
- *Public area permit* – is issued by the municipality or a company whom it appoints. The taxis can use the specified public areas as taxi ranks by this permit, but there are some municipalities, which have not regulated the use of taxi ranks.

3. According to the Act on Price Setting<sup>1</sup> the municipalities are authorized to set tariffs for passenger taxi services in their respective territory. These tariffs can be maximum tariffs or fixed tariffs approved by the municipality. The municipal authority is required to consult with the local Chamber of Trade and Commerce, the consumer protection authority and the directly concerned interest groups before the adoption of such regulation. Where the municipalities set maximum tariffs the taxis are obliged to state the prices in a conspicuous place in the car.

4. It should be mentioned that in 1994 the Hungarian Constitutional Court abolished a discriminatory reference in the Act on Road Transport<sup>2</sup>, which entitled the municipalities to limit the number of taxis in their respective territory. After this the situation has changed. In some cities now the number of taxi ranks is limited which means that without a public permit of the taxi rank an undertaking cannot start his operation. With other words the limiting of the number of taxi ranks forms an indirect barrier to entry, which significantly impedes the competition in the taxi market. Generally the municipalities do not make any analysis or market studies before deciding on the number of the limitation. Considering the fact that such limitation takes place in a local regulation the Hungarian Competition Authority (Gazdasági Versenyhivatal – GVH) can use only the tool of competition advocacy.

5. In a recent case the municipality of Győr concluded a contract with the Trade Guilds of Győr for the operation of taxi ranks in the city, which means also a legal monopoly of issuing taxi rank permits. In this sense the operation of taxi ranks constitute an entrepreneurial activity and market behaviour. The Trade Guilds has limited the number of the taxi rank permits and has discriminated the non-member of the Trade Guilds with higher charges. The GVH has obliged the undertaking (Trade Guilds) to setting the legal rules of issuing the taxi rank permits without imposition of fine.

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<sup>1</sup> Act LXXXVII of 1990 on Price Setting

<sup>2</sup> Act I of 1988 on Road Transport

6. The city of Budapest adopted a regulation of setting the maximum tariffs in 1998. The GVH was concerned that such kind of control might encourage firms to reach agreements restricting competition. The GVH argued (within the frame of its competition advocacy function) that the maximum rate should apply only at the taxi rank and hailing segments and there should be no regulation for those under other kinds of contracts such as to serve hotels, as well as at the telephone-booking segment (since the caught in the street services generate the most problems).

7. A recent change in the regulatory regime of Budapest is the amendment of the taxi rank resolution<sup>3</sup> to support Budapest Airport's changes to the system of taxi services at Budapest Ferihegy Airport. Before this amendment only one company established by the municipality had the possibility to operate taxi ranks at the Airport and generally in Budapest. In May 2006, Budapest Airport Zrt. (operator of Budapest International Airport) issued a two-round public tender invitation for the taxi service within the range of the Budapest Ferihegy International Airport. After a transparent tender competition, the tender committee of Budapest Airport Zrt. selected the winning company, namely the Zóna-Service Consortium (group of taxi enterprises), which has provided by far the lowest tariffs and fares and by far the highest service level at the same time. Since 15 August 2006, a high quality and fair passenger carrier service has started running at the Ferihegy Airport, which can be characterized by the following:

- Maximized tariffs and fares defined by zones (which are in line with the tariffs set by the municipality order);
- Efficient and simple taxi ordering procedure;
- Own helpdesk and hostess service at all three airport terminals;
- Non-smoking staff speaking several foreign languages with uniform appearance;
- Air-conditioned fleet that is composed of cars having high technical qualities and large storage areas;
- Special size vehicles to assure the access of the disabled;
- Constant checking of the taxi service;
- Special services for contractual partners.

8. The GVH has limited experience in relation to taxi sector and competition therein, because there have been only a few cases in relation to taxi sector so far. Some of them concerned price restrictive agreements between taxi undertakings operating in different cities (Budapest, Nyíregyháza), in which cases very limited fines were imposed. The above-mentioned new situation at Budapest Ferihegy Airport also generated a complaint by the competitors against the winning company and the airport operator. The GVH has not found any well-established reason for establishing the restriction of competition, but the complainants' appeal against such a decision lies to a court.

9. Under Article 85 of the Competition Act the GVH is entitled to attack decisions of municipalities should they restrict the freedom of competition unless its observations are taken into account by the municipality itself. In the sole case when the GVH turned to court a taxi driver applied for a licence to a municipality. His request was refused for two reasons:

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<sup>3</sup> Order 59 of 1999 by the General Assembly of the City on Methods of Establishment, Use and Operation of Taxi Ranks in Budapest's Public Areas

- first, according to the municipality decision, taxi licences could have been given to taxi drivers who - unlike the driver in question - were either local residents or lived within a 10- mile radius of the town,
  - secondly, the number of taxi licences were maximised by the municipality.
- The taxi driver complained to the GVH, that subsequently requested the municipality to revoke the decision. Being rejected the GVH went to the administrative court and finally won the case.

10. Another example for GVH activity was in this field of using the advocacy possibility towards administrative decisions having adverse effect on competition. This summer the Municipality of Budapest City has consulted with the GVH under pressure of the taxi market operators in the city to increase the maximum tariffs of the municipality's order. The GVH had a well-established argumentation to oppose this market pressure, because the prices were so highly set years ago, that it seems to still have enough reserve to ensuring profitable operation.

11. Recently the taxi sector regulation is not the priority area of political activity.