All roads lead to Uber

Ride-hailing app is causing problems for cities, and they're fighting back, says *John Collingridge*

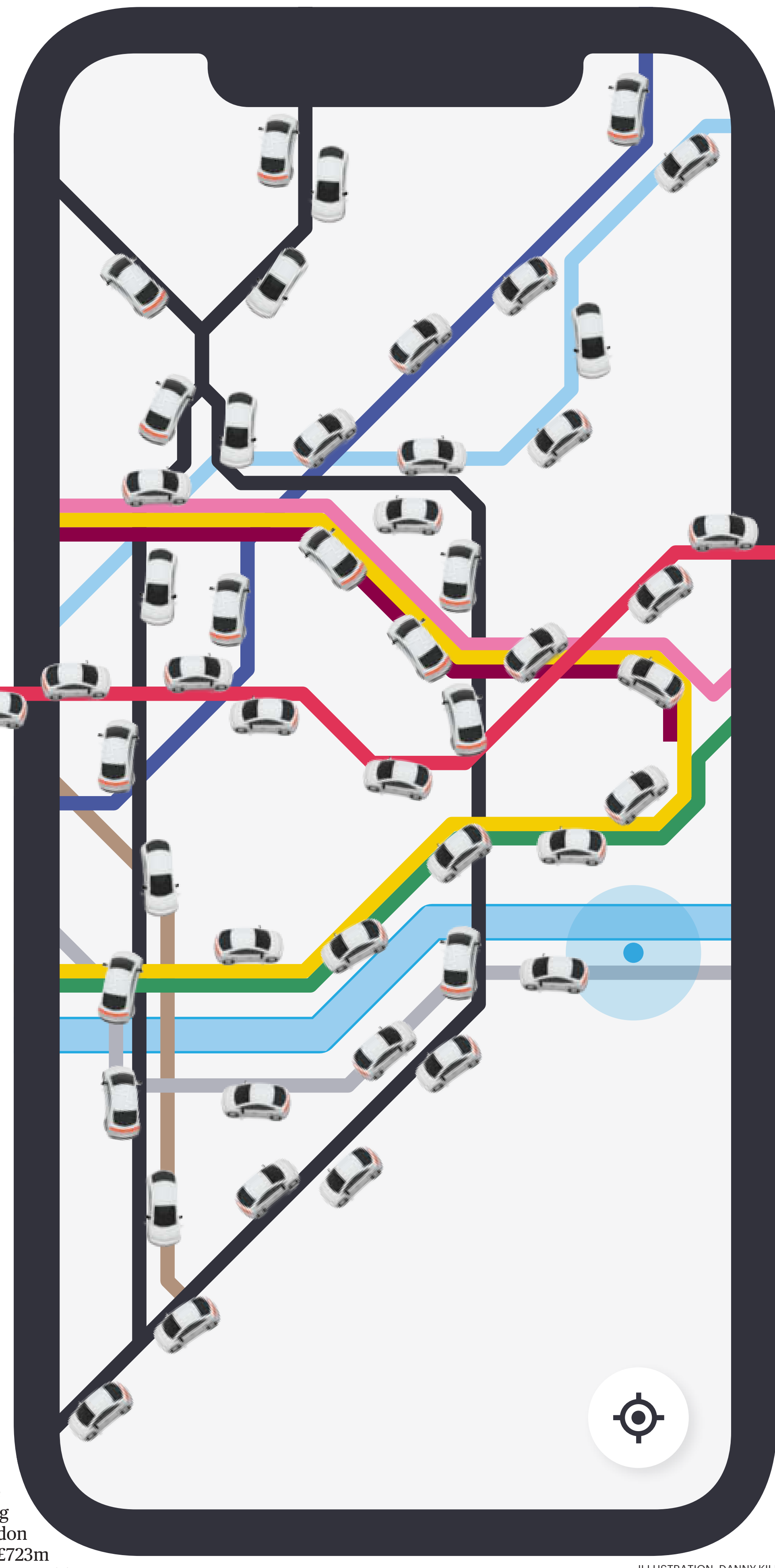


ILLUSTRATION: DANNY KILN

A grinning Dara Khosrowshahi posed next to a bus stop in central London last week for a staged Twitter photoshoot. It was much more than a tourist snap for the Uber chief executive.

He was in Britain to court investors in the ballroom of Claridge's hotel. Khosrowshahi's visit also coincided with the ride-hailing app's launch of a new feature – public transport options. Coupled with a new advertising campaign plugging its safety credentials, the nod to buses and trains shows that the Silicon Valley giant is on a charm offensive.

Uber needs all the friends it can get as it finalises plans for a blockbuster $90bn (€80bn) stock market float. London, the city that has caused some of its biggest headaches, seemed a good place to start. Since founders Garrett Camp and Travis Kalanick struggled to hail a cab on a snowy night in Paris 11 years ago and dreamt up the idea of booking a ride on a phone app, Uber has become a digital behemoth.

It has moved into 700 cities, handling 14m trips a day by 91m users. Its listing on the New York Stock Exchange is set to raise $10bn, the biggest initial public offering since Chinese ecommerce giant Alibaba in 2014. Yet in its relentless pursuit of growth, two things have long lagged far behind: how it treats rules and regulations, and making a profit.

For years its approach to established norms, on everything from passenger safety to workers' benefits, seemed an afterthought – problems for its army of lawyers and public relations advisers to deal with. Profits, meanwhile, are nowhere to be seen. The business lost $3bn last year and $4bn in 2017. In the small print of its prospectus, it admitted: "We may not be able to achieve or maintain profitability in the near term, or at all."

Rules and profits are inextricably linked. How Uber handles cities such as London will be key to achieving the holy grail of a healthy bottom line. And these cities have taught the tech giant a painful lesson: it underestimates them at its peril.

In September 2017, Transport for London (TfL), the capital's devolved authority that reports to Labour mayor Sadiq Khan, stunned the company. It revoked Uber's licence, saying the company was not "fit and proper" to run transport in London. It was the culmination of a long-simmering battle over issues around the reporting of crimes, how criminal checks and health tests are done on drivers, and concerns about software that could prevent regulators checking on the app. "Uber's approach and conduct demonstrate a lack of corporate responsibility in relation to a number of issues," TfL said at the time.

Uber won an appeal against the judgment in June last year, apologising for past mistakes and saying it had "made far-reaching changes to address them", but the issues have yet to be settled in full. Its licence has been temporarily extended until September, by which point it will need to convince TfL that it has permanently changed its ways.

Cities around the world have taken up arms against the ride-hailing app and peers such as Lyft. Uber suspended operations in Barcelona in January after a strike by drivers led to strict new conditions being imposed by the Catalan government. In February, New York imposed minimum wages for drivers, and the business has been forced to pull out of German cities including Dusseldorf, Frankfurt and Hamburg. It has faced opposition in countries including Argentina, South Korea, Italy and Japan.

There is little to suggest that cities and local politicians plan to loosen their grip around Uber's neck any time soon. The app is causing problems for which there is no easy answer.

At least Khosrowshahi did not choose the Number 48 bus stop for his staged photo. Users of the bus will be forced to find another route into central London from next month. The route is being axed, as part of a string of cuts to services across the capital. Transport chiefs blamed congestion, and said the changes would make the capital's buses more efficient.

> **Uber's claim that it is a technology platform not a transport firm has collided with reality**

One of the implied causes, however, was the strain that Uber is piling on to public transport. Years of booming bus passenger numbers have gone into reverse. Journeys peaked in 2014 – two years after Uber launched in London – and have since been sliding, from 2.38bn journeys in 2014-15 to 2.23bn in the year to the end of March 2018.

They are expected to fall to 2.03bn by 2024. And congestion has slowed buses. By 2024 they are predicted to travel at only 9mph (15kph).

All this ramps up pressure on the cash-strapped authority's finances. Buses require huge subsidies, as they generate far less through tickets than they cost to run: the department had an operating deficit of £638m (€751m) in London last year – projected to rise to £723m by 2021. It comes at the worst possible time. Delays of up to two years to Crossrail and a near-£3bn increase in the new Tube line's budget will deny the capital of about £1bn in fares.

Pinning down exactly what is steering passengers away from buses is difficult, but the lure of the app and congestion on the roads caused by tens of thousands of Uber drivers has undoubtedly contributed. Private hire licences in the capital have almost doubled in a decade, from 59,191 drivers in 2009-10 to 113,645 a year ago. About 45,000 are Uber drivers.

"The more congestion there is, the bus service becomes less reliable, fewer people go on it and TfL has less income," said the boss of a big transport company.

"Which way does TfL want to face? Is it a legislator looking after safety and the movement of the city, or someone prepared to embrace new technology?"

Politics are inescapable. The app's central claim that it is a technology platform, rather than a transport company, has collided with reality. When Uber and its Silicon Valley peers disrupted decades-old industries, they were naive not to expect a backlash from the legislators that rely on these workers' votes and have to pay to keep public services running.

Tony Travers, local government expert at the London School of Economics, said: "There is competition for the travel pound between forms of travel such as Uber and Lyft, and conventional public transport. There's a complexity in that because TfL is a regulator as well as a transport provider."

Khan has taken a calculated gamble in waging war against Uber. It appeases – albeit partially – the militant taxi trade, which has long fought against the ride-hailing app. It puts him on the side of passengers who have concerns over safety. It strikes a chord with Labour-supporting unions, which represent bus drivers, and with bus passengers, who tend to be lower-income Londoners. It helps Khan to claim that he is cleaning up the city's air.

The stance also aligns him with gig economy workers struggling for equal rights. Uber is fighting to keep drivers off its books and ensure they remain self-employed – to avoid costs such as pensions and holidays – but is caught in another long-running legal row after a London tribunal ruled in 2016 they should be classed as workers. The dispute has gone all the way to the Supreme Court.

In Khan's mind, all that outweighs the danger of upsetting the 858,000 Londoners who signed a petition to save Uber. As he gears up for re-election next year, it is not an unhelpful fight to pick.

"Uber had this wrong from the beginning," said one source close to City Hall. "What they should have said is, 'How can we make TfL our regulator and capture them like everybody else does? Once we've done that we will write our own regulations and carve up the market'."

Khan is wary of looking like the enemy of innovation. Hence, TfL is testing its own version of Uber, but for minibuses, soon to hit south London, allowing passengers to hail one on their smartphones.

Meanwhile, the mayor continues to put pressure on the app. Khan has said he wants to cap the number of Uber drivers in the capital, and has just snared private hire cars in the congestion zone, charging them up to £11.50 a day.

In the face of this pressure, the company's gung-ho attitude appears, finally, to be changing. The hard-charging Kalanick was ousted in June 2017. Slowly and painfully, it has started to realise the power of city leaders. A letter from a Metropolitan Police inspector in 2017 warned that the app was not reporting serious crimes, and led directly to Khan's revocation of its licence.

Khosrowshahi has taken a new tack, meeting Khan and leaders of other cities around the world.

Last week's move to include public transport on the app is another significant step towards placating the civic authorities. It shows, superficially at least, that Uber cares about reducing congestion – even to its own detriment.

Khosrowshahi has realised that unless Uber gets closer to bodies such as TfL, the pressure will not relent. There is one thing that it will not compromise on, however: the self-employed status of its drivers. Sacrificing this position would either inflate costs to an unsustainable level, putting the holy grail of profitability out of reach, or force it to put up prices significantly, making it look much like any other taxi company.

Crucially, it would also undermine Uber's tax status. In the UK, the company does not levy the 20% VAT charge on rides, as its rivals have to, because each of its drivers is registered as a self-employed microbusiness.

Uber said: "We share many of the same goals as the cities that we serve and are committed to addressing the same challenges: reducing individual car ownership, expanding transportation access and tackling air pollution."

They may indeed share the same goals, but unless Uber can maintain its status as an app, not a giant transport employer, profitability will remain a distant dream. As city leaders from London to Barcelona tighten their grip, that battle has much further to run.

Can Muilenburg pilot Boeing through storm?

The aircraft giant's boss is battling legal and financial head winds after two fatal crashes. By *John Arlidge*

It was Boeing boss Dennis Muilenburg's greatest coup.

Journalists rushed to the press centre at Dubai Air Show expecting to hear the Emirates airline's chief executive, Sheikh Ahmed bin Saeed al-Maktoum, announce an order for 36 new A380 superjumbos made by Boeing's archrival Airbus.

He stunned the room by announcing he would, instead, plonk down $15bn (€13.4bn) for 40 Boeing 787s.

What a difference a couple of years makes. Last week it was Muilenburg who was shuffling out of a press conference – this time to a chorus of angry questions. Reporters covering Boeing's annual meeting in Chicago wanted to know more about faulty data sensors and software on Boeing's new 737 Max short-haul jets that Muilenburg had earlier admitted played a role in two recent crashes of the jet operated by Lion Air and Ethiopian Airlines.

"Wait! 346 people died! Can you answer a few questions?" one journalist shouted as Muilenburg left after just a few minutes.

Boeing is facing the worst crisis any modern aircraft maker has confronted. The 737 is its most important jet, generating 30% of revenues and 35% of its profits, analysts say. The entire 737 Max fleet has been grounded after the crashes and Boeing is scaling back production, which is costing it $1bn a month, according to JP Morgan.

Boeing will not only have to pay for fixes to the plane – and, perhaps, new pilot training; it will have to compensate airlines that have axed services flown by the Max or reverted to using older, less fuel-efficient jets. More than 370 Max planes have been delivered.

American Airlines chief executive Doug Parker says its 2019 pre-tax earnings will be at least $350m lower thanks to the grounding. European carriers put the cost at €350m. British Airways is unaffected since all its short-haul jets are from Airbus. Some carriers will cancel orders for the Max. Sheikh Ahmed, who chairs flydubai, Emirates' budget sister, which has ordered more than 250 Maxes, warned last week he could switch to Airbus A320s. Boeing shares are down more than 10% since March's Ethiopian crash.

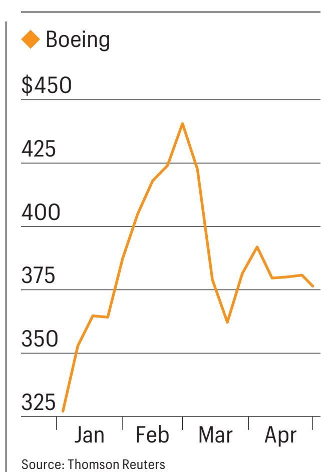
These short-term costs – steep though they will be – could be dwarfed by long-term damages payouts. Boeing's own shareholders have filed a lawsuit accusing the company of defrauding them by concealing safety deficiencies in the Max. They allege that Boeing rushed the Max to market because it needed a new model to compete with Airbus's popular A320neo. The firm denies the claims.

Relatives of those who died in the crashes are also taking legal action against Boeing. The Max is the target of investigations by US transport authorities and the Department of Justice.

As if all that weren't enough, Airbus, which employs 15,000 people in Britain, is set to nose ahead of Boeing this year to become the world's leading maker of commercial aircraft for the first time in nearly a decade. Boeing had been due to outstrip Airbus with 895-905 aircraft delivered this year, but the Max cuts mean that figure will be lower than the 880-890 forecast by Guillaume Faury, Airbus's new chief executive.

How bad could things get?

Optimists point out that Boeing recovered quickly from previous crises. Its 787 Dreamliner was grounded for three months in 2013 after its lithium-ion batteries caught fire. Even though engineers never identified the cause of the fires and fixed the problem by simply encasing the batteries in fire-proof material, the aircraft quickly became an airline and passenger favourite.



Source: Thomson Reuters

> **Customers are already telling us they'll choose flights on which we use different jets**

Analysts say Airbus has little to gain in the short term from airlines switching to the A320neo because its production lines are already booked until the early 2020s.

However, others are less sanguine. One airline boss said: "Regulators everywhere will re-examine the Max nose to tail. Boeing say they hope it will fly again by August, but it could take a lot longer."

Resolving the Max issue could also force Boeing to delay the launch of its New Midsize Airplane (NMA), expected later this year. Airbus dominates the mid-range market with its A321 and A330neo jets and Boeing badly needs to bring a competitor to market.

But the biggest risk is one that nobody can address yet: will passengers fly on the Max if and when it is cleared for take-off? It's easy to find out online which aircraft fly which routes. "Customers are already telling us they'll choose flights on which we use different jets," said the boss of a large Asian carrier. "If that happens, the plane may no longer be viable."

Boeing insiders say bosses are considering renaming the jet – although that might make matters even worse. With its engines mounted unusually far forward on wings that have large V-shaped tips, the Max is instantly recognisable.

Airlines fear passengers at departure gates might refuse to board, disrupting flight schedules. Whichever way you look at it, Boeing has a steep climb ahead.