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Citizens Advice Service response to European Commission Consultation on cross-border parcel delivery

As the statutory representative for consumers of postal services across England, Wales and Scotland, the Citizens Advice Service welcomes the opportunity to respond to the European Commission's consultation on cross-border parcel delivery.

As part of our work representing consumers of postal services, we conduct research and gather evidence on postal user needs to deliver strategic projects that contribute to improving the operation of the postal market for all consumers. As the statutory consumer bodies, we also play a central role helping consumers in vulnerable positions, a fundamental safety net embedded into the UK's CEAR Act 2007.¹

In our response we include reference to research that we have undertaken on parcels delivery services. We outline our general views and then consider in turn each of the specific issues which are raised in the consultation. We repeat key points across questions to ensure consistency of response.

Our general views

Consumers in the UK are gaining significant benefits from domestic e-commerce which is opening greater access to retail services and providing consumers with a broader range of goods at lower cost. We believe that a healthy, competitive market in cross-border delivery is in the interests of consumers, as the best way to ensure improvements in affordability and quality of service. As the consumer body for postal services we therefore very much welcome the move by the European Commission to stimulate cross-border e-commerce by addressing potential barriers created by expensive or unreliable delivery services.

Better access to the single market will strengthen this trend and the completion of the digital single market offers real potential benefits for UK and EU consumers.

¹ Subsection (3) of the CEAR Act 2007 highlights the power of the Consumer Council to investigate or pursue complaints on behalf of vulnerable designated consumers
<http://www.legislation.gov.uk/ukpga/2007/17/contents>

To best foster this we consider that it is important to remove barriers to the single market in a way which runs firmly with the grain of market development and which is consistent with the fundamental Community principles of proportionality, transparency, objectivity and non-discrimination. In particular, we consider that it is important to ensure that regulatory intervention itself does not impede market development in the interests of consumers, and that regulation is seen as a tool of last resort. It is important, therefore, to strike the right balance between commercial freedom and consumer protections in a manner which does not distort the market or pre-empt innovation that may unblock barriers to cross border delivery, thus undermining the goal of protecting and promoting the benefits to consumers.

For example, we can see the development of new delivery options such as pick up and drop off, of new technologies including 3D printing and of new more optimised supply chains, such as those promoted by Amazon and Uber, which may increase competition in the sector and benefit consumers by providing alternatives to more expensive delivery options.

Further, the economics of e-commerce delivery are changing as retailers gain greater customer power (and set up their own delivery networks) and as scale in e-commerce increases and new options for retailers to share delivery capacity emerge.

Given this, we do not believe that it is appropriate to use cross-border price caps at this stage. We are concerned that the use of such caps may not be workable in practice and that they may prove discriminatory and distort the development of competition and innovation in delivery. For example, it is not entirely clear how the scope of the cap could be set or how it could be enforced. The parcels delivery market has traditionally been lightly regulated and there are a large number of local and regional suppliers who are not monitored by regulatory authorities. In practice, it is also important to note there are regions of the EU where national borders have little significance with citizens working and moving between Member States (for example between Belgium and France) on a daily basis.

Although the main growth has occurred in domestic e-commerce, there are also positive signs that cross-border e-commerce is growing. Between May 2014 and May 2015, the average proportion of UK e-retailer orders being sent cross-border was 24.6 per cent. UK consumers are also increasingly confident in shopping from non UK websites and 90 per cent of respondents who have purchased 'cross-border' have stated they would be happy to do so again.²

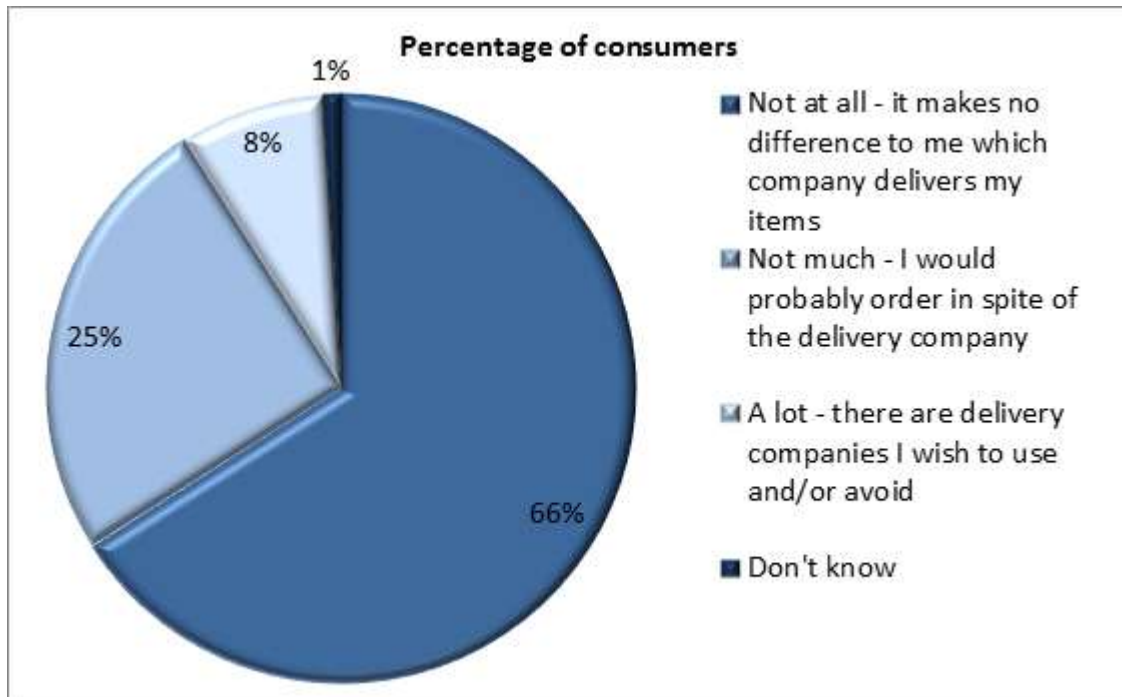
Consumer research commissioned in 2013 by our predecessor organisation, Consumer Focus, highlights that for two thirds of UK consumers, delivery of goods shipped from outside the UK made no difference on their decision to purchase when shopping online.³

This is shown in Figure 1 overleaf.

² IMRG UK Consumer Home Delivery Review 2015: <http://www.imrg.org/res/files/D079A1FD568.pdf>

³ TNS (2013) *Solutions: Delivery to Neighbour Presentation*. Research commissioned by Consumer Focus.

Figure 1: Whether delivery company origin affects consumers' decision to complete their online shopping order



However, this may reflect a lack of awareness about specific delivery companies compared to the retailer that consumers are ordering from.

There is a wealth of evidence from past research to show that delivery factors remain an important concern for consumers, particularly those in rural, remote and island communities, both during and after online shopping.⁴

There are also several recent pieces of research that indicate that consumers in remote and island communities are more likely than those in urban areas to have experienced a range of delivery related issues, both during and after online shopping.

These issues are reflected in the findings of recent surveys of parcel delivery services,⁵ where barriers to cross-border e-commerce are highest over the following issues:

- ability to return unwanted orders and obtain credit - 59.81 per cent
- long delivery times and ability to track order - 59.35 per cent
- security and convenience of payment 53.74 per cent

⁴ Consumer Futures (2013), Signed, Sealed...Delivered?; Consumer Focus Scotland (2012), Effective Parcel Delivery In The Online Era – What Consumers In Scotland Need; Office of Fair Trading (June 2012), Price And Choice In Remote Communities: Call For Evidence; Citizens Advice Scotland (2012), The Postcode Penalty

⁵ Consumer Futures (2013), Signed, Sealed...Delivered?; Consumer Focus Scotland (2012), Effective Parcel Delivery In The Online Era – What Consumers In Scotland Need; Office of Fair Trading (June 2012), Price And Choice In Remote Communities: Call For Evidence; Citizens Advice Scotland (2012), The Postcode Penalty

A survey by parcel operator Hermes⁶ also found similar findings for why consumers chose not to shop cross-border being around difficulty in making returns (57 per cent), delivery charges being too high (53 per cent) and long delivery times (47 per cent).

In asking UK consumers about their knowledge and awareness with regards to delivery charges and delays in domestic deliveries persistent issues such as concerns over the security of online shopping remain.⁷ Among the small number of consumers who did not plan to do any of their 2014 Christmas shopping online, 30 per cent of this subgroup did not anticipate doing any of their Christmas shopping online because they don't like making payments online, and one in six (16 per cent) were put off Christmas shopping online because they have concerns specifically about the delivery and/or returns processes.

However, retailers and delivery companies have responded to these problems by creating new solutions, for example pick up and drop off points which can act as alternatives to delivery access if they develop to serve all consumers.

Such innovations may be important also in relation to the development of cross-border services.

In our own consumer research on domestic services, we found that a large proportion of consumers planned to have their Christmas⁸ shopping delivered to click and collect locations (30 per cent), followed by friends or family (16 per cent), post office (7 per cent), local shop of locker / drop off point (two per cent). Online shoppers aged 25-34 were considerably more likely than other age groups to consider using of drop-off points for their 2014 Christmas shopping, with 40 per cent saying they planned to use a Click and Collect service over the Christmas period, and 11 per cent saying they would have their deliveries dropped off at their local shop. This subgroup was also markedly more likely to arrange to have their online Christmas orders delivered directly to work (21 per cent).

The use of the Post Office network as a delivery point also varied by location. Online shoppers in rural (four per cent) and remote (four per cent) locations were less likely than urban (eight per cent) and island (13 per cent) dwellers to consider having their 2014 Christmas shopping delivered to a local Post Office.

We also see the development of consolidated delivery services in rural areas and it is possible that this may, over time, foster the scale necessary to make a wider range of services more viable for rural consumers.

For example, in Scotland regional parcel carrier, AJG has seen a rise in its parcel volumes by twenty per cent across its B2C and C2C network over the past two years. The company has stated that the hub and spoke nature of its network has helped keep costs down as it provides deliveries to an area the size of Belgium with a population of only 250,000 people.

⁶ The Hermes Parcel Deliveries Usage and Attitudes Survey – 2014

⁷ Citizens Advice Measuring consumer Awareness of Delivery Rights, 2015: <http://bit.ly/1JJQ3un>

⁸ The Christmas period is defined as the eight weeks between 2nd November and 27th December

The company uses a bespoke IT system that can interface directly with national carriers' systems.⁹

In general, we believe, therefore, that effective competition for provision of e-commerce services is the best mechanism for ensuring that consumers will enjoy the full benefits of the single market.

Presently, however, we recognise that there are remaining obstacles to the process of competition, particularly in relation to market transparency and that there is a lack of appropriate consumer rights and protections for cross-border delivery, which can foster consumer detriment and lower trust in shopping cross-border.

In this context, we very much welcome moves to increase transparency in the sector and to recognise and publicise best practice in delivery. For example, we welcome moves towards kite-marks and towards greater awareness of delivery options such as the development of a comparator website of cross-border delivery options.

However, we consider that it is important that such measures are effective for retailers and consumers, that they are applicable across the EU and that they are accessible in the Community languages.

We are also supportive of moves towards common standards of cross-border delivery operators provided that such standards are not designed in a manner that exclude some operators or creates barriers to competition, innovation or choice.

As stated earlier though we do not consider that it would be proportionate or practical to move towards price caps for cross-border delivery services.

Section IV – Questions to the public or representative organisation or institution

Q1 – Do you agree there is an issue with both affordability and regulatory oversight of the cross-border parcel delivery market? 1,000 characters max – if extra will add to upload document

The e-commerce delivery market is still a relatively new market, with substantial remaining differences in the take up and use of online retailing across the EU Member states.

In some respects, the affordability of e-retailing in general has been conditioned by price levels compared to high street retail, and, in practice, this has led to fierce price pressures on online retailers, which have been reflected in low margins for parcels delivery operators.

For cross-border e-commerce, however, further consumer participation in the market is hampered by consumer concerns about using less well known providers, a lack of trust in returns policies, payment security and the effectiveness in general of after-sales procedures.

⁹ Scotland's AJG Parcels to expand network as volumes soar:
<http://postandparcel.info/58196/news/companies/scotlands-ajg-parcels-to-expand-network-as-volumes-soar/>

Therefore, whilst affordability of delivery may be one issue as to why consumers do not make more cross-border purchases, it is a factor that relates to several others. In practice affordability is linked to scale and it may be that lack of trust is depressing scale, which then makes cross-border delivery more expensive.

Consumer research highlights that the primary reason for not buying goods cross-border has been a perceived difficulty in solving problems which may emerge in the service, compared to simpler arrangements where goods are available domestically.¹⁰

Research¹¹ conducted on cross-border mail services between Northern Ireland and the Republic of Ireland highlighted that while NI consumers believed the cross-border mail service to be solid and consistent (75 per cent), they also expressed that they expected to see significant improvements to meet their changing needs. In particular, they wanted more efficient and cost-effective cross-border service. Consumers also felt that there should be a uniform all-Ireland rate for internal and cross-border mail (letters and parcels), which could be more competitively priced than the EU rate because of the proximity of the two jurisdictions.

The report *Sense and Sustainability*¹², found that the majority of residential consumers feel that their online shopping activity will increase in the future, which to date, has been the case as consumer confidence and satisfaction with e-commerce improves¹³. The e-commerce market in the UK is one of the most developed in the world and many UK e-retailers send goods to consumers overseas both within the EU and beyond.

Whilst cross-border e-commerce has lagged behind domestic e-commerce we can see that e-commerce providers are responding to problems (or additional costs) imposed by cross-border delivery. They are doing this, in part, through supply chain innovation, for example in setting up local warehousing and using local delivery. Over time, we would expect that pan European online retailers such as Amazon may start to further resolve cross-border issues. In this respect some of the concerns raised in this consultation may be transitional issues which may be solved by the market and we would wish to be careful to avoid pre-emptive regulatory intervention.

However, we remain concerned about the effectiveness of consumer protection measures in relation to cross-border delivery services. We would welcome other measures to improve market transparency, for example better consumer complaints procedures and greater availability of information in relation to parcels delivery options and pricing which may particularly help smaller cross-border retailers and consumers.

¹⁰ Civic Consulting (2011) *Consumer market study on the functioning of e-commerce*

¹¹ Consumer Focus Post *Cross-border post: Improving mail services between Northern Ireland and the Republic of Ireland*

¹² Consumer Focus 2013 *Sense and Sustainability*

¹³ ERGP Work Programme for 2015

Also we consider that there could be a more active policy to encourage consumers to buy cross border for example by running campaigns to publicise consumers' rights in this area and to raise awareness about the opportunities that consumers may have to benefit from such trade.

As recognised by the WIK Consult study, trust marks could play a key role in building consumer trust for small and medium-sized businesses as they may not have a well-known brand or sufficient means to invest in marketing. In addition with foreign e-commerce markets, fulfilling European minimum standards may support this cross-border business growth.¹⁴

Q2 – What regulatory response, if any, would you consider useful to address the current issues and how could it be addressed? 2,000 characters max

We consider that any regulatory obligations set in the parcels sector should be consistent with the principles of the Community framework of transparency, objectivity, proportionality and that of least restriction to the market.

In providing the recommendations set out below, we are conscious of the need to develop and build confidence in the cross-border e-commerce market to enable consumers to better trust the systems and contractual processes that exist between e-retailers and postal operators.

It is important that this process does not hinder consumer participation in the market by significantly increasing costs passed through to the consumer. It is also important to promote where appropriate transparency about costs of delivery to urban and rural locations.

As outlined by WIK, the price presented to consumers of delivery may not be the cost of transport to the e-retailer. Where, 'E-retailers commonly round up prices they present to consumers to improve profitability.' While 'the baseline against which e-retailers measure their transport costs / offer is against their competitors and not the prices that the transporters charge. This is because the price of transport is an important influencer on consumer decision to complete a purchase.'¹⁵

However, we do not consider that the existence of such a mark-up (which will be present across each element of the supply chain) is a rationale for a price cap. Otherwise it could be argued that there should be caps across every manufacturing process. Retailers are facing competition and this presents the best general protection for consumers in this area. This is not to say of course that there should not be an improvement in consumer complaints procedures where delivery proves ineffective.

¹⁴ WIK Consult. (2014) *Design and development of initiatives to support the growth of e commerce via better functioning parcel delivery systems in Europe*: <http://bit.ly/1rriJyP>

¹⁵ Ibid.

In that vein, given the evidence presented and the direction of the market in the UK, we do not feel that the introduction of a pan EU price cap on rates for inward parcels and retail cross-border delivery prices would be a justifiable means of addressing the concerns in cross-border e-commerce at this stage.

Such a cap could distort natural market development which may (as in the recent case of UK domestic e-commerce services) provide solutions which overcome current barriers.

In this respect it is important to note that the economics of delivery (which are highly dependent on scale) tend naturally towards lower costs as scale increases and that retailers seeking profit opportunities may seek to bypass delivery problems both through consolidated deliveries and through new options such as pick off and drop off and the use of lockers. Over time such by-pass may increasingly include 3D printing and new supply chain solutions including much more flexible delivery options.

Given this, a price cap which artificially lowers delivery costs for certain operators offering commodity type standard delivery may prevent technology innovation towards tailored delivery options or fundamentally different delivery models.

We consider that this would not be in the interests of consumers.

However, we recognise that there are currently problems with cross-border delivery prices which can appear irrational and certainly not cost based.

Given this, we would support the measures noted in the recent Copenhagen Economics report¹⁶, towards national regulatory authorities monitoring these prices as the right position from which to regulate the interplay of supply and demand in the cross-border delivery market. It may be that certain regional zones around pricing for cross-border prices could be established, and consumers made aware of reasonable costs with clear systems of redress where costs were not transparent, further expanding cross-border rules in line with the European Consumer Rights Directive. However, we would expect that such monitoring in general may be fairly high level and we recognise the difficulties in establishing a detailed picture of a fast moving and unregulated market. We would though consider that regulators may wish to understand in more detail the access of rural and remote consumers to cross-border parcel delivery services.

In line with the above we consider that regulatory intervention should be guided by three main aims, which are outlined in further detail below:

Transparency of costs and monitoring of access to cross-border e-commerce

As is required by the UK Consumer Contract Regulations 2013, a reflection of the Consumer Rights Directive, consumers should have transparency of costs prior to making a purchase,

¹⁶ Copenhagen Economics (2013) *E-commerce and delivery*:
http://ec.europa.eu/internal_market/post/doc/studies/20130715_ce_e-commerce-and-delivery-final-report_en.pdf

and not be faced with high additional costs of delivery after ordering they were not informed of before entering the contract. Cases reflecting this issue have been documented by the Citizens Advice Consumer Helpline and are documented (see appendix)¹⁷.

We consider that it is important that the Consumer Rights Directive is effectively implemented across the EU Member States. In addition it is important that there is an effective monitoring of the access of rural and remote consumers to cross-border e-commerce services to ensure that they are not being disproportionately excluded from opportunities for such services. This monitoring could focus on the barriers to improving such access and the specific needs of these communities.

More effective competition in the cross-border e-commerce market

We consider that it would be useful to promote market transparency for example about delivery costs and alternative delivery options. Payment issues remain a concern as highlighted in our Consumer Awareness of Delivery Rights report.¹⁸

Payment systems and speed of returns feature as both significant parts of the online shopping experience. In line with this, we support moves towards greater transparency in quality of service information to aid those buying and selling to compare the performance of postal operators.

There may also be logistics solutions whereby different e-retailers share logistics and delivery systems to maximise efficiency and we see such consolidation as potentially a mechanism for lowering costs and prices that could be encouraged.

We recognise that in practice many domestic online retailers remain in close contact with their suppliers from purchase to delivery and as the cross-border provision increases, we would not wish to set inappropriate or irrelevant obligations but to work closely with the industry to ensure proportionate obligations.

Appropriate protections / safeguards for consumers

We consider that it is important that consumers can access appropriate complaint handling procedures and welcome moves at EU level to ensure that consumers have clear forms of complaint handling procedures built around transparency and accessibility.

With regard to putting additional regulatory requirements on e-retailers, as we have seen in the UK with the development of the e-commerce market, those e-retailers who offer simple and effective mechanisms to redress, clear terms and conditions including returns and refunds processes are those that are benefitting the most from increasing online sales and a loyal consumer base. Given this, it is possible that there are sufficient commercial incentives for retailers to ensure adequate mechanisms are in place.

¹⁷ See Appendix 1

¹⁸ Citizens Advice Measuring consumer Awareness of Delivery Rights, 2015: <http://bit.ly/1JJQ3un>

However, we consider that it is important that consumers have clear and effective complaints procedures in relation to delivery problems and that accountability for redress is firmly established between retailers and delivery operators.

Q3 – We would appreciate if you would share with us any extra information you may find useful concerning your views on European cross-border delivery. Do you want to upload a document?

This document represents our views on this issue.



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