AUTORITÀ PER LE GARANZIE NELLE COMUNICAZIONI
AGCOM

Market power in the Italian parcel market: Agcom's analysis

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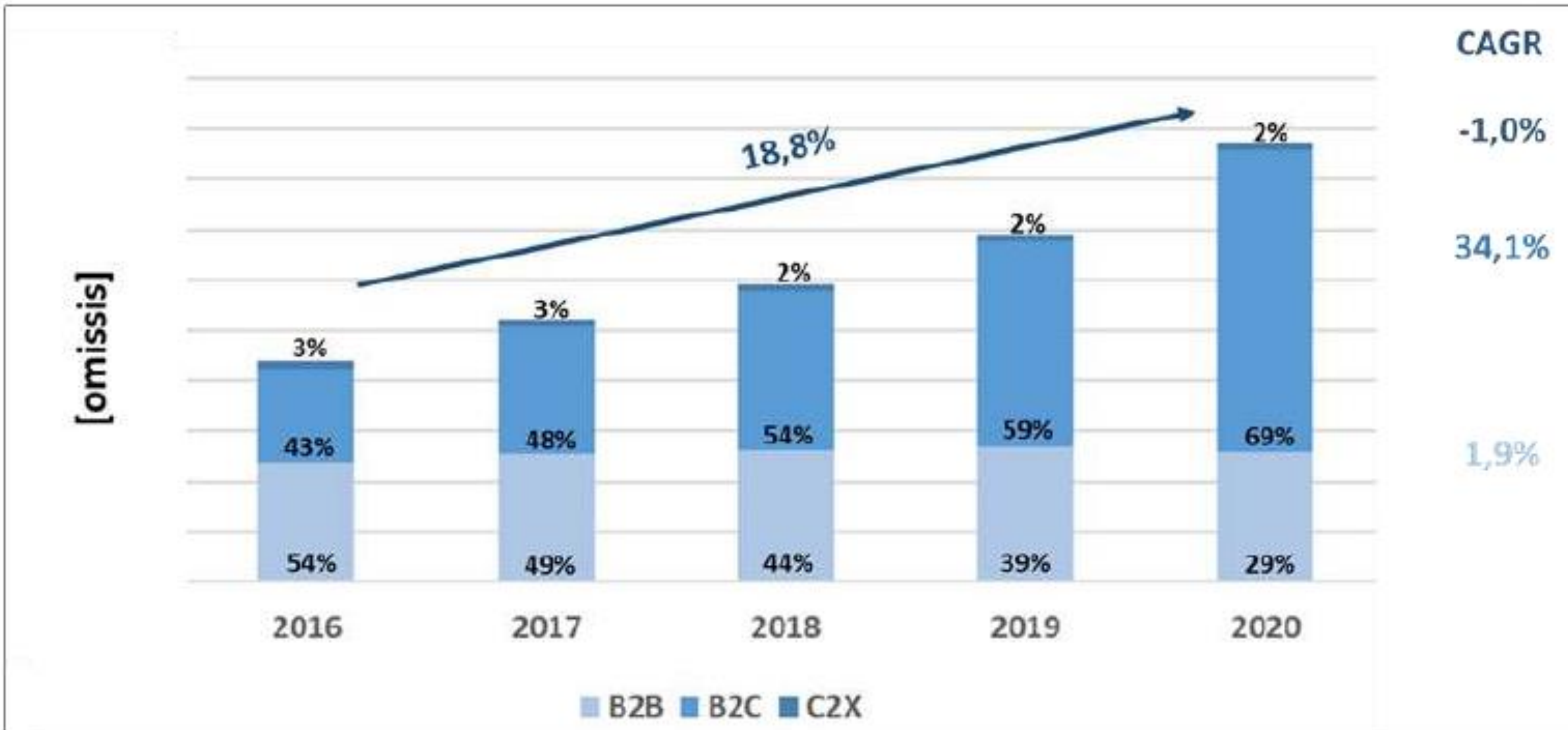
Background

- On August 27th, 2021, Agcom submitted to public consultation a document on Regulatory obligations in the B2C parcel delivery services (decision n. 255/21/CONS).
- Agcom with the previous decision n. 212/20/CONS “Analysis of the market for parcel delivery services” (so called “Interim Report”), identified the following relevant markets:
  - C2X (Consumer to Consumer/Business)
  - B2B (Business to Business)
  - B2C (Business to Consumer, e-commerce)
- The document submitted to public consultation focuses on the market for e-commerce market (B2C) and monitors its recent developments in order to assess whether pro-competitive interventions are necessary.

Italian Parcel Market volumes

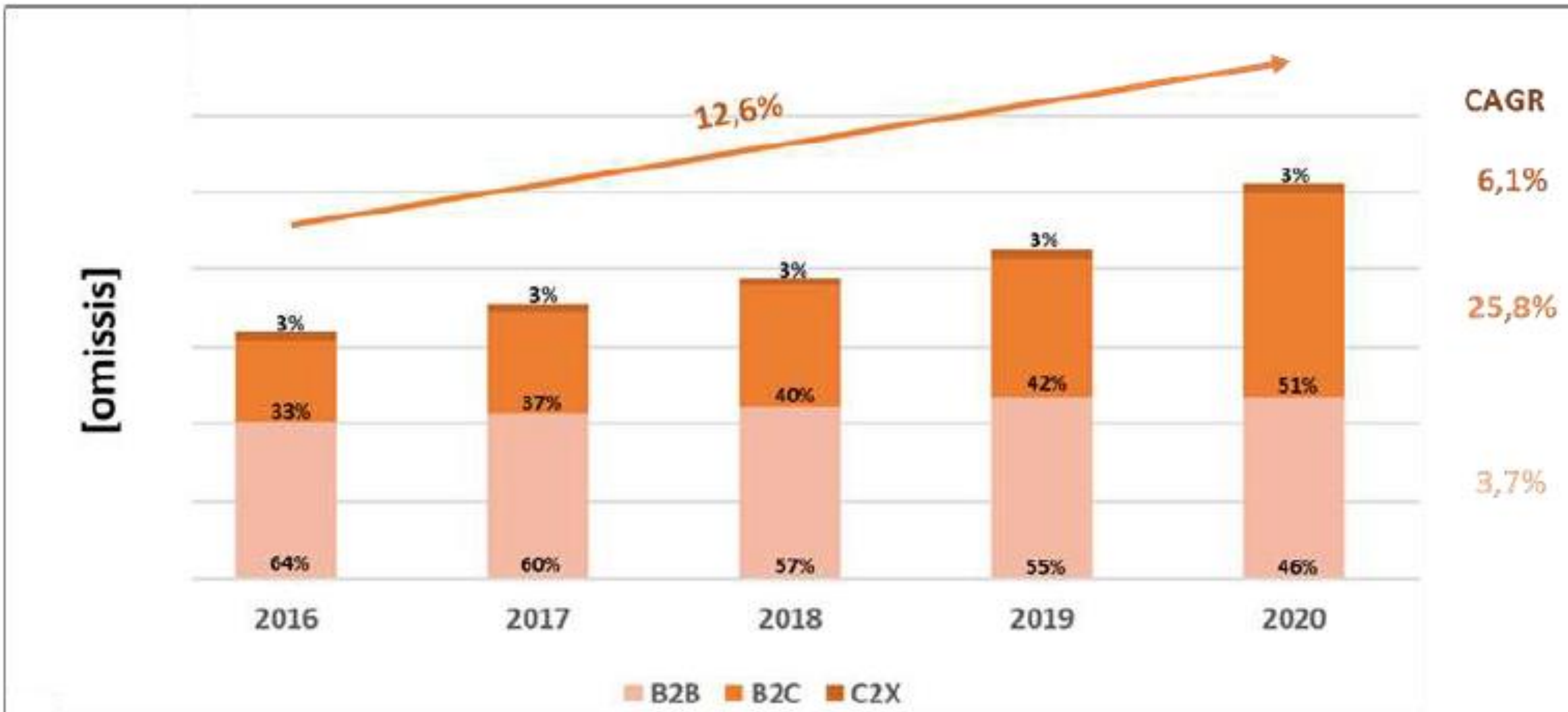
- In 2020, postal operators in Italy delivered around 871 million parcels.
- Over the five-year period B2C volumes grow at an average annual rate of around 34% (CAGR), B2B deliveries by 2% and C2X deliveries decreased by around 1%.
- While B2C parcel volumes accounted for 43% of the total market in 2016, they represent almost 70% in 2020.



Source: Allegato B alla delibera n. 255/21/CONS, p. 9

Italian Parcel Market revenues

- *In 2020 parcel delivery services generated 5.1 billion Euros.*
- *In 2016 more than 60% of total revenues were generated by traditional B2B deliveries. The percentage of B2B is less than 50% in 2020.*
- *C2X deliveries generated only 3% of total revenues.*



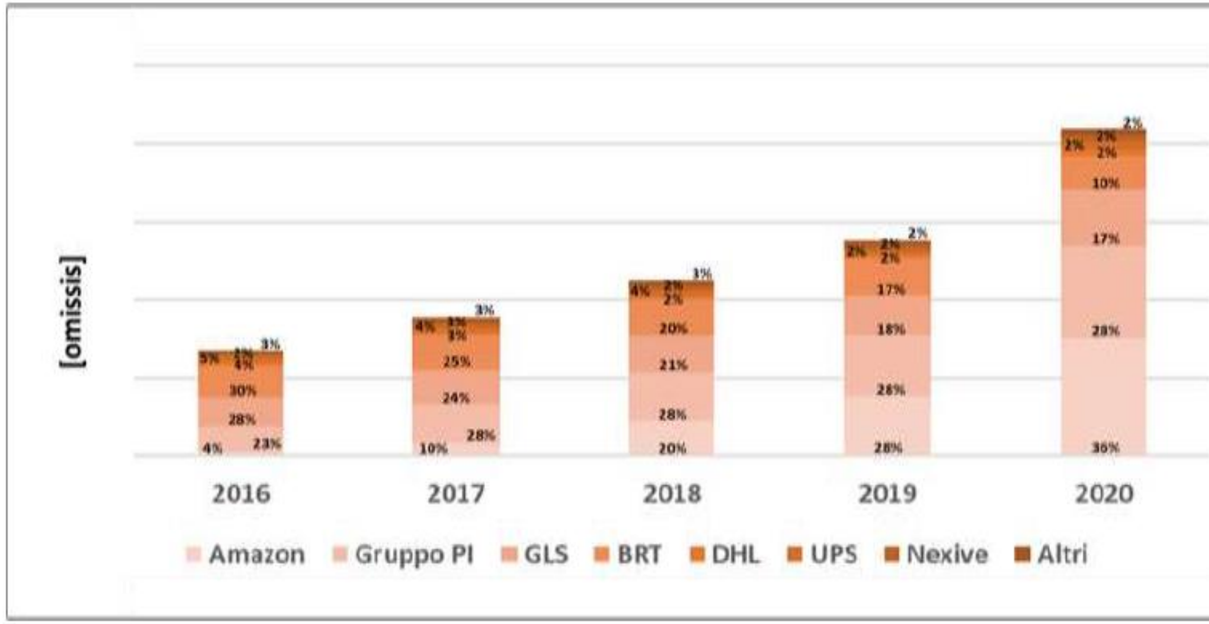
Source: Allegato B alla delibera n. 255/21/CONS, p. 10

Indicators of competition

- *Market shares*
- *Labour cost*
- *Price transparency*
- *Transparency on network organization*
- *Countervailing buying power*
- *Vertical Integration*
- *Barriers to entry*

B2C market shares

- *Main players: Amazon, PI and the couriers GLS and BRT. Amazon has become the leading market player in five years.*
- *Amazon is a postal operator in Italy since 2018: following Agcom decision n. 400/18/CONS, three companies belonging to the Amazon group requested and obtained general authorization, therefore, for all purposes, they are now postal operators subject to the Agcom’s regulatory, supervisory and sanctioning powers.*



Source: Allegato B alla delibera n. 255/21/CONS, p. 16

Labour cost

Agcom considered the cost of labour among the indicators of the level of competition.

In Italian law and regulation, compliance with labour collective contracts is one of the condition necessary to obtain the authorisazion as postal operator.

The application of differentiated contracts between the various operators may distort competition.

The use of subcontracting:

- hinders supervision and makes working conditions less transparent,
- may imply that the conditions applied to workers may be worse than those laid down in the national contract.

Lack of price transparency and of network structure transparency

The parcel delivery market is not transparent since e-retailers and online platforms negotiate price conditions on a case-by-case basis.

Moreover, the contractual conditions governing the relations between the companies that provide the delivery service (by integrating themselves into the network organisation of the main operator) are often not clear.

Vertical integration: demand side effects

Because of vertical integration, Amazon assumed the dual role of demander and supplier of e-commerce parcel delivery services, exerting competitive constraints both on the demand and on the supply side:

- by virtue of the high volumes of parcels, it can exercise a considerable **countervailing buying power** vis-à-vis parcel delivery service providers, obtaining from them particularly advantageous service conditions;
- by virtue of vertical integration, it can use the threat of providing its own delivery services, reducing or eliminating those ordered from competitors;
- as a major customer and direct competitor of postal operators it can gain an increasing mkt share by squeezing the margins of their suppliers and reducing the orders placed with them.

Vertical integration: supply side effects

Intermediation and match-making activities confer Amazon a competitive advantage in e-commerce deliveries for the following reasons:

- economies of scope from the joint sale of intermediation and delivery services;
- privileged contact channel with retailers (for postal operators access to platform's retailers orders is decisive);
- informative advantage over other postal operators (capability to provide customised terms for delivery);
- confer benefits to sellers using its delivery services (i.e. better product ranking, subscription to "prime") ;
- largest locker network in Italy (2,150 out of a national total of just over 2,500) accessible only to Amazon's DSPs or other postal operators delivering for it).

Barriers to entry

Even if there not barriers to entry in the B2C market, Agcom used vertical integration as an indicator for the assessment of entry barriers

It is not vertical integration by itself that can be considered an entry barrier, but vertical integration in combination with the presence on the market of a **single vertically integrated company** with a high and constantly growing market share also in the upstream market.

What matters is **the increasing concentration** of the market and not the number of players.

Amazon selects delivery operators that can be used by the platform sellers even if they do not participate in the FBA programme. Thus, it also acts as gatekeeper, restricting the freedom of choice of sellers.

Main conclusions (1)

From the analysis it emerged that **for all the operators** involved in parcel delivery services, there is:

- a **lack of price transparency**
- a **lack of transparency** on the **network structure** (sub-contracting) and of **working conditi**ons applied to people involved in the various phases off the postal activity up to final delivery.

Main conclusions (2)

Although the market is growing strongly overall, Amazon could further consolidate its position if the rate of increase in its market share continues at the same pace in the coming years: according to Agcom's estimates, its share would increase from 36% in 2020 to 66% in 2022.

This possibility is confirmed by the figures for the first four months of 2021, which show that Amazon is the B2C market player that has grown the most on an annual basis, not least because of the Covid-19 pandemic.

Amazon by virtue of its fast-growing market share, its countervailing buying power, its vertically integration in the delivery sector, its ability to achieve economies of scale and scope, is able to exert competitive constraints on competitors on both the demand and the supply side. Hence **Amazon has SMP in the B2C delivery market**.

Obligations Proposed

To remedy the critical issues emerged from the analysis, Agcom proposed to impose some informative obligations on all operators and some special obligation on Amazon, as SMP operator.

They are not obligations affecting the organisational management or corporate structure of the operator.

Some of the information requested is a specification of the information already required from all operators under Article 4 of the EU regulation.

Proposed Obligations for all operators

Agcom proposed to impose on all operators with a turnover higher than 50 million:

- an obligation to transmit to the NRA information on the prices of all the services offered, differentiated by type of customer (business and large clients) including ancillary services (info that operators are already obliged to publish according to Agcom's decision n. 413/14/CONS);
- an obligation to transmit to the NRA the contracts governing the relationships between the companies making up the network;
- an obligation to transmit every 6 months a statement of compliance with working conditions, regarding all persons involved and at any level of the network.

Proposed Obligations for Amazon

To transmit every year to the NRA information on:

- economic conditions for the delivery services included in the bundles «Amazon logistica»;
- economic conditions that Amazon Italian transport applies to local couries (own delivery);
- economic conditions applies to other posta providers.

Thank you for your attention