Development of Cross-border E-commerce through Parcel Delivery

A study for DG GROW

Delivering for the Future III: Workshop on Developments in the Postal Sector

Brussels, 29 January 2019

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- EP IMCO asked the Commission to conduct a pilot project on the 'development of cross-border e-commerce through parcel delivery'

- Study to improve understanding of

  - the state-of-play, past developments and future trends in the EU delivery markets and

  - the needs of consumers and e-retailers in relation to cross-border e-commerce and delivery services

- Study to provide input for

  - evaluation report on the regulation on cross-border parcels (2020) and

  - application report on Postal Services Directive (expected 2019/2020)
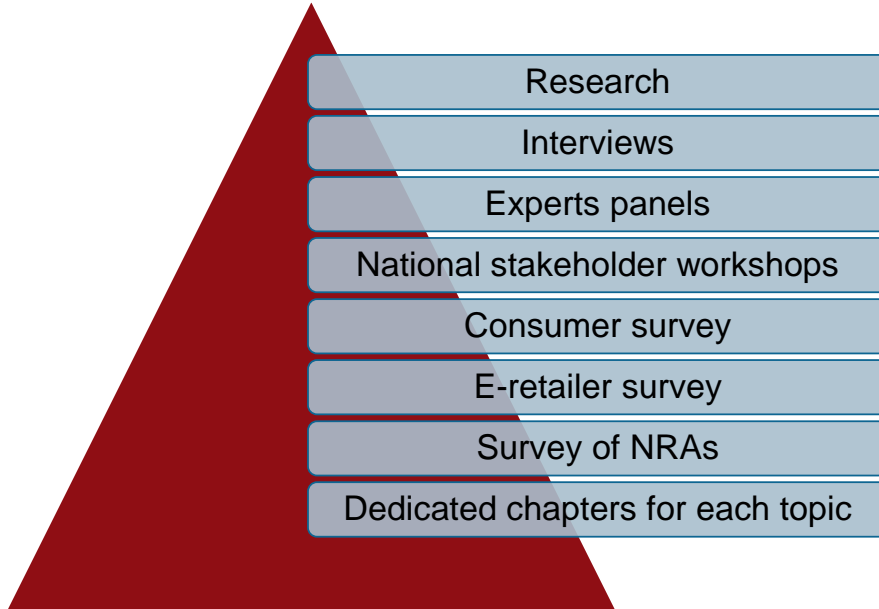
Geographical scope: EU-28 and EEA

Region
Western EU-28
Southern EU-28
Northern EU-28/EEA
Eastern EU-28
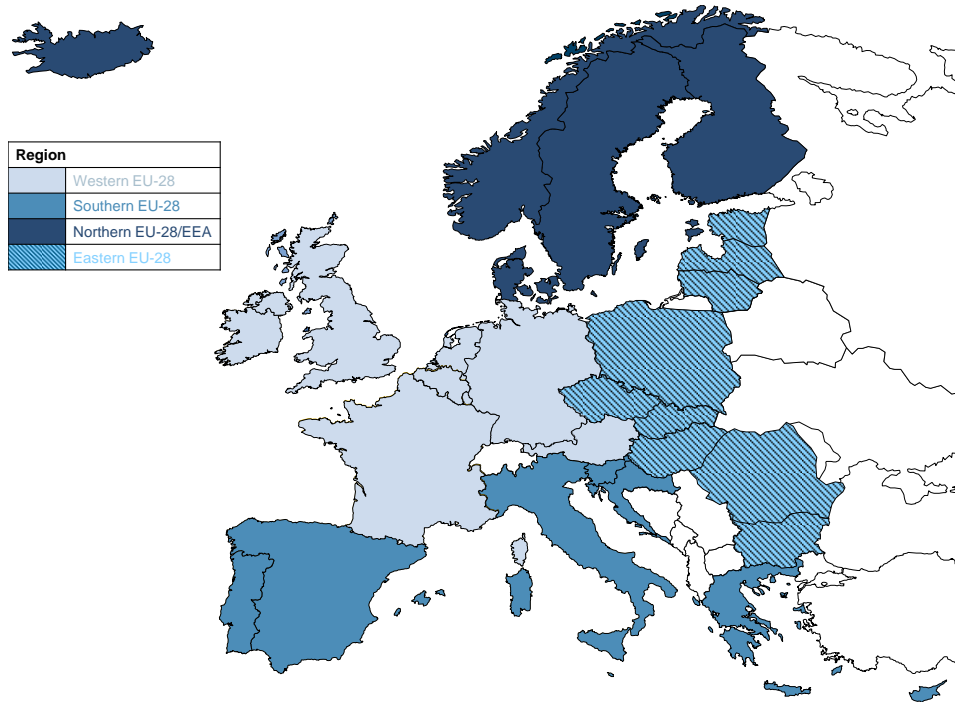
Parcel delivery services

- Parcels: Postal items containing goods weighing up to 31.5 kg

- Parcel delivery services: services involving the clearance, sorting, transport and distribution of parcels

- Parcel delivery service providers: carriers that clear, sort, or distribute parcels

- Cross-border parcel delivery service: delivery of physical goods *as individual parcel* from warehouse of selling company to consumers in another country

- **Emphasis on B2C cross-border parcels (intra-EU and extra-EU)**

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Research

Interviews

Experts panels

National stakeholder workshops

Consumer survey

E-retailer survey

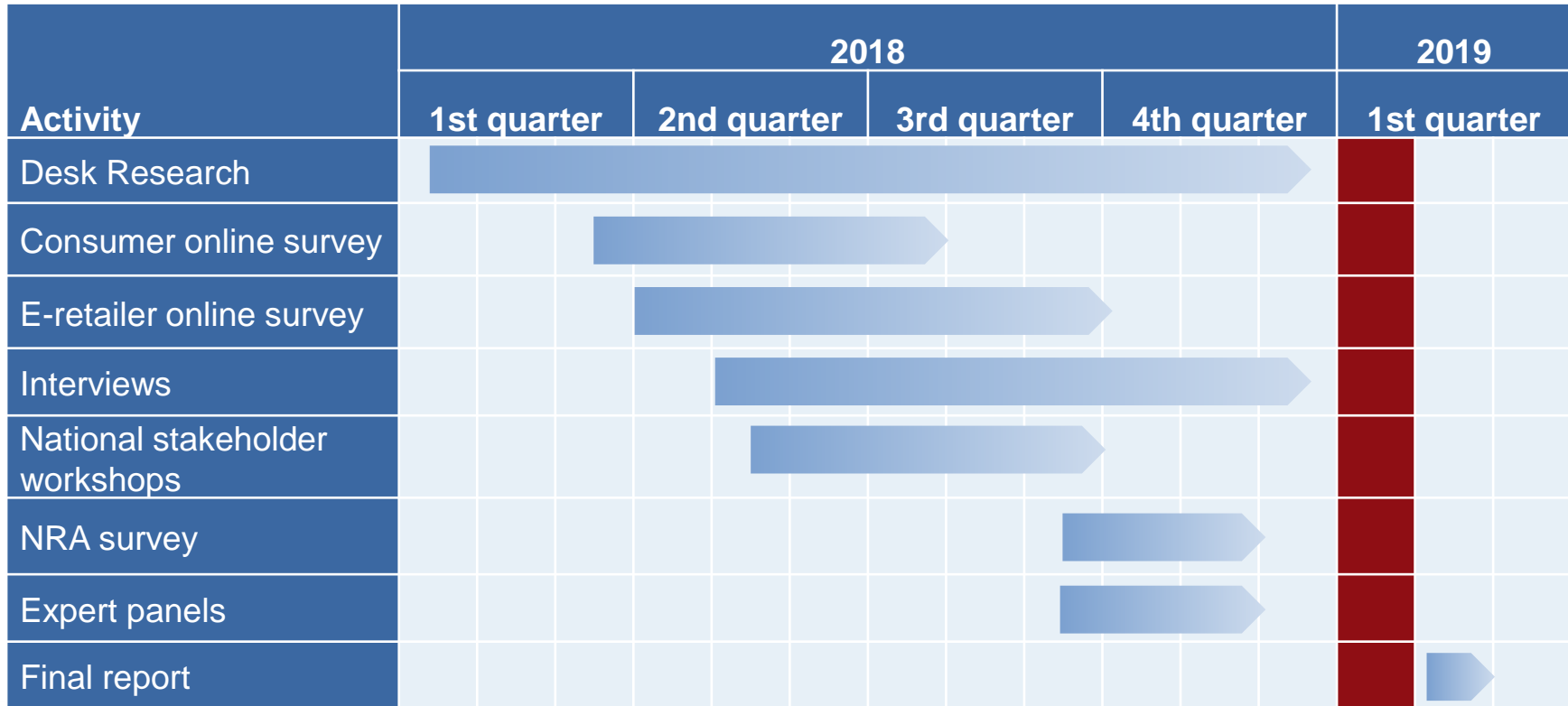Survey of NRAs

Dedicated chapters for each topic

Acknowledgement

We are most grateful to the many individuals and organisations who provided valuable information for this study in

- personal and phone interviews,

- meetings,

- workshops,

- experts panels and

- to those who attended the public workshops and offered us their comments

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Status of the project

Activity	2018				2019
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
Desk Research					
Consumer online survey					
E-retailer online survey					
Interviews					
National stakeholder workshops					
NRA survey					
Expert panels					
Final report					

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B2C e-commerce is growing at significant rates in all Member States

- Consumers are increasingly purchasing online, domestic as well as cross-border

- E-commerce is more developed in Northern/Western EU than in South/East

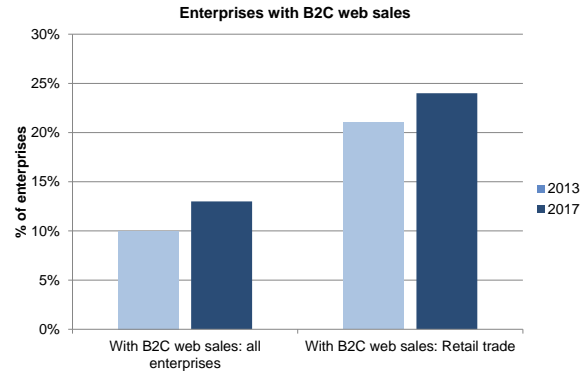- Even mature B2C e-commerce markets keep growing. South/East is catching up
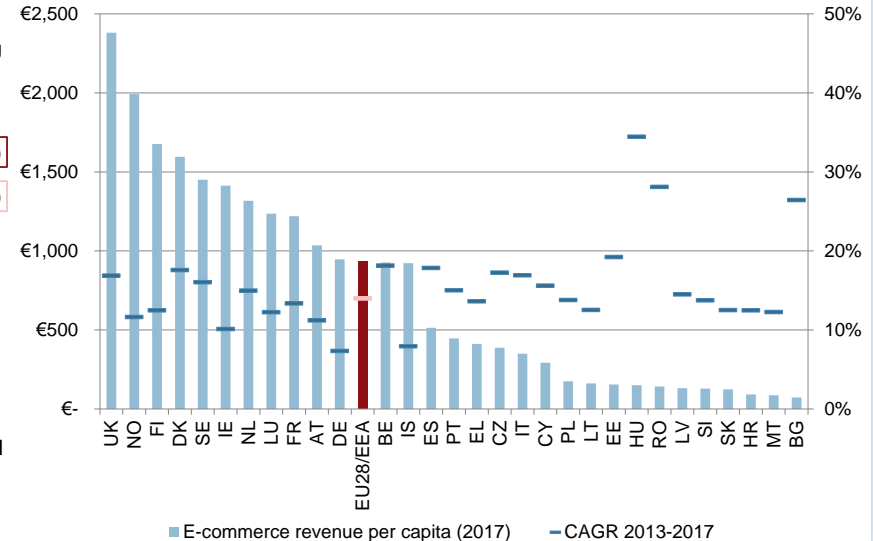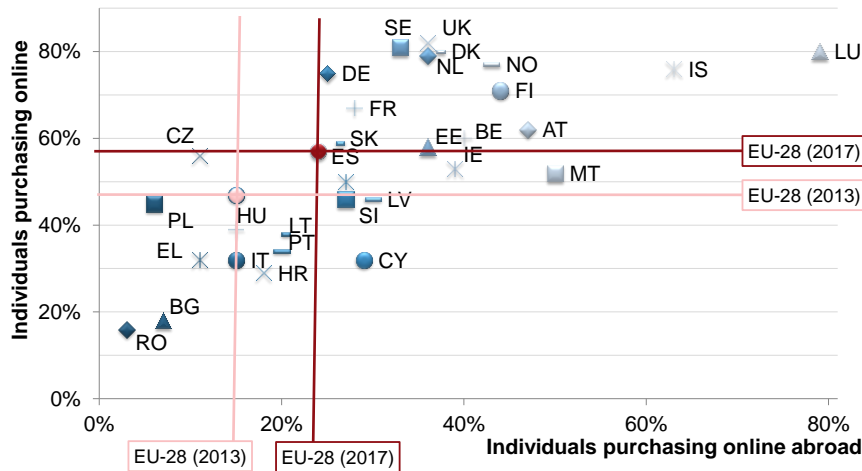
Source: WIK based on Eurostat

Source: WIK based on Ecommerce Europe

Growing share of enterprises with B2C web sales particularly in retail trade

Enterprises with B2C web sales
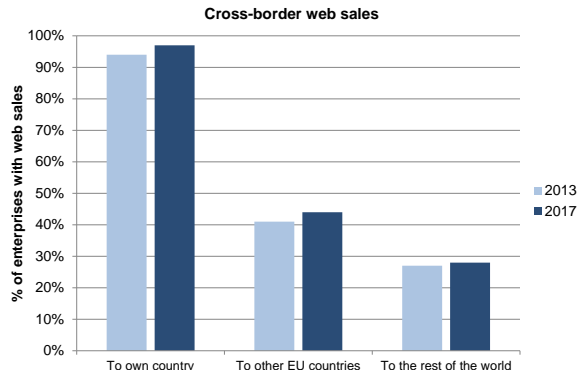
- Most e-retailers are micro or SMEs
  - FR: >75% of French e-retailers account for 2.5% of e-commerce revenues
  - DE: TOP 3 e-retailers account for 40% of e-commerce revenues

- More than 40 per cent of enterprises with web sales sell cross-border

- Online marketplaces are an important sales channel for small e-retailers

Cross-border web sales

Enterprises with B2C web sales by company size (2017)

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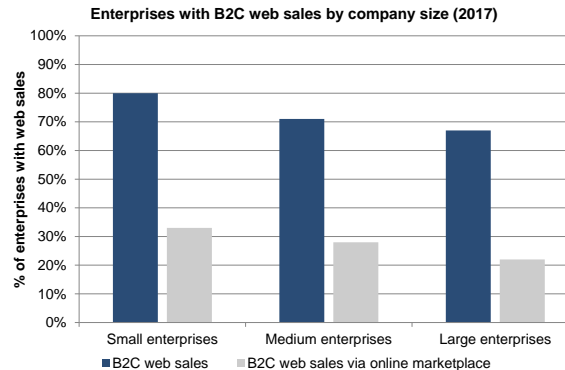
Barriers for cross-border online sales (intra-EU): Fraud and tax regulation are more important than transport & delivery costs

- TNS retailer survey shows that perceived barriers for cross-border sales to other Member States decreased
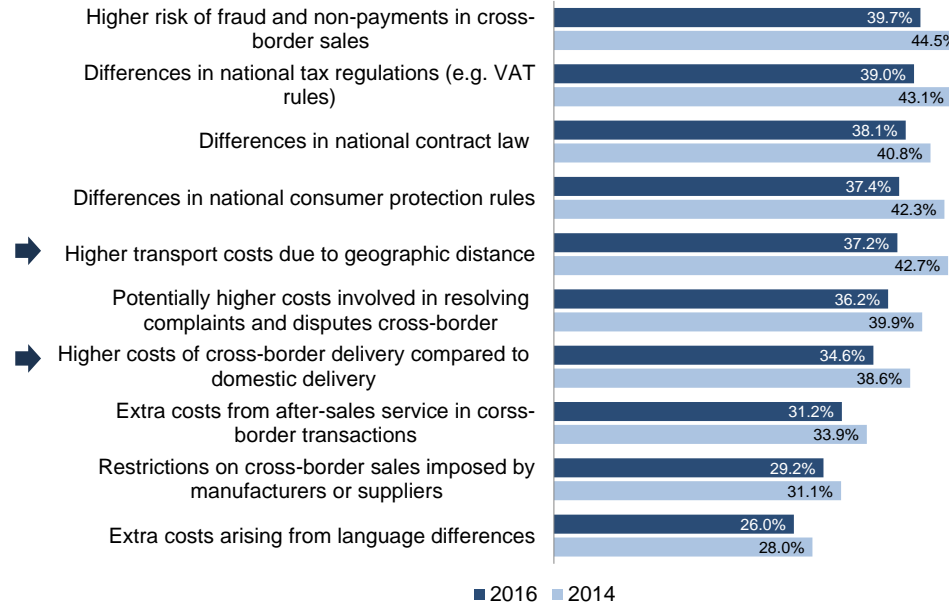
- Particularly transport and delivery costs for cross-border transport became less important

Barrier	2016	2014
Higher risk of fraud and non-payments in cross-border sales	39.7%	44.5%
Differences in national tax regulations (e.g. VAT rules)	39.0%	43.1%
Differences in national contract law	38.1%	40.8%
Differences in national consumer protection rules	37.4%	42.3%
➡ Higher transport costs due to geographic distance	37.2%	42.7%
Potentially higher costs involved in resolving complaints and disputes cross-border	36.2%	39.9%
➡ Higher costs of cross-border delivery compared to domestic delivery	34.6%	38.6%
Extra costs from after-sales service in corss-border transactions	31.2%	33.9%
Restrictions on cross-border sales imposed by manufacturers or suppliers	29.2%	31.1%
Extra costs arising from language differences	26.0%	28.0%

■2016 ■2014

- Stakeholders at national workshops broadly confirm that cross-border delivery costs are not a major impediment for e-retailers selling cross-border, particularly in the most developed e-commerce markets
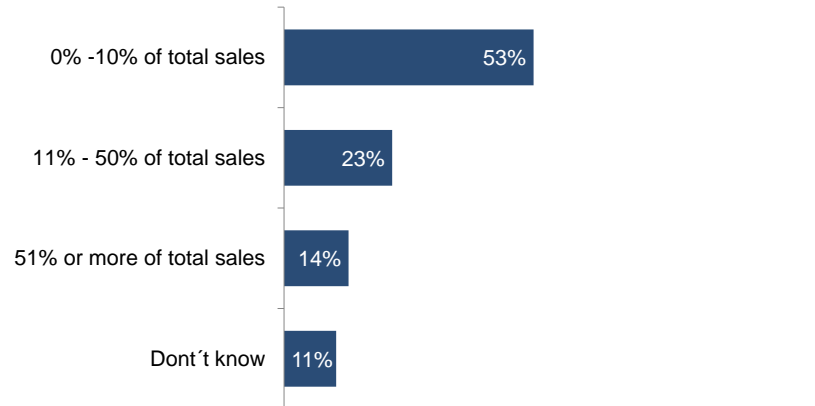
Source: WIK based on TNS (2017)

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Few e-retailers have a dedicated international strategy

E-retailers w/o international strategy

- Receive occasional orders from abroad

- No established processes for international deliveries and returns

% of cross-border sales of total B2C sales

% of retailers with web sales to other EU countries

Category	%
0% -10% of total sales	53%
11% - 50% of total sales	23%
51% or more of total sales	14%
Don´t know	11%

Source: TNS (2017)

E-retailers with international strategy consider

- Market conditions (growth potential, competition, price levels)

- Legal issues in destination countries

- Cultural differences (marketing, delivery/return & payment habits)

- Language (translations, after sales services)

- International delivery conditions and/or (local) fulfilment service

- Returns and associated costs

- Online marketplaces as 'low-cost' option to expand internationally before establishing a customized online shop
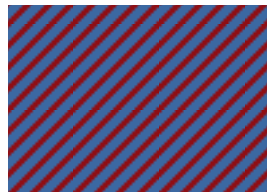
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Expanding internationally requires financial, legal, technical and operational capacities
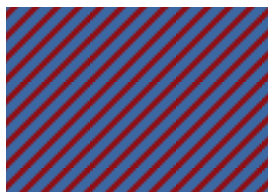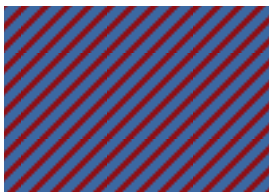
Conclusions

- B2C e-commerce is growing at significant rates in all Member States

- Growing share of enterprises with web sales, particularly in retail trade

- More than 40 per cent of enterprises with web sales sell cross-border

- Most e-retailers are very small companies with revenues below EUR 100,000

- Online marketplaces are an important sales channel particularly for small and micro e-retailers

- The majority of enterprises with web sales do not follow a dedicated internationalization strategy

- E-retailers with international sales mainly sell to neighbouring countries but demand from non-European consumers is also growing

- E-retailers sell to other Member States to reach more customers (growth potential) and to reduce dependency on the domestic market (particularly in highly competitive domestic e-commerce markets)

- Fraud and differences in regulations are more significant barriers for cross-border sales to other EU countries than transport & delivery costs

- Expanding internationally in a professional manner requires financial, legal, technical and operational capacities (particularly difficult for small e-retailers)

- International online marketplaces provide support services to SME e-retailers to expand internationally

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European parcel market is continuously growing

- B2C segment shows continuous growth while B2B segment is stagnating in Europe

- The majority of the 9.4 billion items shipped in 2017 were delivered in Germany, the UK and France

Annual revenues in the European parcel market

Bn. €

CAGR

+4.3% p.a.

+4% p.a.

	2013	2014	2015	2016	2017	2018	2019	2020
Total	54.4	56.7	59.2	61.7	64.5			73
B2C	12	14	15	17	19			
C2X	7	8	9	9	10			
B2B	35	35	35	35	35			

+ 12.5% p.a.
+ 8.1% p.a.
+ 0.1% p.a.
+10% p.a.
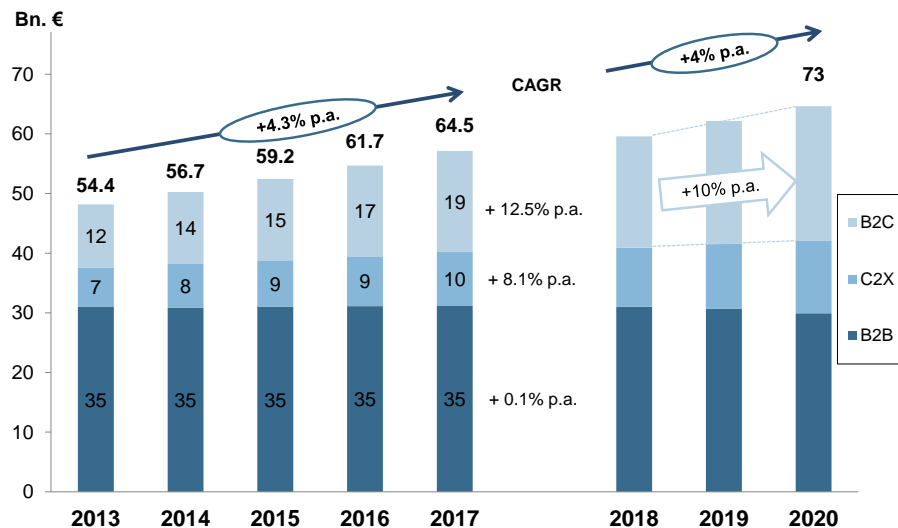
Source: Apex Insight, Statista
Revenues include deferred parcels and express items.

European parcel market 2017 (9.4 billion items)

DE 36%
UK 23%
FR 13%
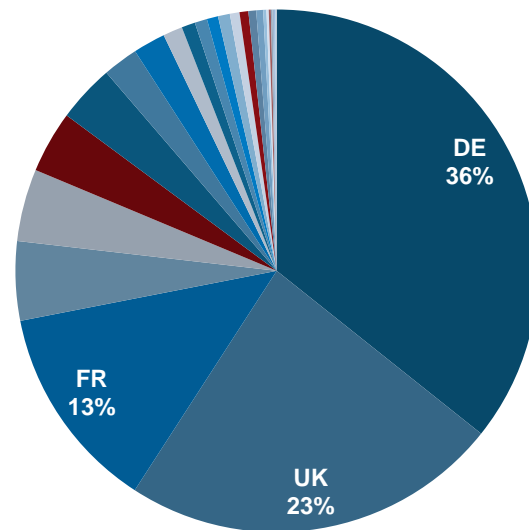
Source: WIK based on NRA reports, Annual reports USPs

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E-commerce markets with lower volumes are catching up
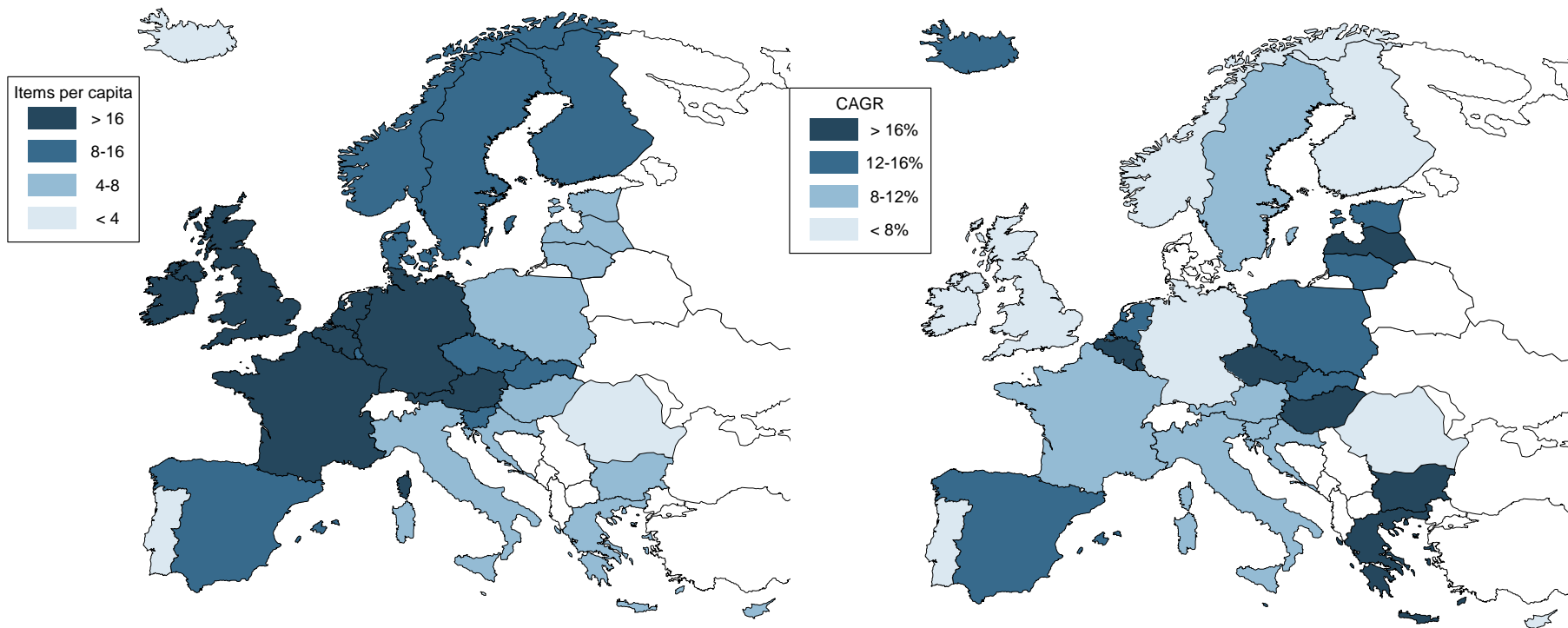
CAGR (2013–2017) except for CZ, IE, LU, NO, RO and SI

Increasing diversity of carriers in the European parcel markets

Integrators
- Focus on international express items with own operations and high quality in most countries
- Expanding e-commerce capabilities and introduce new services for smaller e-retailers

European parcel networks
- International and domestic items with own operations and partnerships at varying service levels
- Expanding their networks with partnerships and introduce more receiver-oriented delivery solutions

Regional and local B2B carriers
- Emerging and well-established domestic (B2B) networks expanding their networks to neighbouring countries and often cooperate as delivery partners with European ground parcel networks

National and local B2C carriers
- USPs and traditional B2C delivery companies from the mail order sector, typically with domestic or local delivery networks, expand their pickup point networks and introduce receiver-oriented services

Emerging business models and delivery services
- Parcel brokers and consolidators, carrier-agnostic networks of parcel shops and parcel lockers, and same-day/instant delivery networks in urban areas

Competition becomes more intense in B2C delivery markets, both domestic and cross-border

E-retailers identified as customer group, e.g. specific business accounts, fulfilment services, APIs, support and consulting services for e-retailers

Improvement of service quality (e.g. live tracking, pick-up services, recipient-controlled delivery options, investment in backbone and last mile)

Expansion of PUDO networks (parcel lockers, parcel shops)

New and differentiated products for e-commerce items (e.g. tracked letter box parcels) and less complex pricing schedules and products

Introduction of cross-border return services (e.g. by carriers, return platforms or other e-commerce intermediaries)

Source: Company websites

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Micro, small and medium e-retailers may benefit from significant discounts

- Public prices represent upper limit

- E-retailers often eligible for business tariffs

  - DHL Parcel: 200 parcels p.a. (DE), 300 parcels p.a. (AT)

  - Hermes: 300 parcels p.a. (DE), 150 parcels per week (UK)

  - DPD: 10 parcels per month (DE)

  - PostNL: 1,000 letter box parcels p.a.

  - Royal Mail: For international shipments 5,000 GBP or 1,000 items p.a.

- Little information available on business tariffs, however indication of significant discounts even for SMEs

- Example: DHL's sets of parcel labels provide German consumers discounts up to 33%
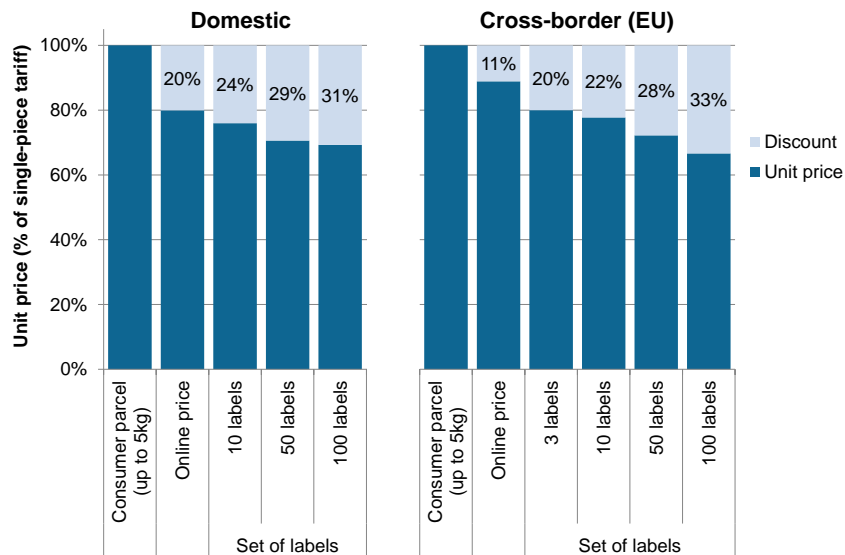
Volume growth and increasing expectations lead to transformation and integration of the delivery value chain

- Carriers are reorganising their backbone operations (sorting and line haul) from hub & spoke more to web structure

Hub & Spoke

Point-to-Point (web)
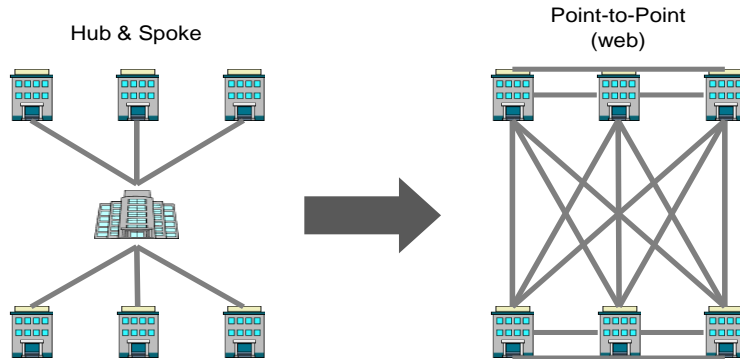
- ➤ More direct transports
- ➤ More integrated sorting and delivery facilities
- ➤ More warehouses and delivery hubs in high-demand / urban areas

- Closer cooperation between e-retailers and carriers and integration of large e-retailers' and carriers' value chains

  - ➤ Negotiated access to carriers' delivery depots, more closely linked carriers' sorting facilities to e-retailers' warehouses

  - ➤ Vertical integration of warehousing and delivery activities, either downstream (e-retailers set up own delivery operations) or upstream (carriers provide warehousing and fulfilment services)

Last mile delivery becomes more diverse particularly in urban areas

Carrier-agnostic networks

Pick-up and drop-off networks (parcel shops or parcel lockers) which provide services from / to different carriers and e-retailers

Examples

Instant / same-day delivery

Platforms that provide (on-demand) courier services of different couriers and delivery from local warehouses in urban regions

Examples

New technologies allow more efficient and innovative delivery models

Big data and artificial intelligence

Better usage of existing capacities and more efficient delivery routes based on predictive models and real-time data (e.g. traffic, weather)

Examples

Automation and interconnection

New and innovative delivery models and methods, e.g. (semi-)autonomous delivery vehicles, drones etc.

Examples

Source: Company websites

Varying regulation of parcel carriers among Member States

- Classification of parcel & express services with limited transparency and little harmonisation: *Postal services* vs. *Services within the scope of universal service* vs. *Universal services*

- Member States apply very different criteria for defining postal/parcel services
  - Boundaries between parcel vs. express services blurred
  - How to classify innovative services / delivery models, avoid red tape?

- Rules are applied to domestic and export parcel & express services usually in the same way

- Authorization procedures
  - There are some countries in which authorization procedures appear burdensome for carriers and create potential barriers to market entry

- Financial contribution to USO net costs
  - Carriers contribute to a compensation fund to finance USO net costs in very few MS

- Funding of NRAs
  - One third of MS do not require contributions to NRA funding from parcel carriers
  - NRA funding required even from very small operators in EL (>500 operators), IT (>200 operators), HU (>100 operators)

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Intra-EU and domestic parcels

- Scope of USO varies among MS in terms of
  - Services included
  - Weight limits
  - Collection, delivery & geographical exemptions

- Delivery markets provide appropriate services, in excess of USO requirements
  - Consumers/small businesses get tracked parcel service in many MSs – due to market forces not legislation. USO services often more basic

- Universal service products rarely used for e-commerce, except sometimes for returns

- Parcel regulation by NRAs is traditionally less intensive than regulation of letters

Imports to EU / UPU small packets

- International letters and small packets generally considered as universal services

- Incoming letters and small packets are delivered at UPU terminal dues rates

- Terminal dues generally below cost for imports from Asia, losses from incoming mail adds to USO net costs

- UPU imports often come registered, now account for substantial share of all registered mail

- Increasingly significant volumes and contributions to USO net cost

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- B2C e-commerce drives growth in European parcel markets: revenues increased by more than 4% p.a. since 2013 in total, and by more than 12% p.a. in the B2C segment. Further growth expected

- Around 9.4 billion parcels and 1.7 billion small packets were delivered in the EU in 2017 and with parcel volumes growing at double digit rates across Europe

- Available data on delivery markets is limited and underestimates actual cross-border volumes by definition

- The competitive landscape for cross-border B2C delivery services has become more diverse: choice and quality of delivery services for (cross-border) B2C e-commerce have much improved

- Many USPs offer competitive products, playing important role in cross-border B2C delivery

- Carriers increasingly target small and medium e retailers and even small e-retailers may benefit from significant discounts

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- Regional delivery clusters and a handful of carriers with European-wide activities continue to develop, creating a single market for delivery services

- The 'backbone' of parcel logistics transforms towards a denser point-to-point network

- Last mile delivery will become more diverse particularly in urban areas

- Quickly evolving technologies (e.g. platforms, artificial intelligence and big data) improve the efficiency, the scalability and the flexibility of e-commerce deliveries in the future

- Postal regulation is still evolving in response to e-commerce
  - The boundaries between standard parcel and express services are blurred – and will become more so
  - The role of USO parcels for intra-EU e-commerce is negligible, except returns
  - UPU small packet imports at terminal dues below cost. Increasing volumes and losses for a number of EU USPs
  - Burdensome authorisation procedures or obligation to fund NRAs for very small carriers might hinder market development

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C O N S U L T

1. Introduction

2. E-commerce in Europe

3. Delivery markets in Europe

4. Consumers' experiences

5. E-retailers' experiences

6. E-commerce with non-EU countries

7. Employment and working conditions in the delivery sector

8. Environmental aspects of delivery services

9. Assessment of B2C delivery market performance

10. Recommendations

The share of internet users and online shoppers is continuously growing

Internet usage in 2017 by age (EU-28)

- Online shopping depends on internet penetration: the higher the internet penetration, the higher the share of individuals with online purchases

- Level of internet penetration depends on age, residential area and broadband access and is varying among MS

Relationship between internet usage and ordering physical good online in 2017 (EU28)

Internet usage in 2017 by residential area (EU-28)

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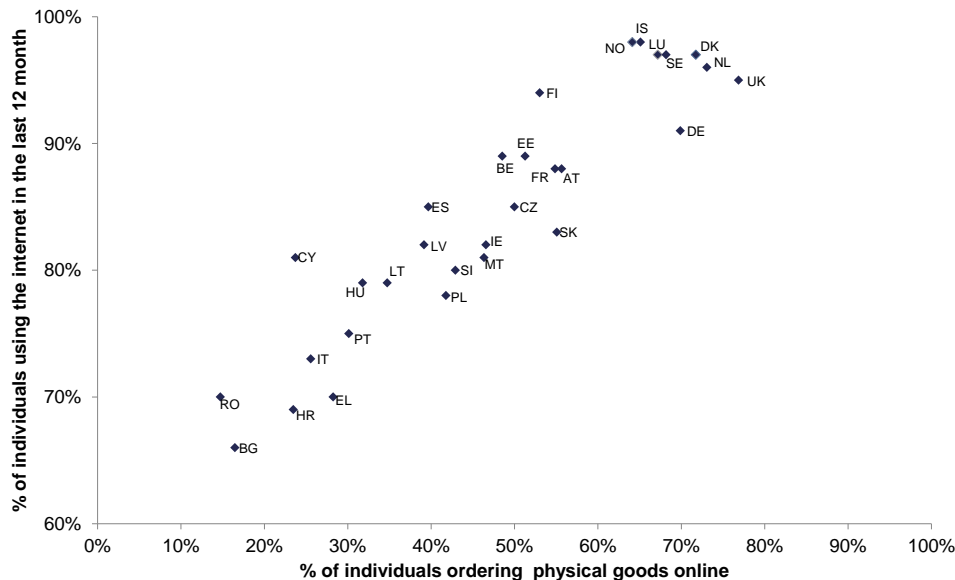
Barriers for consumers not shopping online relate to retail/offline preference, not delivery quality or returns
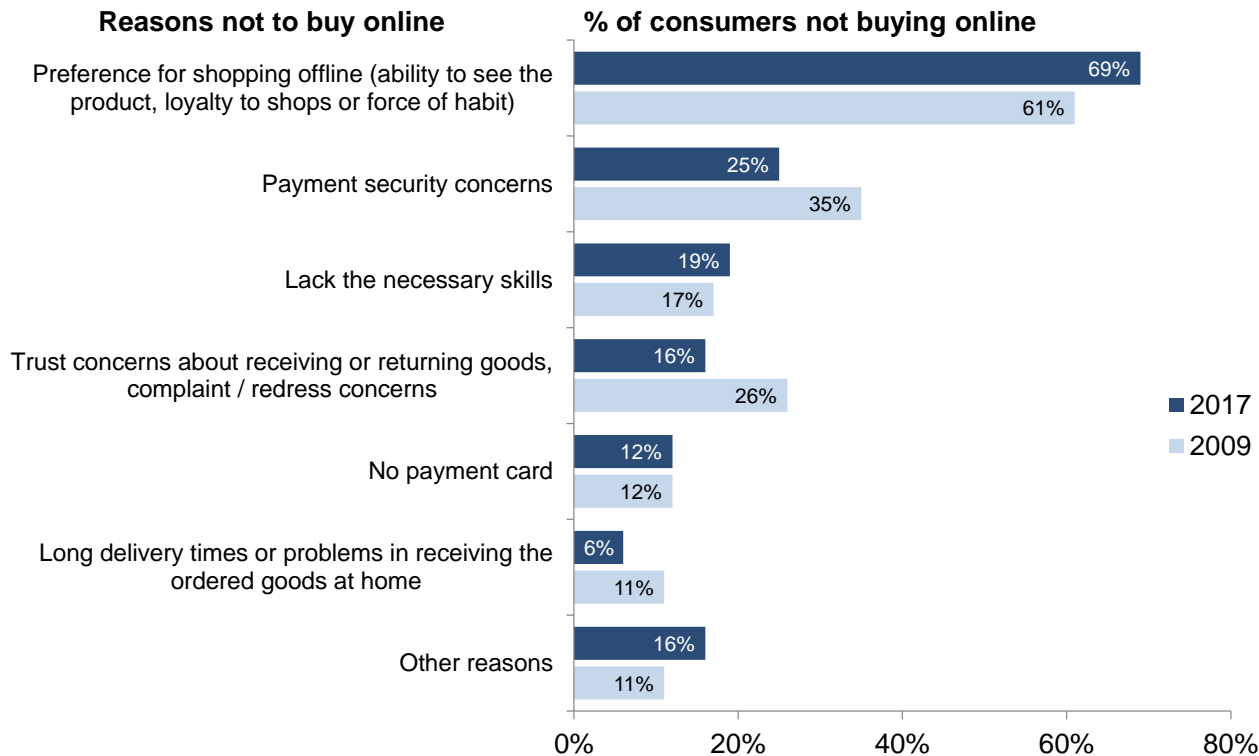
Reasons not to buy online

% of consumers not buying online

Preference for shopping offline (ability to see the product, loyalty to shops or force of habit): 69% (2017), 61% (2009)

Payment security concerns: 25% (2017), 35% (2009)

Lack the necessary skills: 19% (2017), 17% (2009)

Trust concerns about receiving or returning goods, complaint / redress concerns: 16% (2017), 26% (2009)

No payment card: 12% (2017), 12% (2009)

Long delivery times or problems in receiving the ordered goods at home: 6% (2017), 11% (2009)

Other reasons: 16% (2017), 11% (2009)

Legend: ■ 2017 ■ 2009

Source: WIK based on Eurostat

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- The share of e-shoppers purchasing cross-border varies among Member States

Share of cross-border online shopper
- ☐ 30-40%
- ☐ 40-50%
- ☐ 50-60%
- ☐ 60-70%
- ☐ 70-80%
- ■ 80-90%
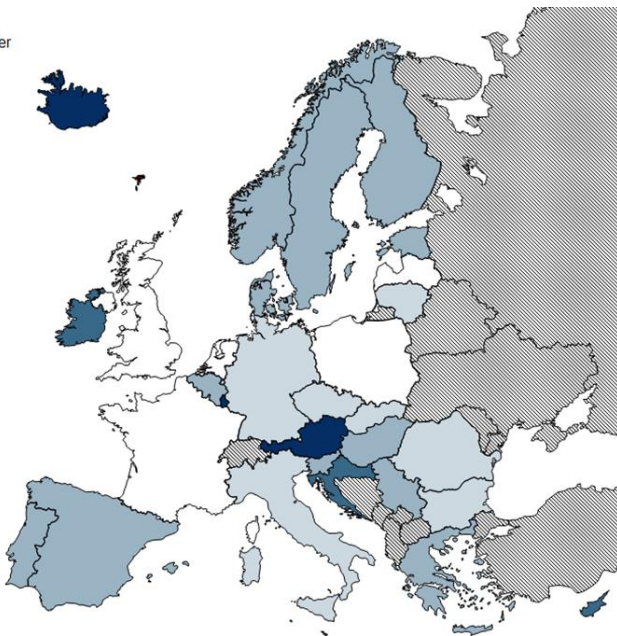
N=17,037.

| Most recent online purchase of online shoppers in …				
was ordered from a e-retailer in …				
AT	DE (68%)	CN (13%)	UK (2%)	USA (2%)	NL (1%)
BE	FR (49%)	CN (10%)	NL (8%)	DE (7%)	UK (6%)
BG	CN (44%)	UK (17%)	DE (10%)	USA (6%)	RO (3%)
CY	UK (39%)	CN (22%)	EL (18%)	DE (5%)	USA (4%)
CZ	CN (67%)	UK (7%)	DE (7%)	USA (6%)	PL (1%)
DE	CN (41%)	UK (15%)	AT (5%)	USA (5%)	ES (4%)
DK	DE (22%)	CN (20%)	UK (15%)	SE (11%)	USA (8%)
EE	CN (49%)	UK (14%)	DE (9%)	USA (8%)	FI (2%)
EL	CN (31%)	UK (21%)	DE (8%)	USA (7%)	ES (5%)
ES	CN (40%)	UK (16%)	DE (12%)	USA (6%)	FR (5%)
FI	CN (28%)	DE (20%)	UK (12%)	SE (10%)	USA (10%)
FR	CN (30%)	DE (15%)	UK (14%)	USA (6%)	IT (5%)
HR	CN (53%)	UK (12%)	USA (7%)	DE (6%)	ES (2%)
HU	CN (55%)	UK (8%)	DE (7%)	USA (5%)	SK (3%)
IE	UK (58%)	CN (16%)	USA (6%)	DE (4%)	IT (2%)
IS	CN (32%)	UK (17%)	USA (11%)	LV (5%)	DE (4%)
IT	CN (29%)	UK (20%)	DE (19%)	USA (7%)	ES (4%)
LT	CN (55%)	UK (17%)	DE (9%)	USA (4%)	PL (3%)
LU	DE (71%)	FR (12%)	UK (5%)	CN (4%)	BE (3%)
LV	CN (46%)	UK (16%)	DE (6%)	USA (5%)	EE (3%)
MT	UK (68%)	CN (18%)	DE (5%)	USA (3%)	IE (1%)
NL	CN (36%)	DE (18%)	UK (10%)	BE (5%)	USA (4%)
NO	CN (29%)	UK (17%)	USA (15%)	SE (10%)	DE (7%)
PL	CN (46%)	DE (12%)	UK (8%)	USA (6%)	CZ (2%)
PT	CN (31%)	ES (20%)	UK (17%)	DE (7%)	FR (6%)
RO	CN (35%)	UK (17%)	DE (9%)	USA (7%)	PL (4%)
SE	CN (24%)	DE (21%)	UK (17%)	USA (15%)	DK (4%)
SI	CN (35%)	DE (22%)	UK (15%)	AT (4%)	USA (3%)
SK	CN (41%)	CZ (26%)	UK (8%)	DE (7%)	HU (2%)
UK	CN (34%)	USA (19%)	DE (5%)	IT (2%)	PL (2%)

CN	UK	DE	neighbouring countries

Source: WIK Consumer Survey

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- Perceived service quality of online purchases from Rest of World is much lower than from EU/EEA
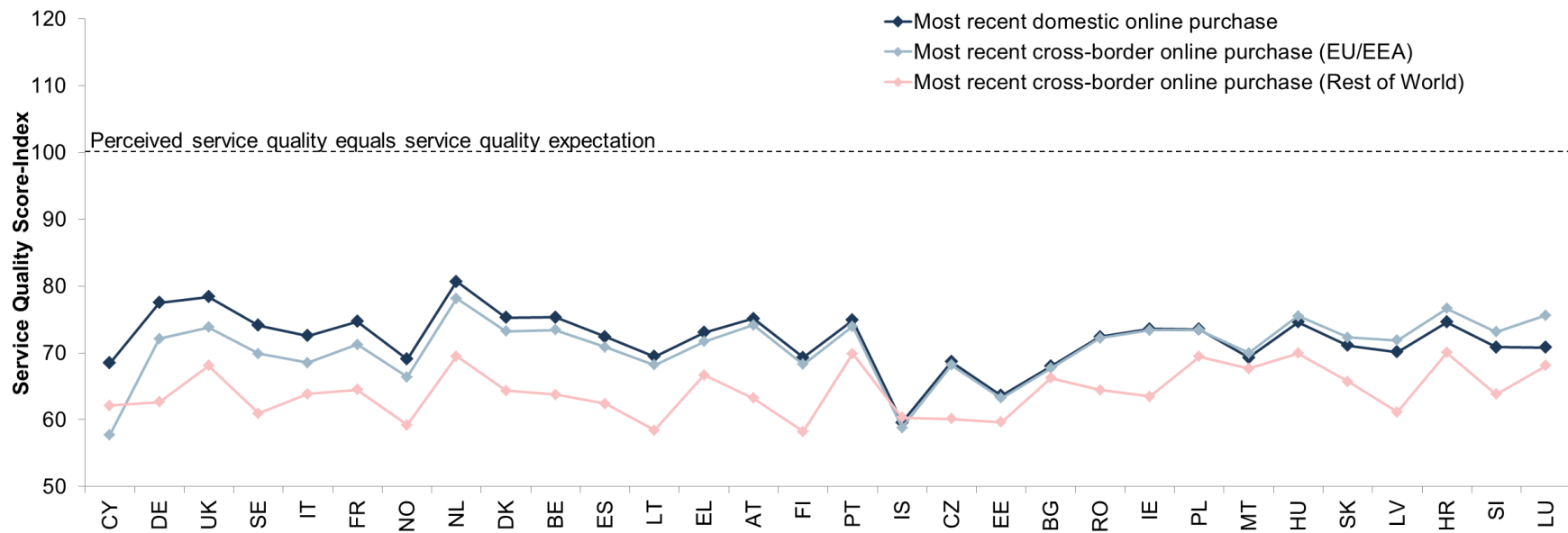
Source: WIK Consumer Survey

N=17,037.

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Delivery time options and management of returns are matters of concern in nearly all Member States

- Perceived service quality regarding the categories 'Delivery quality' and 'Delivery location' generally matches expectations

Perceived service quality equals service quality expectation

Legend:
- Most recent domestic online purchase
- Most recent cross-border online purchase (EU/EEA)
- Most recent cross-border online purchase (Rest of World)

Y-axis: Service Quality Score-Index

X-axis (Service categories): Delivery quality | Delivery location | Information on the delivery and return conditions before purchase | Charges for delivery and return | Information on the status of delivery after purchase | Delivery time | Management of returns

Source: WIK Consumer Survey

N=17,037.

# There is room for improvement in delivery time options and returns management

- Concerns about returns management

  - Relatively low levels of perceived service quality

  - Less of a concern for domestic purchases than for cross-border

  - Perceived quality of returns management is lowest for

    - Imports to many Eastern and Southern Member States

    - imports from Rest of World to all Member States

- Concerns about delivery time options

  - Consumers expect more choice between different delivery options in terms of speed (express delivery), and day/time of delivery

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Overall, consumers are almost equally happy with domestic delivery by USPs and other carriers
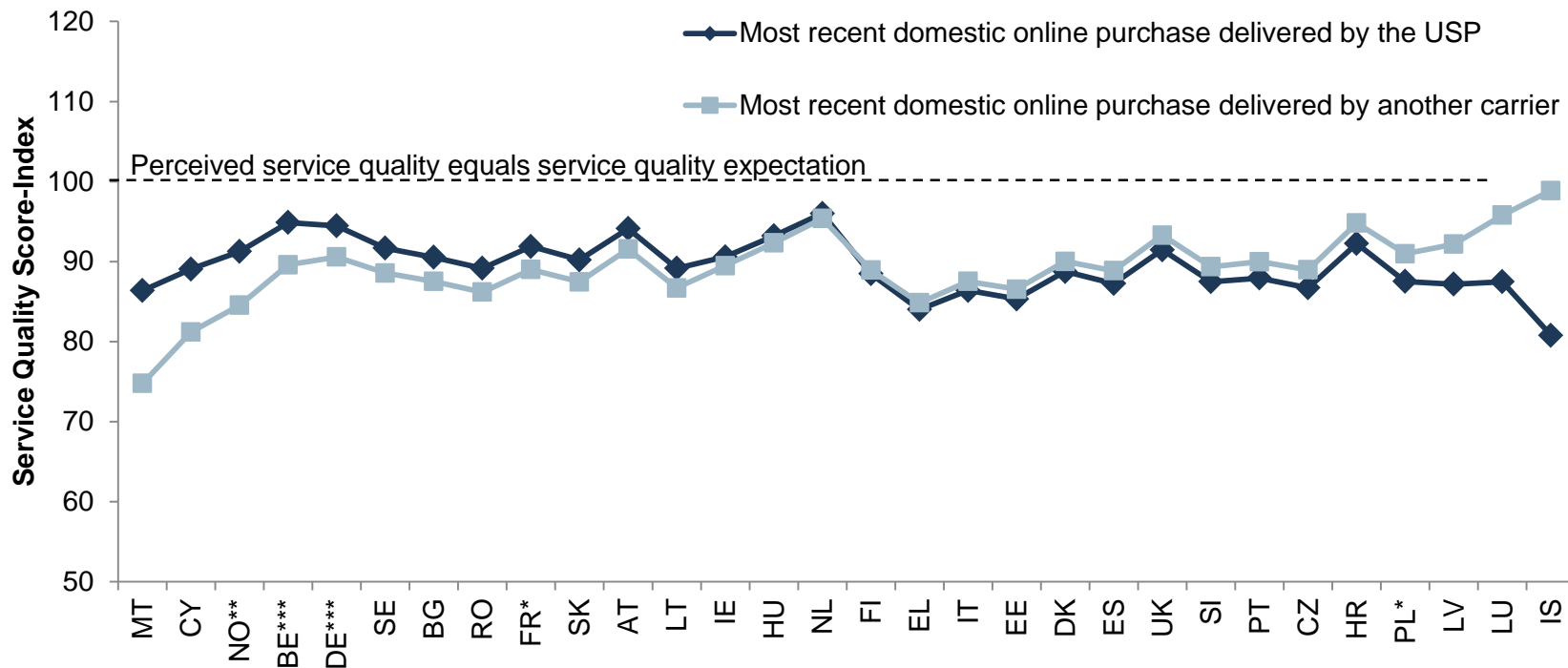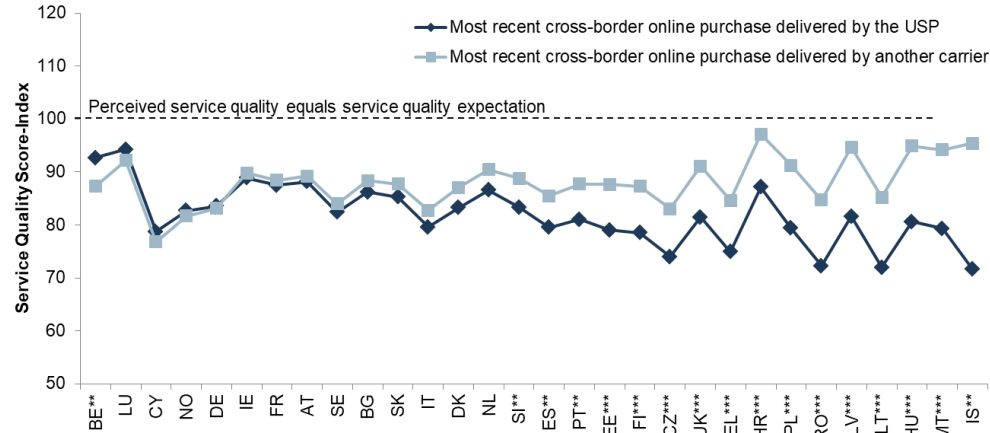

N=17,037. This figure includes the delivery elements 'Tracking the delivery process in real time', 'Notification of any attempt to deliver the item', 'Delivery to the agreed location', 'Delivery on time', and 'Courteous deliverer'.
Significance: *0.10, **0.05, ***0.01

- Gap between other carriers' and USPs' perceived delivery quality is much bigger for cross-border

- More than half of online purchases from China were delivered by USPs

- This may partly affect overall USP performance

Service Quality Score-Index

- Most recent cross-border online purchase delivered by the USP
- Most recent cross-border online purchase delivered by another carrier

Perceived service quality equals service quality expectation

BE** LU** CY NO DE IE FR AT SE BG SK IT DK NL SI** ES** PT** EE*** FI*** CZ*** UK*** EL*** HR*** PL*** RO*** LV*** LT*** HU*** MT*** IS**

Carriers delivering the most recent cross-border purchase

% of cross-border online shoppers

	EU/EEA	China	Rest of World
I do not remember which company delivered the item/No answer	20%	23%	30%
Other Carrier	55%	20%	43%
USP	25%	57%	28%

WIK consumer survey. N=17,037. This figure on the right includes the delivery elements 'Tracking the delivery process in real time', 'Notification of any attempt to deliver the item', 'Delivery to the agreed location', 'Delivery on time', and 'Courteous deliverer'.
Significance: *0.10, **0.05, ***0.01

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N=17,037. This figure includes the delivery elements 'Tracking the delivery process in real time', 'Notification of any attempt to deliver the item', 'Delivery to the agreed location', 'Delivery on time', and 'Courteous deliverer'.
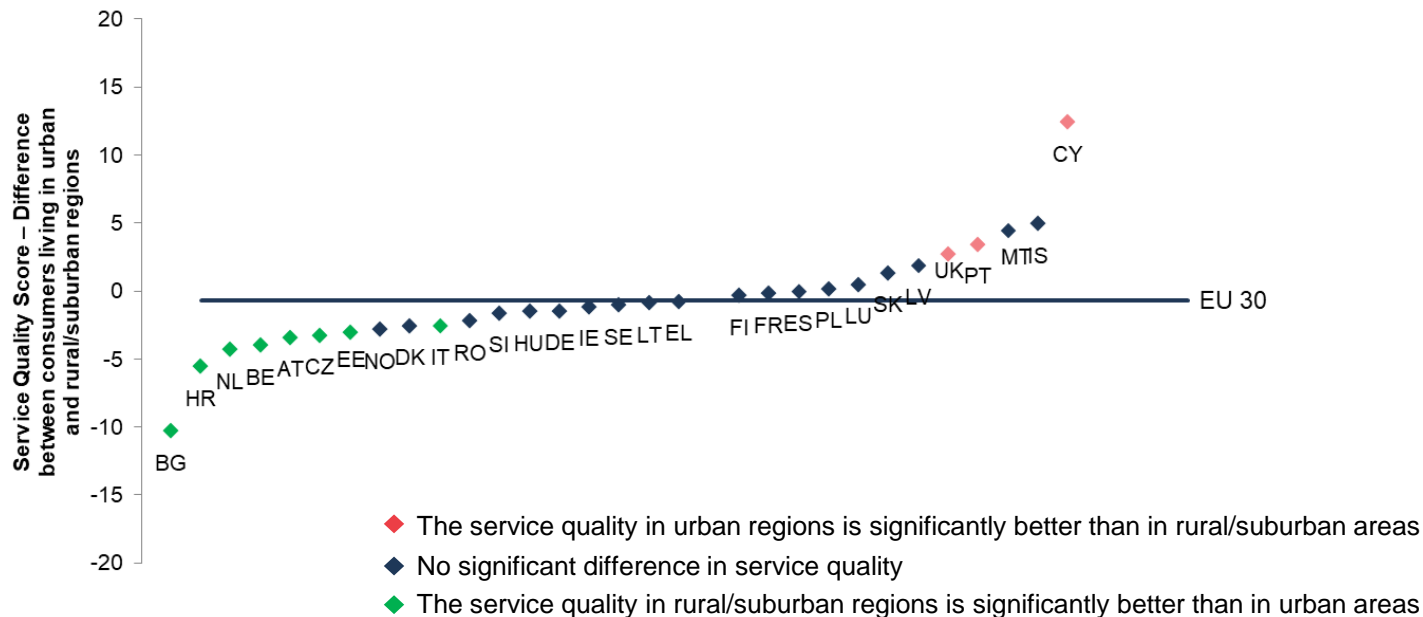Significance: at least 0.10

Source: WIK Consumer Survey

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- The share of internet users and online shoppers is continuously growing: Around half of consumers purchased physical goods online in 2017

- Consumers not shopping online prefer offline shopping and/or have security concerns. Delivery quality and returns are next important issues

- The majority of consumers purchase online either domestically, in large e-commerce markets or in neighbouring countries

- Consumers complain in case of significant problems (damaged or mis-delivery), mostly to e-retailers or parcel carriers first

- Practices for dispute resolution vary across Member States

- The residential area of consumers appears to be linked with carriers' delivery quality: The perceived delivery quality of carriers often better in rural/suburban areas than in urban areas

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- Consumers value each of the seven service categories as equally important

- Nearly the same levels of perceived service quality for domestic and EU/EEA purchases, overall and for each service category

- Service quality of purchases from the Rest of the World (RoW) are a matter of major concern for most service categories

- Perceived service quality with regard to delivery quality and delivery location generally matches expectations

- Delivery time options and management of returns are matters of concern in nearly all Member States

- Consumers are almost equally happy with domestic delivery by USPs and other carriers but much less in case of cross-border purchases particularly from RoW

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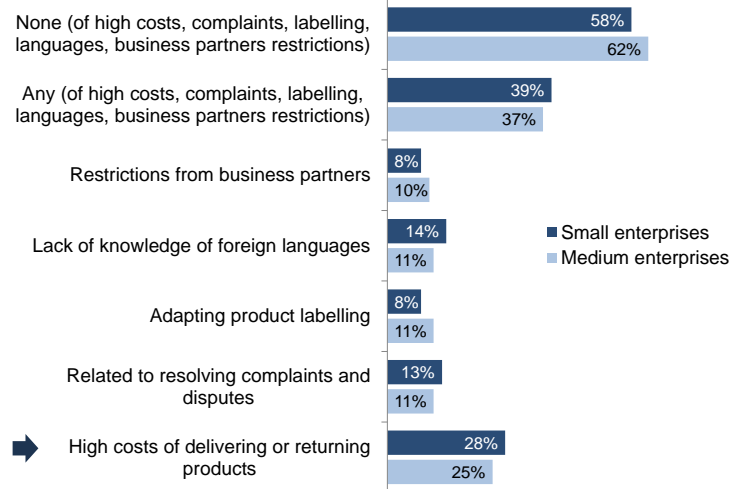CONSULT

E-retailers want simple solutions

E-retailers' needs

- E-retailers have a customer-centric approach: attracting and retaining online buyers is key

- Small e-retailers often have limited capacity in logistics

- E-retailers need simple solutions for delivery & return services that are

  - ➤ Easy to find
  - ➤ Appropriate (product-specific)
  - ➤ Reliable
  - ➤ Visible (tracking)
  - ➤ Reflect consumer needs (delivery options)
  - ➤ Cost-effective

Cross-border sales: Challenges

- ~60% of all enterprises report no difficulties selling online to other MS

- High costs of delivery and returns still an issue but not a significant barrier for cross-border sales

% of enterprises with web sales to other EU countries (EU-28)

|	Small enterprises	Medium enterprises
None (of high costs, complaints, labelling, languages, business partners restrictions)	58%	62%
Any (of high costs, complaints, labelling, languages, business partners restrictions)	39%	37%
Restrictions from business partners	8%	10%
Lack of knowledge of foreign languages	14%	11%
Adapting product labelling	8%	11%
Related to resolving complaints and disputes	13%	11%
High costs of delivering or returning products	28%	25%

Question: During 2016, did your enterprise experience any of the following difficulties when selling to other EU countries via a website or "apps"? (Eurostat)

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Cross-border delivery services are not a significant barrier for growth of e-commerce exports

- National Stakeholder Workshops: Cross-border delivery services not considered as significant barrier for growth of e-commerce exports

Cross-border delivery services are

no barrier.. 0 1 2 3 4 5 a significant barrier..

Belgium	1
Sweden	1.5
Germany	2
Poland	2
Bulgaria	3
Portugal	3
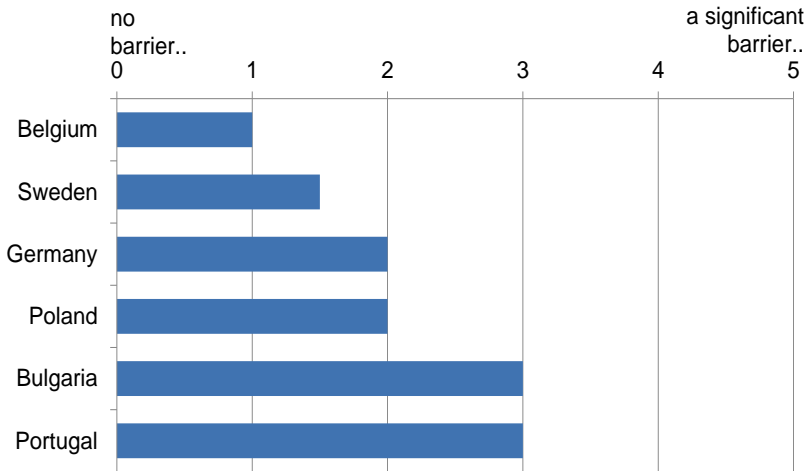
.. for the growth of e-commerce exports

- E-retailers complain about lack of transparency of available cross-border delivery services

- Managing and processing cross-border returns appears to be even more challenging to e-retailers than cross-border deliveries

- Appropriate cross-border return solutions are slowly developing

Retrieve Transport Receive Inspect Sort Re-sell Recycle Scrap Others

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- Choice for domestic and cross-border delivery services has improved for micro and SME e-retailers particularly in the most mature e-commerce markets
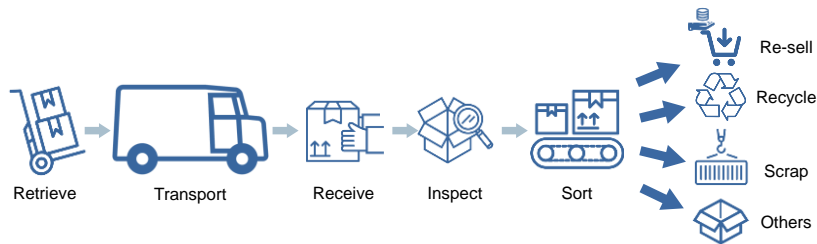
- National stakeholder workshops: Cross-border delivery services not considered as significant barrier for growth of e-commerce exports

- High delivery costs of e-commerce exports are no longer a major issue except
  - ➢ in peripheral Member States with less developed e-commerce markets
  - ➢ for micro and small e-retailers

- High costs for returns and return handling challenge e-retailers
  - ➢ Inherent element of the e-commerce business
  - ➢ Transparent reverse logistics becomes more important for e-retailers
  - ➢ Development of appropriate cross-border return solutions have gained momentum

- Substantial growth in volumes from Asia (most importantly: China) to Member States

- Small packets now represent about 40 percent of international mail volume (and 60% of mail weight)

- Chinese websites are the most popular destinations for online shoppers in many Member States

- Postal e-commerce imports are delivered almost entirely by USPs

- Many USPs report operational challenges with Chinese packets, and complain about low terminal dues (losses add to USO net cost)

- Postal imports as a transitory stage to warehousing of Chinese goods in Europe
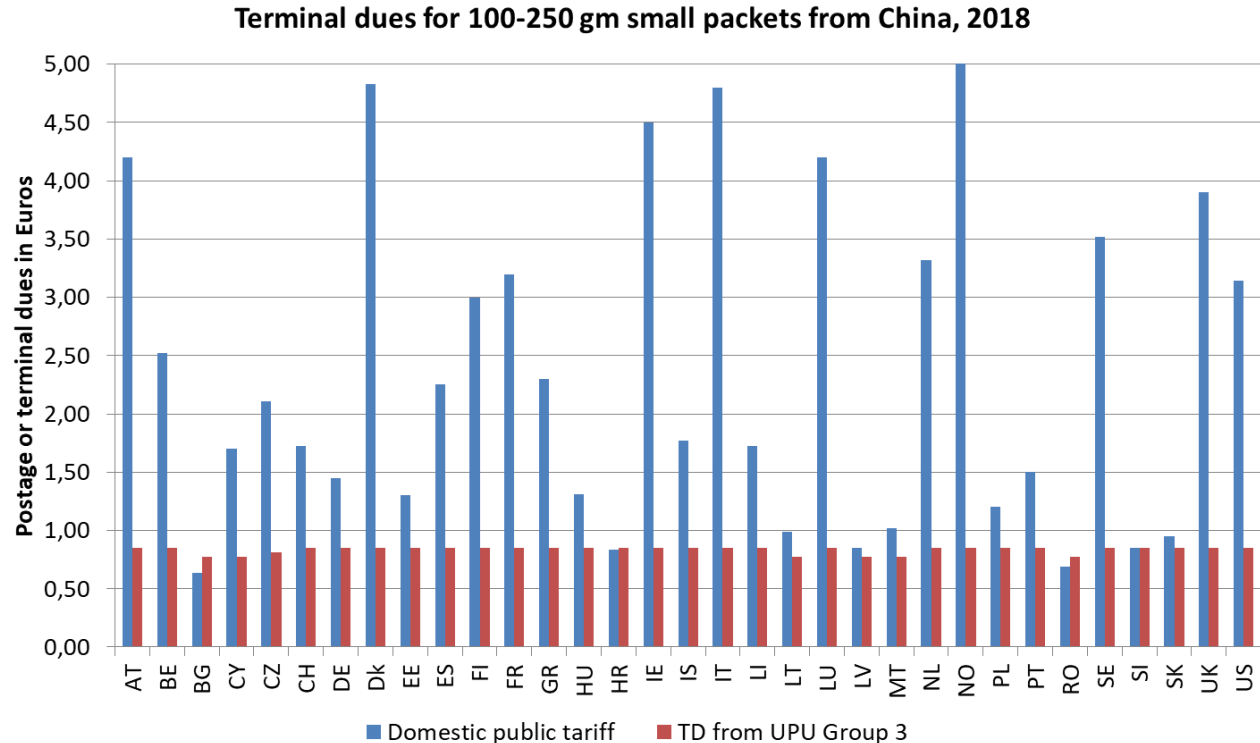
E-commerce and the Universal Postal Union

- International exchange of e-commerce goods between postal operators is governed primarily by the UPU Convention and Regulations adopted by the UPU

- The primary focus of the UPU has changed since 2000 —

  - ➤ From exchange of <u>documents</u> between <u>postal administrations</u>

  - ➤ To exchange of <u>e-commerce goods</u> between <u>commercialized postal corporations</u>

- UPU use of legacy intergovernmental powers raises three main issues —

  - ➤ EU designated operators charge less for delivery inward goods than domestic goods

  - ➤ Customs and security controls are less strict for postal goods than non-postal

  - ➤ The UPU's Postal Operations Council combines commercial interest with regulatory authority over governments of EU Member States

- Terminal dues (TDs) are delivery rates for international documents and goods < 2 kg

- TDs are far less than equivalent domestic postage in many EU Member States

- TDs favour foreign merchants over domestic merchants

Terminal dues for 100-250 gm small packets from China, 2018

Domestic public tariff — TD from UPU Group 3

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- On Oct 17, 2018, the United States —

  - US will introduce non-discriminatory 'self-declared rates' for delivery of international postal goods 'as soon as practical, and no later than January 1, 2020'

  - US will withdraw from the UPU on October 17, 2019, unless negotiations to resolve fundamental policy concerns are successfully concluded by that date

- Potential collaboration:

  - US concerns are similar to issues raised by the EU and some Member States.

  - Collaboration with the US to adopt fundamental UPU reform, including remuneration

  - Pursue trade agreements for exchange of e-commerce packets

- Current EU customs code and UPU rules allow simplified process for postal imports (compared to other freight imports, including express parcels):

  ➢ Physical UPU documentation (CN22/23), not electronic advance notification

  ➢ Postal operators not liable for wrong customs declarations

  ➢ Exemption of VAT and customs duties for low value imports (below 22/150 Euro). Incidents of undervalued postal imports (i.e. false declarations)

- Change in EU legislation will terminate simplified treatment

  ➢ Union Customs Code will require electronic notification system for postal imports by 2021 (but delay negotiated in the Council)

  ➢ Abolish de-minimis VAT rule by 2021. All imports will be charged import VAT. Platforms (Amazon, Ebay, Alibaba, Rakuten etc) will become liable for paying VAT for sellers on the platform. For remaining postal imports (non-platform sales), VAT will be difficult to collect without electronic notification.

- E-commerce imports to the EU increase substantially

- Chinese e-commerce imports are mostly delivered by USPs

- UPU terminal dues remain below local delivery cost as UPU struggles to reform

- US move to request reform, or withdraw from UPU presents opportunity for EU

  - EU should promote reform of UPU terminal dues to achieve more cost-reflective terminal dues

  - In addition, e-commerce trade agreements should be analysed as an alternative

- Reform of VAT application to e-commerce imports (= abolition of de minimis rule for import VAT) may reduce low value e-commerce imports from China, incite more warehouses in EU Member States

- Full application of VAT on all postal imports raises major operational issues, difficult transition, postal operators not sufficiently prepared yet

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Growth in parcel deliveries partly compensates decline in USP employment

	Total 2013	Total 2016	CAGR
EU-28	1,812,600	1,826,100	0.4%

- DE, FR, IT, UK account for more than 2/3 of employment in postal and courier activities

- Substantial employment increase in CY, DK, DE, EL

- Biggest reductions in HR, NL

- ~70,700 courier, express and postal companies (2015, Eurostat)

-2.2%
-2.4%
-2.3%
-4.3%
-0.2%
8.0%
0.6%
0.9%
-5.0%
-2.3%
3.5%
0.3%
-0.9%
1.5%
-1.3%
-1.9%
-2.1%
-0.6%
-0.7%
-6.2%
1.0%
0.9%
-0.1%
6.8%
5.0%

CAGR 2013-2016. HR: CAGR 2015-2016.
IE und EU-28: 2013-2015.SE: CAGR
2014-2016. FR, IE, IS, LU, MT n/a.

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Postal and parcel delivery services

Type of contract
- Employment contract with service provider
- Employment contract with service contractor
- Service contract

Type of company
- USPs and their subsidiaries
- Parcel carriers
- Delivery companies contracted by parcel carriers or USPs
- Self-employed drivers („owner drivers") contracted by parcel carriers or contractors of parcel carriers

Type of working relationship
- Industry or company collective labour agreements (CLAs), works councils
- No or different CLAs compared to USPs / parcel carriers, less workforce representation
- Formal self-employment

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Subcontracting cascades are a challenge for working conditions (e.g. wage levels and working time)
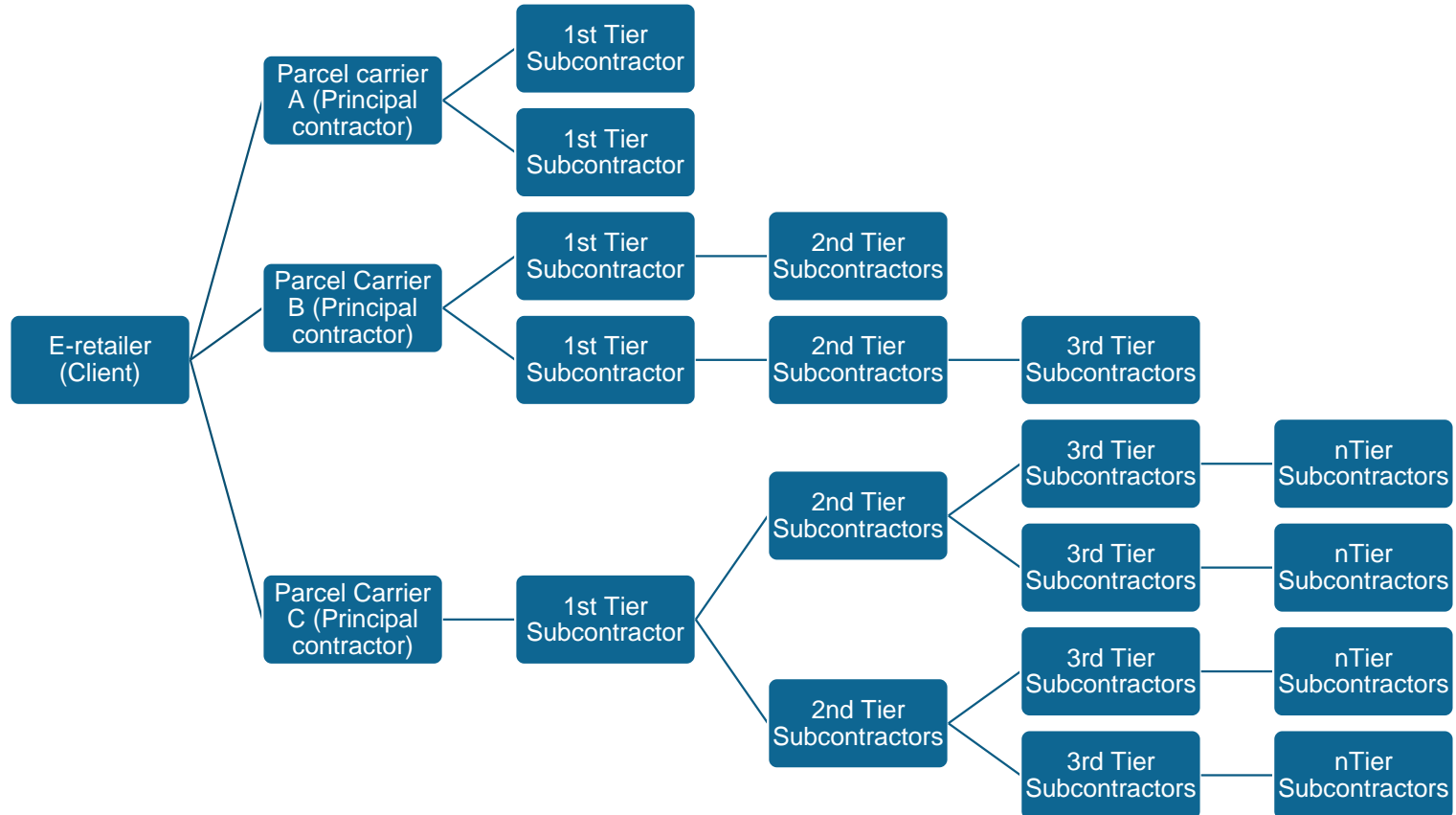
Pros

- Flexibility for parcel operators to manage peaks of online-shopping (week days, seasons, holidays etc.)

- Flexibility in pricing policies for parcel operators

- Opportunities for individual, part-time or seasonal workers

- Opportunities for parcel & express companies (e.g. instant/same-day delivery, regional, specialised services)

Cons

- Possible division of market in standard and non-standard employment contracts

- Liability limited to next level contractual partner (e.g. service level agreements, employment contracts)

- Some evidence of precarious working conditions in non-transparent subcontracting cascades:
  - Payment below minimum wage
  - Unlimited working hours
  - Illegal hiring of workers from foreign countries to lower labour costs (according to domestic labour legislation)

- Image of logistics and e-commerce sector

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- > 70,000 companies with postal and courier activities employed more than 1.8 million people in 2016

- Growth in parcel deliveries partly compensates decline in USP employment (driven by shrinking letter volume)

- Eurofound estimates that less than 1% of the workforce in Europe is part of total sharing economy working environment

- Delivery industry is challenged

    - by labour shortages

    - by peak demand and need for more flexible delivery services

- Subcontracting is a common practice in parcel delivery to deal with flexible demand

- Regulation of subcontracting differs substantially among Member States

Source: Euroestat

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- Only part of delivery workforce subject to collective labour agreements

- Minimum wages applied in nearly all Member States

  - USPs and international carriers pay well above minimum wage

  - Minimum wage is reference point for subcontractors of carriers

- The need for social dialogue in the postal and courier sector is uncontested among stakeholders

- Variety of employment and working conditions in the delivery industry will persist

  - Growth in e-commerce continues to provide employment opportunities

  - Trend to more flexible work arrangements

  - Discussions about precarious working conditions in sharing economy has just begun

Source: Euroestat

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Environmental responsibility of the parcel industry

- The transportation sector is one of the largest contributors to greenhouse gas emissions

- The postal industry reports decreasing GHG emissions per parcel in the past five years

- But: Growing parcel volume may outweigh savings in greenhouse gas per item

- Mode of transport matters: air freight accounts for up to ten times higher GHG emission compared to road freight

- Major operators have committed themselves to goals for CO_2 reduction; measures and progress are being published in annual reports

- Measures mainly focus on

  - Efficiency gains (e.g. fleet renewal, improvements in network structure and route planning)

  - Shift of transport mode (e.g. from air to road service)

  - Implementation of electric vehicles and alternative fuels (e.g. natural gas)

  - Carbon neutral shipping options and carbon offsetting

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Transport is the main cause of air pollution in cities

- Conventionally-fuelled delivery vehicles still predominant for last-mile delivery

- High emission values due to stop-and-go traffic and congestion

- Cities increasingly react by introducing traffic restrictions

- Carriers implement innovative solutions:

  ➢ Micro-hubs and cargo-bikes, e.g. urban micro hub in Hamburg (UPS)

  ➢ Efficiency gains, e.g. Eco-Driving (bpost)

  ➢ Electric vehicles, e.g. StreetScooter (DPDHL)

Urban micro hub (UPS), source: Paketda

Streetscooter, source: Deutsche Post AG

- Carriers are increasingly aware of the environmental impact of their business

- Cost savings, local regulations and growing public awareness are main drivers of environmentally-friendly parcel delivery

- Many carriers are improving fuel and network efficiency and offer carbon neutral shipping options

- Carriers' initiatives for the last-mile include electric delivery vehicles, micro-hubs and delivery by cargo-bikes

- Research and development are essential for environmentally-friendly last-mile delivery solutions – most innovative concepts are still being tested and implemented in selected cities

- Future trends
  - Environmental aspects will become more important in the next five to ten years due to growing parcel volume
  - Trend to more local warehouses promotes more sustainable last-mile delivery solutions
  - Growing need (& pressure) for environmentally-friendly delivery solutions in the last mile
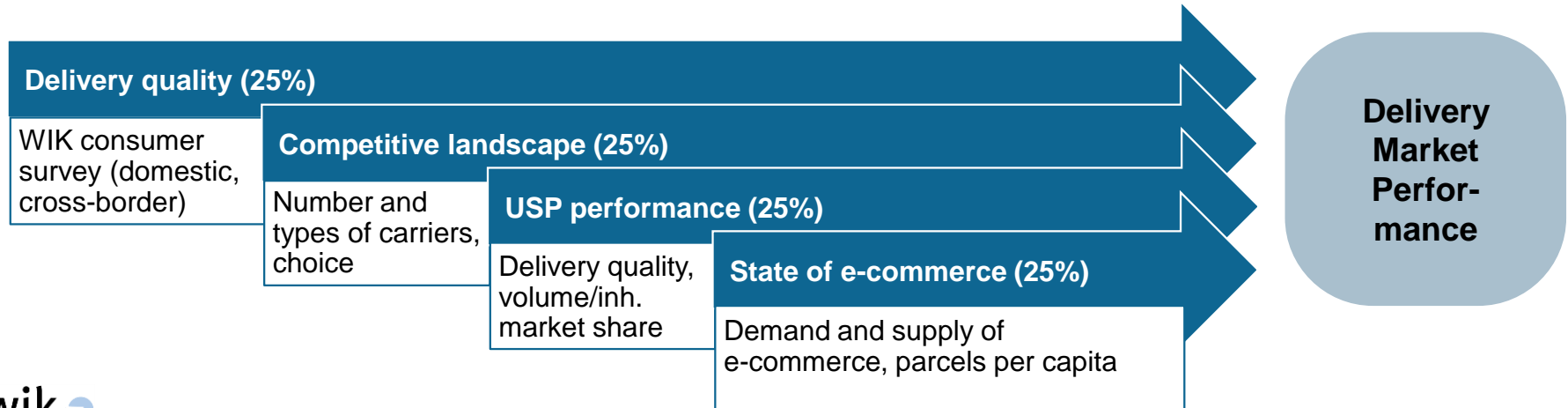
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1. Introduction

2. E-commerce in Europe

3. Delivery markets in Europe

4. Consumers' experiences

5. E-retailers' experiences

6. E-commerce with non-EU countries

7. Employment and working conditions in the delivery sector

8. Environmental aspects of delivery services

9. Assessment of B2C delivery market performance

10. Recommendations

Delivery Market Performance Index based on four assessments

- WIK Delivery Market Performance Index

  - ➢ Asseses performance of a national delivery market relative to the performance of delivery markets of other Member States

  - ➢ Four equally weighted criteria with several indicators per criterion

  - ➢ Informed expert assessment based on quantitative and qualitative indicators, and supported by expert interviews and workshops

Delivery quality (25%)

WIK consumer survey (domestic, cross-border)

Competitive landscape (25%)

Number and types of carriers, choice

USP performance (25%)

Delivery quality, volume/inh. market share

State of e-commerce (25%)

Demand and supply of e-commerce, parcels per capita

Delivery Market Perfor-mance

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Best performing delivery markets: NL, BE, DE, UK, AT

1	Netherlands	
2	Belgium	
2	Germany	
2	United Kingdom	
5	Austria	
6	Luxembourg	
6	Sweden	
8	France	
8	Norway	
10	Finland	
11	Denmark	
11	Ireland	
11	Poland	
11	Slovenia	
15	Estonia	

15	Hungary	
17	Spain	
17	Croatia	
19	Czech Republic	
19	Iceland	
19	Portugal	
19	Slovakia	
23	Italy	
24	Latvia	
24	Malta	
26	Lithuania	
27	Bulgaria	
27	Cyprus	
27	Greece	
30	Romania	

	Country	Total score	Delivery quality	Competitive landscape	USP performance	State of e-commerce
1	Netherlands		●	●	●	●
2	Belgium		●	●	●	◕
2	Germany		◕	●	●	●
2	United Kingdom		●	●	◕	●
5	Austria		◕	●	●	◕
6	Luxembourg		●	●	●	●
6	Sweden		◑	◕	●	●
8	France		◕	◕	◕	◕
8	Norway		◑	◕	●	◕
10	Finland		◑	◑	●	●
11	Denmark		◑	◑	◑	◑
11	Ireland		◕	◑	◑	◕
11	Poland		◕	◕	◑	◑
11	Slovenia		◕	◑	◕	◑
15	Estonia		◔	◑	◕	◕

	Country	Total score	Delivery quality	Competitive landscape	USP performance	State of e-commerce
15	Hungary		◕	◔	◕	◑
17	Spain		◑	◑	◑	◑
17	Croatia		●	◔	◑	◔
19	Czech Republic		◔	◑	◑	◑
19	Iceland		○	◔	◕	◕
19	Portugal		◑	◑	◑	◕
19	Slovakia		◕	◔	◔	◑
23	Italy		◑	◑	◔	◔
24	Latvia		◕	◔	○	◔
24	Malta		◔	◔	◑	◔
26	Lithuania		◔	◔	◔	○
27	Bulgaria		◑	○	○	○
27	Cyprus		○	○	◔	◔
27	Greece		◔	○	○	◔
30	Romania		◔	○	○	○

○ = 1, ◔ = 2, ◑ = 3, ◕ = 4, ● = 5

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- Delivery markets perform best in Western/Northern Member States

- Highest performing markets are Netherlands, Belgium, Germany, UK, Austria

- Assessment of market performance largely reflects state of e-commerce markets

- Delivery markets have developed best where e-commerce performs well

WIK Delivery Market Performance Index score

≥ 4

3 - 4

2 - 3

< 2

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C O N S U L T

E-commerce, delivery services and the Single Market: A Success Story

- E-commerce has significantly contributed to the development of the Single Market

- E-commerce has immensely facilitated the way consumers can buy from abroad, and enabled enterprises to sell cross-border

- Remaining challenges mainly caused by the heterogeneity of European national markets in terms of infrastructure, legal conditions, digital and logistical readiness, and culture/languages

- E-commerce growth drives employment in the delivery industry

- Cross-border B2C delivery services have greatly improved since 2013

  - B2C e-commerce develops to meet e-retailers' and consumers' needs, including parcel delivery

  - Competition in cross-border delivery has increased in Europe: more choice and improved quality for e-retailers and consumers

  - Increased investment and innovation in the delivery industry

  - Appropriate cross-border return solutions are slowly developing

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Cooperations among carriers and e-retailers are emerging in the market

- Cross-border delivery services have much improved due to closer cooperation between national operators and industry initiatives (IPC Interconnect)

  - ➤ Voluntary agreements between large e-retailers and carriers exist

  - ➤ Cooperation for cross-border deliveries based on commercial agreements

  - ➤ Efforts of carriers and e-retailers in standardisation help facilitate interoperability between e-retailers, carriers and intermediaries

  ➡ Dynamic market developments and technological advance do not call for mandatory standards

- Downstream access to local parcel delivery emerges in some Member States

  ➡ Imposing new access obligations at EU level would be disproportionate

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- Increasing competition and e-commerce intermediaries are enhancing transparency for e-retailers about products and service levels

  → USPs and parcel carriers should continue to improve the transparency, clarity and accessibility to information of e-commerce delivery services and prices for SME e-retailers

  → Carriers could cooperate more closely with e-commerce intermediaries (e.g. e-commerce and delivery management platforms) to facilitate transparency of and access to their delivery services

→ Regulation (EU) 2018/644 on cross-border parcel delivery services to be implemented this year. Given the progress made towards higher quality parcel delivery and value for money, we do not think further EU level action on prices, transparency and quality of service would be appropriate

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➡ Carriers and e-commerce intermediaries should continue to develop appropriate return solutions for e-retailers, including for SME e-retailers

➡ Particularly SME e-retailers need more information on return solutions to better support their customers in return handling

➡ Carriers, intermediaries and e-commerce associations should provide easily accessible information and thus support SME e-retailers

  ➤ to establish an appropriate return policy on their web sites and

  ➤ to improve the information on returns handling and to facilitate returns handling for domestic and cross-border returns

➡ Carriers should (continue to) work on solutions to facilitate returns collection for consumers particularly in less populated areas (e.g. cooperation between USPs and other carriers to facilitate collection of returns in postal outlets)

EU and NRAs should clarify and harmonise how postal regulation applies to parcel operators

➡ NRAs should be clear about the criteria applied to determine whether a service is categorized as a postal service, as a universal service, or to be "in the scope of the USO"

➡ In order to enhance choice and service quality for e-retailers and consumers, some Member States should review whether authorization procedures could be simplified

➡ EU should provide more clarity regarding the obligations to contribute to USO net costs by (cross-border) carriers outside the USO – especially if USO net costs increase

➡ NRAs should clarify whether or not alternative delivery models and new services are considered as postal services under current legislation, and thus offer planning and regulatory certainty for e-commerce and delivery companies

➡ EU should consider further harmonisation in defining the scope of universal service

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EU and Member States should ensure level playing field for e-commerce imports

- For import e-commerce items, the ambition must be to ensure that the cost of delivering import packages is covered by remuneration, to a similar extent as domestic
  - ➡ Opportunity for EU to work with / support UPU reform (Trump initiative)
  - ➡ European Commission should analyse scenarios for alternative trade agreements on rates and operations for international e-commerce packets

- Full application of import VAT on all postal imports raises major operational issues

- USPs and customs authorities not yet prepared for electronic notification and/or controls on all low-value imports
  - ➡ MS should upgrade staff at customs and, possibly, tax authorities
  - ➡ USPs should put in place electronic notification systems quickly and collaborate with foreign postal operators (mostly China Post) to avoid massive stoppage at customs borders and mail centres in 2021

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Subcontracting is an issue in the delivery industry

➡ In light of diverse subcontracting practices in the delivery industry, subcontracting chains should be monitored

➡ Member States should monitor subcontracting chains in the delivery industry in order to ensure effective protection of workers' rights, where necessary, through taking appropriate measures in accordance with national law and/or practice and in compliance with Union law, and after consulting the relevant social partners

➡ Social dialogue should be continued to shape labour policy for EU delivery services

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➡ Local authorities should be open for cooperation with carriers to advance sustainable delivery

  ➢ Promote transparency of regulation and clear responsibilities for carriers

  ➢ Encourage innovative solutions for the last mile (e.g. charging infrastructure for electric vehicles, appropriate locations for micro-hubs, parking and driving rights for electric vehicles)

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