



Department
for Business
Innovation & Skills

**OPPORTUNITIES TO DEVELOP
CROSS-BORDER PARCEL
DELIVERY**

A UK non-paper

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Introduction

The UK strongly supports the Commission's work to develop the market for cross-border parcel delivery. Cross-border parcel delivery plays a key role in facilitating the digital economy and building the single market and we are keen to work with the Commission to ensure that these opportunities are realised. This paper puts forward our recommendations for addressing the barriers to cross-border delivery and supporting an effective parcel delivery market which works for consumers and small retailers.

What success will look like

A successful Digital Single Market (DSM) package on cross-border parcel delivery should:

- support e-retailers to deliver throughout the EU, increasing the size of their potential market
- give consumers access to a wider range of products and suppliers
- increase competition in e-retail. This should drive productivity improvements among e-retailers and deliver lower prices to consumers

The benefits from an effective cross-border delivery market to UK businesses and consumers will be substantial. 79% of UK consumers shop online, a higher proportion than in any other EU member state¹ and those that do shop online spend more (€1,600 on average) than their counterparts in any other large member state². The UK also has a well-developed e-commerce market (the largest in the EU³ with online sales of €130bn in 2014⁴) which should be well placed to deliver cross-border.

Our assessment of the parcel delivery market

The UK domestic parcels market is competitive, innovative and growing rapidly. Parcel volumes have grown by an average of 5% a year since 2009 with future growth forecasts ranging from 3% to 7%⁵. Over the past two years UK Mail, DPD, Parcelforce and Hermes have all invested in new hubs and depots, while City Link has exited the market. Amazon has also created its own delivery network in selected areas of the UK. In other Member States with developed markets, the position is very similar to the UK, with competition, innovation and consumer demand driving change in the market. Increasing consumer demand for choice and flexibility on how and when to receive their parcels has driven innovative solutions. For example services that deliver to and collect from local access points, and 'click and collect' services have provided greater convenience to consumers and lower costs for delivery operators. For small e-retailers, re-sellers and intermediaries offer discounted prices for low volume sales. The UK would be keen to see this type of

¹ Eurostat, information society statistics

² Online Retailing in Europe, the U.S. and Canada 2015-2016, Centre for retail research

³ <http://nrw.nl/wp-content/uploads/2015/07/European-b2c-e-commerce-report-2015.pdf>

⁴ IMRG

⁵ UK Parcels Market Insight Report – Apex Insight (2014), The outlook for UK mail volumes to 2023 (PWC)

success replicated across the EU as a result of the successful implementation of the DSM strategy.

We agree with the Commission however, that despite these strengths, there are several problems which are holding back cross-border e-retail:

- smaller e-retailers are not as well informed about the range of delivery options available to them, or how to access the best prices
- consumers do not always have the information they need to compare delivery services and be confident about the service they are buying
- delivery quality can suffer when sending cross-border. For example parcels may go missing or be delivered late
- competition on cross-border routes may be lower than on domestic routes

The Commission has also identified several cross-border routes where prices are higher than would appear to be justified, for example where the price of delivery is much higher in one direction than in the other. Our work suggests that there could be several explanations for this:

- parcel volumes (which are a key determinant of average costs) may differ by direction
- pricing structures may result in prices which do not always reflect costs (for example, for standard parcel delivery Royal Mail offers a single price to anywhere in Europe, as part of the Universal Service Obligation (USO), rather than adjust for costs on each route)
- the level of competition may differ by direction

Given this uncertainty, it is important that we improve our understanding of the factor(s) responsible for the high delivery prices observed. We therefore welcome the research that the Commission has recently published in this area.

Our recommendations

The Commission is right to look at price transparency and regulatory oversight; however broader action is needed to deliver an effective cross-border parcel delivery market. Our recommendations look to enhance transparency, support competition and empower small retailers.

In developing these recommendations, we have considered that parcel delivery is a competitive, innovative and fast growing sector. Unlike traditional letter delivery, the market for parcel delivery can and often does provide the necessary incentives for efficiency and investment. Our recommendations seek to build on these market forces and strengthen them where they are not currently sufficient.

To this end, any new regulation must be necessary, proportionate and supported by sound economic evidence. In particular, we will need to ensure that any new regulation does not

introduce disproportionate burdens on retailers or parcel delivery operators, act to restrict competition or increase costs.

Improving transparency for consumers

Transparency is needed to ensure an effective delivery market, however this must go beyond price transparency. E-retailers differentiate their delivery offer in many ways (for example, by the time taken to deliver or the option to select a pick up location or to choose a delivery slot). If there is to be effective competition on delivery, consumers need to know what delivery service they are receiving when they are deciding which e-retailer to choose. Transparency will also help protect consumers from hidden charges or conditions (for example, relating to returns).

Our research has found that there is considerable variation in how retailers display delivery information, which makes it hard for consumers to understand what they are getting and to compare delivery services. **To address this, we propose that the Commission works with delivery operators and e-retailers to develop a consistent set of delivery information which e-retailers across the EU can easily display up-front on their websites. This could, for example, provide information on delivery costs, available delivery options (for example, a fixed delivery slot or pick up location) and the cost of returns in a consistent format to aid understanding and comparison, as well as linking to forthcoming measures on the ODR platform for clear redress options.**

The purpose should be to help retailers display information clearly and give their customers confidence about the delivery service offered. In the first instance, this initiative should be taken forward on a voluntary basis, and be simple and low cost for small retailers to adopt. The Commission should, with member states, put in place a review process to assess progress both in terms of the up-take of the delivery information by e-retailers and the impact on consumer confidence and cross border e-commerce.

In the UK, delivery surcharges based on postcode which are outside of the scope of the USO, are often cited as a barrier to online retail. These typically apply to consumers in rural areas, who can be more dependent on online retail given the lack of retail locations nearby. We recognise there are a number of variables, including location, which factor into the overall delivery cost to the consumer, however we are keen that the Commission considers how best to make this information as transparent as possible to help consumers understand the make-up of costs rather than the assumption that they are solely based on postcode. We would also be keen to see the Commission championing the industry to work together to share best practice and create innovative, local delivery solutions to rural areas to ensure efficient, cost-effective delivery options are available for all consumers no matter where they live.

Helping small e-retailers get the best deal on parcel delivery

As the Commission and others have identified, small e-retailers are not as well served by the parcel delivery market. As FTI⁶ put it, there is ‘a two-tier market for EU cross-border parcels’, in which smaller retailers ‘have fewer actual or perceived alternatives, and pay

⁶ Intra-community cross-border parcel delivery, FTI Consulting (2011)

higher prices than large retailers'. This view was shared by several stakeholders we spoke to, who felt that many small retailers were unaware of the range of delivery operators, online brokers and consolidators available and mainly relied on the national postal operator (Royal Mail).

We recommend that the Commission supports small e-retailers to deliver cross-border by empowering them to be more active consumers of parcel delivery services. This will get small e-retailers a better deal on delivery and strengthen competition in the market for low volume parcel delivery.

We support the work the Commission is already doing to develop an online information platform for small e-retailers, and would like to work with the Commission to explore how this could be developed further. For example, **we recommend that the information platform incorporates a comparison tool that allows small e-retailers, and consumers, to identify the available delivery operators on a particular route and provide relevant data on prices and services offered. We also recommend that information on brokers and consolidators is incorporated, along with other relevant information related to cross-border e-commerce (for example, local rules on tax).**

Improving delivery quality

In its Green Paper, the Commission cited survey evidence showing that consumers were concerned with the quality of delivery services when ordering online and implied that the availability of delivery options such as track and trace, pick up/drop off locations, the ability to choose a delivery time, and suitable returns procedures could be improved. We recommend that the Commission build upon its Roadmap work to identify further measures to improve delivery quality. In particular, **we recommend that the Commission:**

- **extends its Roadmap work on interoperability, which applies to incumbent operators, to include all parcels operators. This will maximise the benefits of the work and level the playing field for all. We recommend that this work addresses track and trace issues, returning goods and delivery quality**
- **considers how to collect data on delivery quality from delivery operators or customers. This data could be provided to consumers and e-retailers (for example, via the information portal) to encourage competition on delivery quality and to enable the Commission to measure progress and identify whether further action is needed.**

In the event these measures fail to achieve their objectives, we suggest that the Commission considers further proposals that would improve consumer confidence in cross-border e-retail. For example, one area for further research could be the pros and cons of introducing a basic track and trace service outside of the USO for all cross-border purchases.

Strengthening market oversight

We agree with the Commission that stronger regulatory oversight of the parcel delivery market could help government and regulators identify where the market is not working well and support design of appropriate policy interventions. We recommend that any proposals for regulatory oversight:

- improves national regulators' capacity to assess competition and identify anti-competitive practices;
- do not create entry barriers that could restrict competition or innovation in parcel delivery operations. **In developing its proposals, we recommend that the Commission considers whether exemptions could be provided for new entrants or small operators;**
- imposes the minimum necessary burden on national regulators and parcel operators. Any additional responsibilities placed on national regulators should have a clear rationale and benefit;
- are consistent with the Postal Services Directive (PSD). National Regulatory Authorities (NRAs) may currently request information from postal operators under the PSD for the purposes of carrying out their functions under the PSD and for clearly defined statistical purposes. A market oversight role for NRAs under the PSD would automatically extend NRAs' powers to request information for that purpose. We do not believe that market oversight requires any enhancement of the Commission's role. A new power, or powers, should be implemented at national level and administered by NRAs. These national bodies are best placed to collate data on their domestic markets and provide regular updates to allow the Commission to review and assess the overall cross-border picture.

Removing the barriers to competition

Although the UK and many other domestic parcel markets are highly competitive, competition is likely to be less strong on many cross-border routes. This may explain why some cross-border delivery prices appear to be higher than would be expected. In their study of the cross-border market, FTI⁷ found evidence of market power and found that higher cross-border competition has a strong impact on cross-border price differentials.

We are aware that the Commission are looking at a number of different barriers to the DSM through other work streams. We are supportive of the continuation of this work to address these barriers and agree that the Commission should continue to look at the impact of the wider regulatory environment and consider what factors may be holding back competition on cross-border routes.

⁷ Intra-community cross-border parcel delivery, FTI Consulting (2011)

Conclusion

The UK strongly supports the Commission's agenda and we are keen to work with the Commission and other member states to improve transparency, competition and quality of service in cross-border parcel delivery.

This paper sets out the issues which the UK considers need addressing in order to realise this ambition and puts forward specific actions for doing so.

The Commission are committed to better regulation principles and avoiding unnecessary bureaucracy and burdens on business. We therefore welcome the Commission's work to establish a robust evidence base, through the response to its consultation on parcels and the further work being carried out by their analytical team, in order to put forward effective and proportionate proposals. We look forward to working with the Commission to take these recommendations forward and deliver an effective cross-border parcel delivery market that supports the development of e-commerce throughout the EU.



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