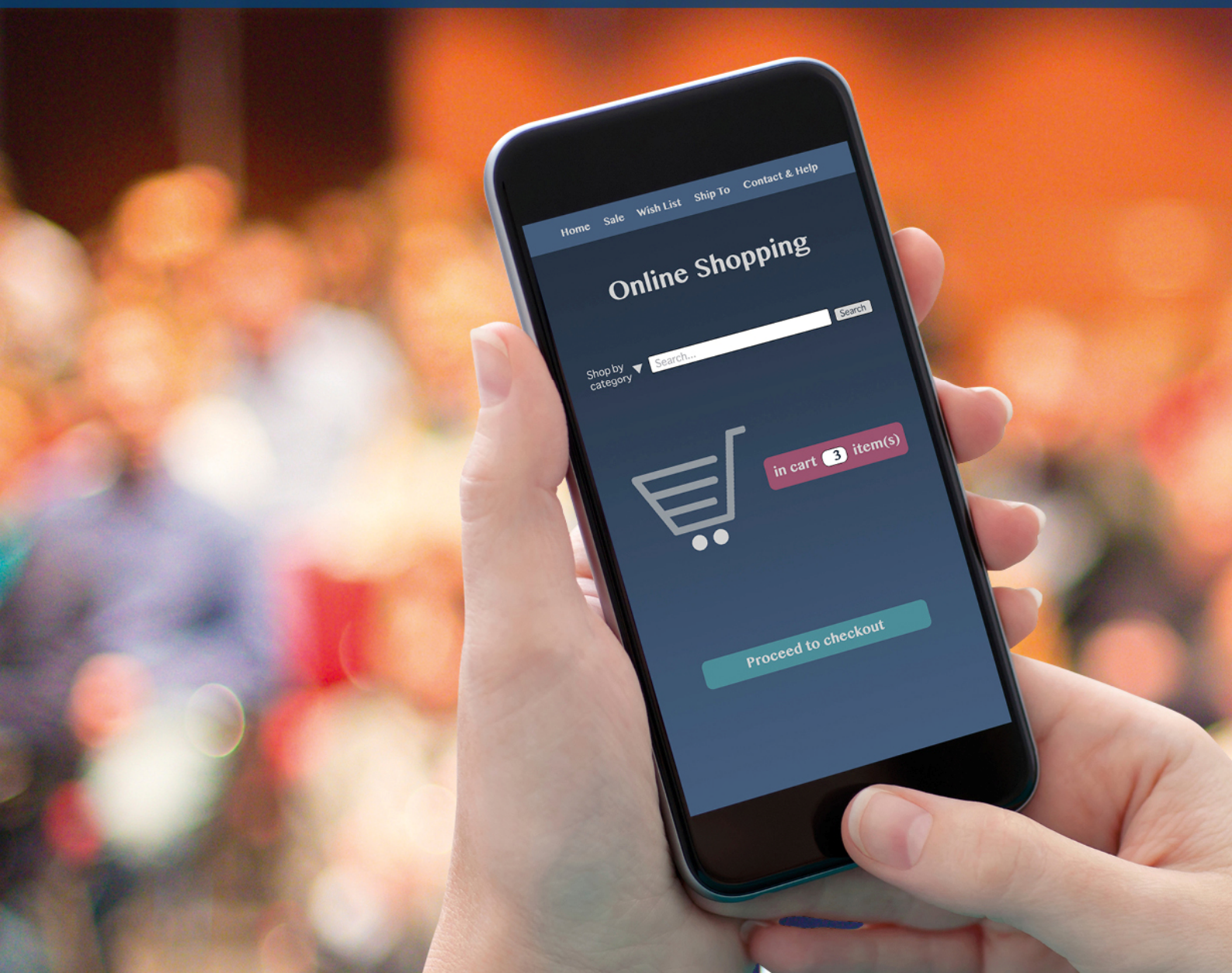


ECOMMERCE EUROPE POSITION PAPER

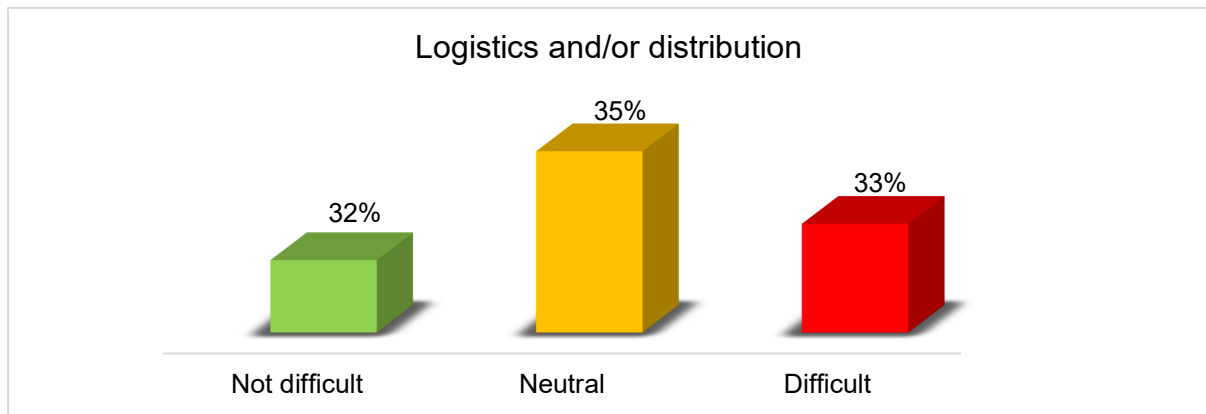
Manifesto for a better parcel delivery market in Europe

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INTRODUCTION

E-commerce is fundamentally changing postal and parcel markets. Global e-commerce streams revolutionize shopping, but the current parcel streams are ill-fitted to accommodate this. Almost one out of five EU citizens identifies cheaper delivery prices as the main improvement that would encourage more online shopping from sellers located in other EU Member States¹. Similarly, more than one third of online merchants consider higher costs of cross-border delivery compared to domestic delivery as an obstacle in online cross-border trade². Inefficient cross-border delivery is consistently in the top three of biggest barriers for online merchants to sell in another EU Member State, as Ecommerce Europe's Cross-Border E-commerce Barometer 2016³ shows: logistics and distribution represent a difficult barrier to tackle for 33% of the companies selling abroad. Even though the situation has slightly improved compared to Ecommerce Europe's figures for 2015 (44%)⁴, online merchants still face major issues.



Source: Cross-Border E-commerce Barometer 2016, Ecommerce Europe

Concretely, online merchants identify the following barriers which still remain:

- Lack of a global level playing field from service providers;
- Lack of standardized interface specification to exchange data and to harmonize labelling;
- Lack of information on differences in service and standards;
- In some cases, lack of track-and-trace services: leading to consumers inquiring information with merchants or consumers unjustifiably claiming a package has not arrived;
- Excessive delivery times throughout Europe: in particular, for non-express services;
- Customs and VAT administration: too complicated, rules vary greatly;
- Reverse logistics: especially problematic for small volumes.
- Lack of transparency in pricing.

¹ Eurobarometer 398

² WIK Consult, Initiatives to support the growth of e-commerce via better functioning parcel delivery systems, 31

³ <http://www.ecommerce-europe.eu/stream/research-report-cross-border-e-commerce-barometer-2016.pdf>

⁴ <http://www.ecommerce-europe.eu/stream/survey-barriers-to-growth-ecommerce-europe-2015.pdf>

Specifically concerning track-and-trace, common practice is that European postal services relabel parcels when crossing borders, converting them from “international” into “domestic” ones. This causes a major issue because the track-and-trace service stops at the border. As a result, only approximately 60% of cross-border postal parcels are traceable. The remaining 40% lose the traceability at the border due to relabeling and a lack of cross referencing between track-and-trace systems⁵.

It is clear that digitalization is changing current delivery value chains, and this has a direct impact on costs and business models. Online commerce shifts the focus of delivery to the demands and needs of the modern consumer:

- The demand for quality leads to measurable performance and customer service being at the heart of the business model.
- The demand for speed leads to customer retention via same-day or even immediate delivery options, financed via a flat fee model.
- The demand for transparency leads beyond traceability to proactive messaging and real-time adjustments according to the preferences of the recipient.
- The demand for convenience leads to easy-to-use return solutions, scheduled drop-off and alternative delivery options, pick-up and recycling options.

All demands should be based on a data-driven service delivery industry that necessitates standardization, in order to avoid the creation of independent networks of interconnected information, which would impair the ease of access to systems that online merchants are looking for. The e-commerce sector has already internalized these principles. Now it is time for the delivery sector to adapt its business models and infrastructure as well. The distinction between “courier”, “express” and “postal” has become irrelevant, and borders have become obsolete.

MANIFESTO FOR BETTER PARCEL DELIVERY

Larger e-commerce merchants, namely platforms, have already started developing their own delivery services because they consider those currently available too expensive and incapable of providing performant services. In Ecommerce Europe’s view, this risks a scenario in which postal operators move diminishing volumes of goods, and consequently lose their most important and biggest clients. In this scenario, it is likely that such platforms would transform their own delivery services to make them accessible to third parties, for instance SMEs that would like to have their own web shop but linked with

⁵ These figures come from various sources, specifically from the Universal Postal Union (UPU) documents and the International Post Corporation (IPC) projects, and are only accessible for Members of the UPU’s Consultative Committee and Observer of the UPU CA/POC. The Universal Postal Union, governing the world-wide postal network, and IPC, a corporation safeguarding the interests of the leading postal administrations, addressed this challenge in the last UPU cycle (2012 - 2016). Together, both developed cross-border tracking solutions, new products and services in order to respond to the changing demands, in particular in the field of e-commerce. This was matched by the European Committee for Standardisation, so that technical specifications written for the few (only for those designated by the members of the UPU - 192 member states) will be accessible for the many (all senders and their service providers, based on open standards and integrated with supply chain management systems, such as GS1).

the delivery service provided by another platform.

A further part of this disruption is the use of parcel re-routing practices to get preferential prices (i.e. establishing a delivery service in China would be less expensive than doing so in a EU country), and also controlling data and technology to by-pass postal services. In an already very segmented market, where postal services are subcontracting with transport companies to dispatch parcels, larger e-commerce actors can benefit from their technology backbone to manage third party delivering networks on their own.

From Ecommerce Europe's perspective, this situation would produce damaging instability, with only larger postal operators with express delivery services surviving. Consequently, Ecommerce Europe is against this specific kind of disruption and advocates instead for a smooth transition in which postal operators reshape their business models and become fit for e-commerce. Ecommerce Europe strongly supports the creation of a sustainable, reliable and competitive parcel delivery market, without any players in dominant positions. Delivery providers need to bridge the gap to online merchants, who are their consumers. It is time the delivery market is shaped from a consumers' - not senders' - point of view. The European e-commerce sector is a stakeholder in the discussions, and demands:

- **A global level playing field from service providers (in postal: modernizing terminal dues and termination fees);**
- **More negotiating power on prices through transparency and access;**
- **Open IT-standards for labelling;**
- **Open IT-standards for interface and database.**

Failure to meet these demands is not an option: enterprises that generate demand amongst consumers have already proven that they have the means and resources to facilitate delivery themselves. In turn, the e-commerce sector takes up its role in providing sustainable solutions in the supply chain to ensure consumer demand will continue to rise.

ECOMMERCE EUROPE'S ROLE AS A DETERMINING STAKEHOLDER

As the representative of the biggest users of parcel delivery services, Ecommerce Europe actively participates in, and chairs, several fora at the global and European level. In this way, Ecommerce Europe helps to ensure that standards being shaped at both the global and European level are in coherent and interoperable, so that a truly international market can be developed.

Through participation in all relevant institutional stakeholder groups, as well as the tabling of the e-commerce sectors' demands on the agenda (for example towards the Universal Postal Union⁶),

⁶ With 192 member countries, the Universal Postal Union (UPU) is an international organization and the primary forum for cooperation between postal sector players. It sets the rules for international mail exchanges and makes recommendations to

Ecommerce Europe makes its voice clearly heard. Ecommerce Europe has taken an active role in determining how cross-border e-commerce should develop by assuming Chairmanship of several institutional committees (i.e. CEN Standardization Committee on Postal Services TC331, its current Work Item 109 “Postal services - Harmonised label and Interfaces for cross border parcels”). Moreover, Ecommerce Europe is actively contributing to the content of the next implementing decision of the European Commission on a standardization request to CEN under mandate of the EU⁷, as well as contributing to the Mid-term strategy on how to regulate the European Postal Market until 2020 of the European Regulators Group for Postal Services (ERGP). Ecommerce Europe actively brings stakeholders together to discuss and make changes, in order to better cater to the online merchants’ needs and to achieve more innovation and greater transparency in the logistics chain.

BREAKING DOWN BARRIERS ON ALL LEVELS

To harmonize the currently fragmented market and to diminish the distortion of the market, collaboration of all stakeholders in the sector (online merchants, delivery service providers, regulators, solution providers, customer organizations) on all levels is necessary. Open and interoperable standards should be the norm.

1. Global level: Universal Postal Union

Ecommerce Europe notes that there is a lack of a global playing field from service providers. Costs and subsidies should be tailored to current circumstances (i.e. not listing China as a developing country, leaving Europe to be flooded with cheaper parcels via Chinese post, and others currently benefitting from an outdated UPU termination fee⁸ system, granting development aid like subsidies to the disadvantage of online trade in Europe and North-America).

The exchange rates (termination fees) between postal companies are set and implemented according to international regulation (Universal Postal Union). Nevertheless, there are significant price gaps between countries (i.e. Germany-France > Hungary-France > Estonia-France). Millions of parcels use indirect shipping processes due to restrictive agreements. Moreover, this impedes the capacity of postal services to operate profitably when managing large quantities of items (approximately 80% of the products are under 2kg) because the termination fee payable does not cover the costs, when the most

stimulate growth in mail, parcel and financial services volumes and improve quality of service for customers. Ecommerce Europe holds a seat in the Consultative Committee of the UPU.

⁷ COMMISSION IMPLEMENTING DECISION (EU) .../... of XXX on a standardisation request to the European Committee of Standardisation as regards postal services and the improvement of quality of service in support of Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997

⁸ Termination fees: Currently there are several remuneration systems in place at UPU level and fundamental changes are planned for the future. For letters up to 2 kg, (including commercial letter post items) the Terminal Dues systems; for parcels up to 30 kg, the Inward Land Rates System. In the last months a new termination fee system was launched globally by the UPU, their ECOMPRO system, dedicated to x-border Ecommerce (the system currently is based on new service and product descriptions and new termination fees on bi-and multilateral level). In Europe multilateral termination fee systems, like REIMS V for letters, the EPG system for parcels and lately the INTERCONNECT system for x-border ecommerce items, add to the lack of transparency and regulatory oversight.

competitive rates are applied (China to France).

In the view of Ecommerce Europe, the recipe for successful, high quality postal services should be based on:

- Combining the approach of having costs and subsidies tailored to current reality with speedier decision-making;
- A faster response to market demands;
- An integrated approach to product development and remuneration systems;
- Connecting wider postal sector players with products and services at all levels.

The UPU was designed as a global network in which its members enjoy equal rights and privileges, and are bound to the same treaties and obligations. However, technological developments themselves can't make the UPU fit for the future if it does not remain committed to retaining this level playing field, actively promoting and supporting its model of cooperation amongst equals.

Fundamental changes need to be made to today's regime of termination fees so that the delivery of letter post and parcel post items reflects the needs of customers ordering, sending and returning e-commerce goods and services worldwide.

Larger and more powerful UPU members are taking advantage of today's system of terminal dues (created for the exchange fees of letter mail items) and inward land rates (created for the exchange fees of parcel mail items), enjoying financial advantages from being assigned to termination groups which neither reflect their actual economic status, nor the nature and spirit of the Universal Postal Union. As already mentioned above, Ecommerce Europe strongly believes in a sustainable, reliable parcel delivery network, which should be fair and open to all operators, be they postal or not. An integrated ecosystem should therefore be created. Moreover, online retailers need postal operators, but the services they offer must be fit for such an increasing B2C e-commerce market.

At the 26th UPU Congress in Istanbul in September 2016 nothing less than the existence of the global postal network is at stake. We have an opportunity to return the UPU to a partnership of equals, protecting the communication rights and integrity of its users within a secure network, for the benefit of each and every one of us - the senders and receivers. Alternatively, it could disintegrate into a network in which a few major players force through bilateral and multilateral contracts designed specifically to exclude the majority of postal services and their users from any role in shaping the network, in order to boost their own bottom line and that of their private investors. Should this happen, we all lose.

The UPU is extending its reach, facilitating operational infrastructure at marginal cost for the postal administrations designated by its member states, enabling them to exchange commercial items within a dedicated network. However, currently courier, express and postal operators not designated by the member countries of the UPU are excluded from this network.

Having made the shift from letter post items to commercial letter and parcel post items with its Integrated Product Plan, the UPU's next step is to set out the path to a fully integrated, data-driven, highly interconnected infrastructure. The UPU will emerge as the facilitator for all its operational postal members, each responsible for its own postal territory, and connected via a single digital global postal network for cross-border item delivery.

All the technical building blocks are now in place, and the legal framework for the digital global postal network will be agreed by its members at the 26th UPU Congress in Istanbul in October. This will establish a new digital global postal network for the exchange of postal items in the coming decade, one designed for our modern digital age and the world of e-commerce. The next step is opening access to this global network to wider postal stakeholders.

Ecommerce Europe urges the members of the UPU, in particular the 28 EU & 4 EFTA countries to pave the ground for a level playing field by opening access to UPU products and services available to wider postal sector players to ensure innovation and competition in the market.

2. EU level

Ecommerce Europe is convinced that high European delivery performance is a key driver for success for web merchants and their business models. Merchants and consumers need a Pan-European delivery system with open standards for labeling and data interfaces to carrier data, in order to create more innovation and greater transparency in the logistics chain. Additionally, more options are needed, including different offers, alternative affordable delivery options, more flexibility, more information and greater transparency from delivery service providers.

In this light, Ecommerce Europe welcomes the recent European Commission Proposal for a Regulation on cross-border parcel delivery services⁹. Ecommerce Europe recognizes that the proposal for a parcel delivery regulation has the potential to help create a level playing field for competing postal-, courier- and express operators and thereby ultimately for online merchants throughout Europe. The proposed regulation allows swift action and avoids further regulatory fragmentation, which could result from other legal instruments. The Regulation is a good start to increase visibility on cross-border tariffs and to increase power for national regulatory authorities to make comprehensive analyses of the competition in cross-border parcel markets. Online merchants need to be able to benefit from better prices, even when sending lower volumes. Ecommerce Europe is convinced that increased regulatory oversight will help a smooth the transition and will avoid the disruptive and unstable scenario mentioned above, with only larger postal companies surviving.

Ecommerce Europe has been vocal in opposing any type of price regulation and therefore expresses support for the Commission's cautious approach which leaves room for case-by-case assessment by

⁹ COM(2016) 285 final

national authorities. The current approach will place greater visibility on public prices, without the risk of exposing business secrets. Ecommerce Europe does not advocate the public display of individual negotiated contracts nor internal pricing policies. However, deep insight into the market by postal regulators and competition authorities is essential. For these purposes, aggregated data about the sector should suffice, with no risk of exposing business secrets.

Although Ecommerce Europe supports the European Commission's proposal, price transparency and oversight may be difficult to implement in the Member States. As a result, Ecommerce Europe strongly supports standardization, and is actively proposing solutions through its work in the European Standardization Committee CEN/TC331. Standardization will bring new technology solutions into the market that will allow the provision of clear and transparent pricing, requiring all providers to adjust themselves in order to compete with each other. Standardization will also allow for new delivery models, such as crowd-delivery, to develop (for example Stuart, supermarket delivery services, on demand delivery services) based on a B-2-B-2-C scheme. Ecommerce Europe is the driving force in this area, as it has demonstrated that already with its Pan-European Trustmark solution.

Many players are already delivering products ensuring an information-based delivery market, the quality of the service, a complaint handling system, redress mechanisms, return services. However, these players need the fundamental interoperability with online stores and among services in order to be widely available for online shops of all sizes.

Although Ecommerce Europe's approach towards regulatory oversight is positive, the fast driven technology market will need faster corrections than those that authorities can provide. Therefore, interoperability and standardization are necessary for the development of an information-based delivery industry. Authorities should ensure that bigger players do not take advantage of their consolidated position, especially incumbents, and that they do not make close networks of public-private companies raising prices unreasonably due to a dominant market position. All these elements are important in crafting an environmental conscience in the e-commerce delivery industry.

Moreover, especially for SMEs, both the regulatory oversight and, in particular, the open standards will allow the development of open source data-driven services provided for SMEs on the Cloud by SaaS at affordable prices. This would allow them to compete with bigger companies' services and thereby reduce market distortion, especially because currently SMEs have no options beyond those created by these bigger companies. An interconnected network, with open labeling standards, will also allow further consolidation of delivery services, including in remote areas. The interoperability of such services will allow easy access to, and sharing of, fundamental parcel information. In Ecommerce Europe's view, these open source standards are the solution for smaller players in the market, as it has been in other areas (e-payments, server hosting, data-driven services for customer personalization, consumer trustmarks, etc.). In fact, Ecommerce Europe is already actively shaping these standards through its work in the CEN Standardization Committee. Here, Ecommerce Europe is working to incorporate world-

wide open technical standards, originating in supply chain management and already widely used in 3rd and 4th party logistics management (such as GS1) based on existing ISO and UPU standardization.

Ecommerce Europe believes that the European Commission's proposal is lacking such an ambition and should therefore be amended accordingly. Moreover, there should be an emphasis on enforcement and European action on cross-border issues. Ecommerce Europe will continue its work with service providers and policy makers to ensure that we come closer to a global level playing field accessible to all players through the use of open information and label standards. Only when standards and interfaces are interoperable across providers and across borders, can we truly reduce the burdens and costs for merchants and increase innovation in the delivery value chain.

Finally, Ecommerce Europe recommends that European legislators be very careful with leaving penalties up to national authorities. Ecommerce Europe wants to avoid a situation of market distortion that could arise from differing penalties across Member States, such as companies establishing themselves in a certain Member State where the level of fines is lower compared to others.

3. Sector responsibility

Where the delivery sector has a responsibility to bring its business models up to speed, the e-commerce sector has a responsibility to ensure its business model is sustainable for the generations to come. Sustainable solutions can thereby enhance efficiency in the supply chain. Merchants combining volumes can increase performance and decrease their ecological footprint. Efficient packaging can save distribution space and diminish waste streams. Online merchants are already developing sustainable solutions for the last mile to decrease the pressure on inner cities. It is important that the e-commerce sector takes up its role in stimulating these initiatives and in helping create a more sustainable delivery value chain. Ecommerce Europe is an important facilitator in this process, providing the platform to design and foster sustainable, integrated e-logistics solutions.

ANNEX: DIGITAL EVOLUTION OF GLOBAL POSTAL NETWORK

The postal market is already defining how to reshape itself and be fit for digital commerce, even though online merchants have not really noticed any improvement so far, except for more developed countries (i.e. Fran, Nordic countries). Thanks to its active role in the UPU Consultative Committee, Ecommerce Europe gathered the building blocks of this digital transformation of the new global postal network:

1. Instead of overlapping products and services, there will be a single category of “postal items” from 0 - 31,5 KG.
2. Instead of differentiating by weight into letters (up to 2 KG) or parcels (up to 31,5 KG), differentiation will be based on content: “documents” vs. “goods”. The implementation will be supported by a 2 phased implementation plan to be implemented at the UPU Congress later this year.
3. Instead of the current distorting termination fees which are not fit for today’s market conditions, there will be new products, services and related pricing, set by the postal administrations, and starting with a new regime of bilateral and multilateral agreements (not monitored by the International Bureau as set out in Art. 8 of the UPU convention).
4. Quality of Service-related governance, based on pre-set events and leading to the monitoring of shipments containing goods on an item basis, will be implemented and become mandatory in 2016, and further enhanced by 2018.
5. Extending postal item-related information to include electronic identification, enabling postal administrations to become trusted third parties in their respective postal territories, providing proof of identity according to set levels of assurance to enable secured ecommerce, has all been specified and will be implemented in close cooperation with the WCO, IATA and related authorities.
6. Extending postal payment services to offer escrow functionalities for cross-border ecommerce, so that individuals who have never met can use posts as trusted intermediaries, have been incorporated into the postal payment transaction platform and connected within the global postal infrastructure facilitated by the UPU.
7. Extending individual postal item attributes to include the full digital data representation to cover all necessary security aspects, to pre-advise authorities entitled to inspect (customs) items in the postal territory of final destination, or transport operators (land-, rail-, air- transport, etc.), have been specified in order to be in line with security, customs and related regulations.
8. Providing the interface capabilities to connect to item-specific data, based on algorithms and reflecting the preferences of recipients. Including authorization to add extra services, e.g. to open parcel lockers, parcel stations or engage third parties to drop-off or pick-up items.