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Economic and Monetary Affairs

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**Internal Market and
Consumer Protection**

**Completing the Internal
Market for Parcel Delivery
and E-Commerce
State of Play
and Possible Reforms**

In-Depth Analysis for the IMCO Committee



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

Completing the Internal Market for Parcel Delivery and E-Commerce

State of Play and Possible Reforms

IN-DEPTH ANALYSIS

Abstract

Effective and affordable parcel delivery is a pre-condition for cross-border trade in physical goods. At present, consumers and shippers in different Member States face very different prices, service levels, and volumes of e-commerce parcels differ hugely by Member State. These shortcomings represent a major impediment to cross-border e-commerce, and thus the Digital Single Market.

This in-depth analysis reviews the performance of EU markets for parcel delivery, and discusses concerns and policy options in light of the Digital Single Market. The paper evaluates the Commission's recent proposal for a Regulation on cross-border parcel delivery services, and presents recommendations for to improving and aligning the proposed regulation.

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CONTENTS

LIST OF FIGURES	4
LIST OF TABLES	4
EXECUTIVE SUMMARY	5
1. INTRODUCTION	6
2. STATE OF PLAY: EU DELIVERY SERVICES	7
2.1. Effective and affordable parcel delivery is a precondition for cross-border e-commerce	7
2.2. No truly integrated cross-border parcel operations to date	8
2.3. Parcel products are different across the EU	8
2.4. National delivery markets have very diverse market structures	9
2.5. Huge differences in parcel and letter volumes between Member States	10
2.6. Huge price differences for cross-border parcels between Member States	11
3. CONCERNS IN LIGHT OF THE DIGITAL SINGLE MARKET AND POLICY OPTIONS	13
3.1. Some e-retailers have expensive shipping fees and refuse to sell to foreign Member States	13
3.2. Parcel prices are expensive on many cross-border links	14
3.3. Parcel prices are based on national borders	14
3.4. Parcel market performance is not transparent	15
3.5. In some Member States, parcel markets are insufficiently developed to meet e-commerce's needs	15
3.6. No critical parcel volumes to realise scale economies on many cross-border links	15
3.7. EU parcel operators compete but could cooperate more	16
3.8. Standardised interconnection can reduce transaction costs at borders	16
3.9. Make returns solutions available to all parcel operators and e-retailers	17
4. CONCLUSIONS	19
4.1. High shipping fees for consumers are the core concern, but regulating fees charged by e-retailers appears disproportionate	19
4.2. More affordable cross-border parcel prices will empower e-retailers to sell more to foreign consumers	20
4.3. The proposed Regulation sets out effective measures to improve cross-border parcel delivery and e-commerce	20
4.4. Recommendations	22
REFERENCES	23

LIST OF FIGURES

Figure 1: Segmentation of postal products: letters, parcels and express services	9
Figure 2: Parcel volumes per inhabitant in eleven European countries (2013)	11

LIST OF TABLES

Table 2: How the proposed Parcel Regulation addresses policy concerns	21
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EXECUTIVE SUMMARY

The **Single Market for Delivery of parcels and letters largely remains fragmented into domestic markets**, with **huge differences between the Member States**: Consumers and shippers in different Member States face very different prices, service levels, and there are enormous differences in volumes per inhabitant. At present, there is no trend towards convergence of domestic parcel delivery markets into a Single Market.

Effective and affordable **parcel delivery is a pre-condition for cross-border trade in physical goods**. Shortcomings in the supply of cross-border parcel represent a **major impediment to cross-border e-commerce**, and thus the Digital Single Market.

Parcel delivery is a competitive business in most Member States, while letters and packets up to 2kg had historically been part of the postal monopoly. Effective cross-border solutions for e-commerce **require cooperation and inter-connection of major operators** in all Member States, and should not be limited to traditional postal operators.

For many intra-EU destinations, **prices for cross-border parcel delivery are very high**, and **volumes are low**. Specific costs for cross-border parcels cannot justify current high prices in many Member States. But as volumes are low, these costs are shared over few parcels so that average costs are high. **Overcoming this vicious cycle is the key challenge** to promote cross-border e-commerce.

Consumers are concerned with **high shipping fees charged by e-retailers**, but are **not directly affected** by the prices paid for parcel delivery by e-retailers. These concerns could only be addressed by regulating shipping fees for e-commerce (but not by regulating price charged by parcel operators). Nevertheless, **restrictive pricing rules for e-commerce seem excessive** in light of the complexities e-retailers face with cross-border operations today, and the infant stage of the e-commerce market in many Member States.

More affordable prices and high-quality for cross-border deliveries will **empower e-retailers** to sell more to foreign customers. The Commission's proposal for a **Regulation on cross-border parcel delivery services** (published on 25 May 2016) offers **effective measures** to achieve these objectives by requiring better **interconnection** and **promoting competition** for cross-border parcel service. **This paper recommends supporting the proposed Regulation in full.**

This paper presents **four recommendations** to improve and align the proposed regulation in order to ensure effective delivery solutions for the Digital Single Market:

- First, **local governments should promote parcel delivery where needed**, i.e. in Member States or regions where there is a lack of acceptable, affordable service.
- Second, the **Commission should take an active role in facilitating cooperation among NRAs** in order to ensure that the reference offers approved by national regulatory authorities (NRAs) will create similar, standardised terms of access across the EU.
- Third, Article 6 of the proposed Parcel Regulation (**transparent and non-discriminatory cross-border access**) should be edited to **specifically apply to returns solutions**.
- Fourth, **EU institutions should monitor shipping options and fees offered by e-retailers for cross-border delivery**. This monitoring of e-commerce market practices will help to assess (ex-post) the impact of the DSM parcel initiative, and make sure that improvements in parcel delivery for e-retailers are translated into benefits to consumers buying online.

1. INTRODUCTION

The **Digital Single Market** is a policy area that is high on the agendas of European institutions, and that offers substantial economic and social potentials to EU consumers and companies. E-commerce plays an important role in the European Commission's Communication on a Digital Single Market Strategy for Europe¹. **Effective and universally available parcel delivery services are a pre-condition for effective e-commerce with physical goods.**² Therefore, **effective cross-border delivery** throughout the EU is a precondition for an **effective Digital Single Market**. The Commission has presented a legislative proposal in May 2016 on cross-border parcel delivery services.³

Parcel delivery services are available at very diverse qualities and prices in different Member States, and there may be concerns, for both consumers and e-retailers, about ineffective domestic parcel delivery services in some (few) Member States. More importantly, **shortcomings in the supply of cross-border parcel delivery** have been identified as a major area of concern. They represent an **impediment to cross-border e-commerce**, and thus the Digital Single Market. Recent research by the Commission's Joint Research Centre concludes that, overall, 'delivery is a deterrent that holds companies back from exporting online', and notes that this negative effect on cross-border e-commerce is stronger for smaller retailers than for large retailers of member or international corporations.⁴

Postal and other parcel delivery services are typically offered within national borders. Cross-border deliveries offered to e-commerce are more expensive and more complex than domestic deliveries. In practice, cross-border parcel service always involves at least two parcel operators (in the origin and destination country), and therefore requires inter-company contracting, pricing, and physical exchange. Different domestic standards for addressing, and different market practices (e.g. regarding delivery options or returns handling) add to this complexity. Consequently, many online retailers do not offer similar shipment options and prices to foreign consumers. **Consumers that visit foreign websites are therefore facing refusals to sell or substantial price differences and surcharges** compared to domestic consumers. This situation clearly has a **negative effect on cross-border e-commerce** in Europe, and on further the development of the Digital Single Market.

On 19 April 2016, the IMCO Working Group on the Digital Single Market held a workshop on "Completing the Internal Market for Parcel Delivery and E-Commerce: State of Play and Possible Reforms". The author of this paper, Alex Dieke⁵, was invited by the European Parliament's Policy Department A (Economic and Scientific Policies) to present and assess the state of play of EU parcel delivery markets market at this workshop, and discuss options for reform to further developing the Digital Single Market in this area to make it a reality in the EU. This paper summarises the author's assessments, taking into account the discussions at the workshop, as well as the legislative proposals presented by the Commission on 25 May 2016.

¹ See COM(2015) 192 final.

² While some goods traded online can be transmitted electronically (e.g. software, videos or other digital content), traditional consumer goods must be delivered physically and thus require transport by parcel delivery services.

³ See COM(2016) 285 final.

⁴ See Duch-Brown/Cardona (2016). The direct quote is from 13.

⁵ Alex Dieke is a director at WIK Wissenschaftliches Institut für Infrastruktur und Kommunikationsdienste GmbH, a German think tank specialised in information and communications technologies, postal services, and digitalisation. Opinions expressed in this paper are those of the author, and do not necessarily reflect the position of WIK, the German federal government (WIK's sole shareholder), or any clients.

2. STATE OF PLAY: EU DELIVERY SERVICES

KEY FINDINGS

- The **Single Market for Delivery of parcels** and letters largely **remains fragmented into domestic markets**, with huge differences between the Member States: Consumers and shippers in different Member States face **very different prices and service levels**. There are **enormous differences in volumes** per inhabitant. At present, there is no trend towards convergence of domestic parcel delivery markets into a Single Market.
- **Effective and affordable parcel delivery is a pre-condition for cross-border trade** in physical goods. Making access to the largest EU export markets easier will offer consumers in other Members States more choice and lower prices. Current **shortcomings in the supply of cross-border parcels** represent a **major impediment to cross-border e-commerce**, and thus the Digital Single Market.
- **Parcel delivery is a competitive business** in most Member States, **while letters and packets hardly are** (letters had historically been part of the postal monopoly). **Effective cross-border solutions for e-commerce require cooperation and inter-connection of major operators** in all Member States, and should not be limited to traditional postal operators.
- **More transparent data on parcel volumes, revenues and price levels is urgently needed** to assess effectiveness of parcel markets for the needs of e-commerce.

2.1 Effective and affordable parcel delivery is a precondition for cross-border e-commerce

E-Commerce in Europe has become a highly important industry with annual sales estimated to 369 billion Euro for 2014. A significant share of e-commerce sales results in physical deliveries, and a total of 4 billion parcels are sent annually to consumers in the EU (domestically or cross-border).⁶ The two largest and most developed e-commerce markets in the EU are Germany and the UK. **Making access to these export markets easier will offer consumers in other Members States more choice and lower prices.** Wider choice that results from access to e-commerce in other Member Stat is particularly important and offers the greatest benefits for consumers in smaller Member States where choice in retail markets is more limited in general. Likewise, companies selling their product from all Member States, including smaller ones and those with less mature domestic e-commerce will benefit from easier access to online product markets.

While various sources report relatively higher growth in cross-border e-commerce, **the true size of cross-border e-commerce transactions is unknown**, because cross-border orders do not necessarily imply cross-border delivery. For example, an Austrian consumer buying on an Austrian website may not realise that the goods sent to him originate physically from Germany or the Czech Republic. Similarly, items bought on a foreign website may be shipped out of a domestic warehouse by e-retailers so that it remains unclear to consumers whether they are ordering a domestic or cross-border shipment.

Effective and affordable **parcel delivery is a pre-condition to cross-border sales** of physical goods. Despite the growth potential in cross-border e-commerce for both e-retailers

⁶ See Ecommerce Europe, European B2C E-commerce Report 2015. This estimate of sales includes physical as well as and non-physical goods. Therefore, the sales (469 billion Euro) and parcels volumes data (4 billion parcels) cannot be related to each other directly.

and delivery operators, cross-border business is not seen as a priority by many e-retailers, resulting in the economic market currently developing below political expectations. Because cross-order is only a small fraction of their business today, and the logistics are considerably more complex, many **small and medium-sized e-retailers do not market actively to consumers in other Member States**. Responses to a consultation held by the European Commission in 2015 highlight the importance of **prices for cross-border parcels as an impediment to cross-border e-commerce**: Asked about different features of parcel delivery, “retailers were least satisfied with the possibility of changing the delivery location after dispatch, delivery prices and complaints handling. [...] Smaller companies were particularly likely to be unsatisfied with the price of delivery services.”⁷

In order to assess effectiveness of parcel markets and their ability to meet the need of e-commerce consumers and retailers, **more transparent data on parcel volumes**, revenues and prices (or average revenues per piece) is **urgently needed**. At present, lamentably, reliable data even for the most aggregate domestic data (such as total parcel volumes or revenues) is available only for a few, larger Member States. For cross-border parcels, hardly anything is publicly known about volumes, revenues, and prices.

2.2 No truly integrated cross-border parcel operations to date

Parcel delivery is provided by a diverse group of carriers in the EU Member States, including national postal operators, integrators (e.g. UPS, DHL, FedEx), international or regional parcel networks (DPD/GeoPoste, GLS), local couriers, and parcel carriers that have been set up by large retailers (e.g. Yodel, Mondial Relais, Amazon, Hermes).⁸ Recently, Amazon has invested in own delivery networks in some key metropolitan areas in Europe.

All those players are relevant to e-retailers in some respects for domestic or local deliveries, but the choice is more limited for cross-border shipments. The **postal operators offer cross-border parcels all over the EU, and so do the global integrators** (yet at a higher price and quality). In many Member States, particularly in Western and Central Europe, e-retailers have **alternative choices from other parcels networks**, at least for most EU destinations. **In less developed markets, however, national postal operators are often the only choice** that consumers have (or are aware of) for sending cross-border parcels, and particularly in rural areas of the respective Member States.

Despite the ambitions of many parcel networks in the cross-border business, there are **practically no delivery firms that operate in several Member States**. Where integrators or parcel networks operate under one brand internationally, they usually have different subsidiaries in each Member State to meet national regulation including on transport, safety, tax, and labour issues. As a result, there are no true cross-border border operations to date that could, for example, deliver parcels to different Member States from the same depot on a regular basis.

As a result, parcel delivery in the EU has largely remained fragmented into domestic markets, and, at present, there is no trend towards convergence of domestic parcel delivery markets into a Single Market.

2.3 Parcel products are different across the EU

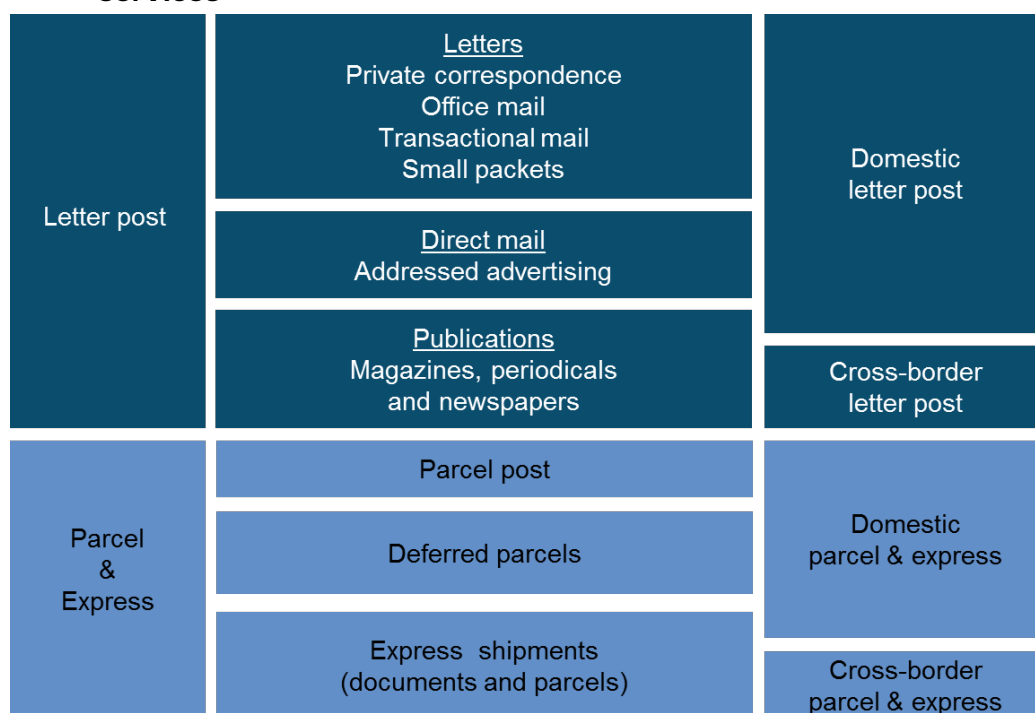
A key complexity in using cross-border parcels is that the **features and service levels for parcels are quite different** among operators and Member States, even among the national postal operators. For example, standard parcels are not delivered to the home in some Member States (including Sweden, a highly developed e-commerce market, where parcels are by default kept at the nearest postal outlet for pick-up), parcels may or may not be left at door entrances, handed over to neighbours etc. In addition, routing times as well as

⁷ See summary of responses to the European Commission’s ‘consultation on cross-border parcel delivery’, 2015.

⁸ For a recent comprehensive analysis of parcel delivery carriers, see University of Antwerp (2015).

classifications for addressing, weight steps, packaging, prohibited items etc. differ among operators and Member States. While these differences may reflect diversity of national circumstances, consumer preferences, and operators' strategies to address different price-quality balances, they create complexity for e-retailers that need to prepare shipments, and report to their customers about progress of the transaction.

Figure 1: Segmentation of postal products: letters, parcels and express services



Source: WIK-Consult: Main Developments in the Postal Sector, August 2013.

Parcel products are generally considered to be part of postal services⁹. In this sense, “Postal” does not relate to the incumbent postal operators, but to the nature of the service. Many e-commerce shipments are sent by parcel, but letter products (including large letters and ‘small packets’) are likewise important products for e-retailers. While parcels generally require a signature on delivery and offer some insurance, letter products do not. Figure 1 provides a segmentation of different postal products, borrowed from a study published by the European Commission.

More **transparency about different parcel products**, and possibly some European harmonisation will be needed to make it easier for small e-retailers to ship to other Member States. Initiatives to develop standardised products are currently being taken by national postal operators as well as alternative parcel networks that operate internationally (including Hermes, GLS, and DPD).

2.4 National delivery markets have very diverse market structures

Parcel markets generally have several players with strong market shares and can be considered as **oligopolies**. Some incumbent postal operators have established successful parcel operations and gained substantial markets shares, but are not necessarily dominant in their markets. They tend to be stronger in the business-to-consumer (B2C) segment as have a long history of delivering mail to all households.

⁹ See legal definition for postal items: Article 2 no. 6 of the *Postal Directive* (Directive 97/67/EC as amended),

However, some postal operators are struggling to develop their parcel business and parcel delivery is largely determined by private couriers and international integrators in these Member States.

By contrast, **letter markets continue to be dominated by incumbent postal operators** in all Member States. They generally retain market shares close to 100%. Following more than a decade of full liberalisation, only little entry has occurred in few Member States, including Germany, Italy, the Netherlands, Spain, and Sweden. Despite market entry, postal operators have market shares well above 80% in all these national letter markets.¹⁰ At the same time, large letters are increasingly becoming important to e-commerce as more and more low-value goods are sent by letter (i.e. without insurance).

As a result of these diverse market structures, the **same policy or regulatory means will not be appropriate for all Member States**. In some Member States; the policy issue may be to put discipline on a strong incumbent to better consider customer needs while in others, there is a need for any operator to develop the market in the first place. And in some markets, competitive supply may be largely in line with customer needs already.

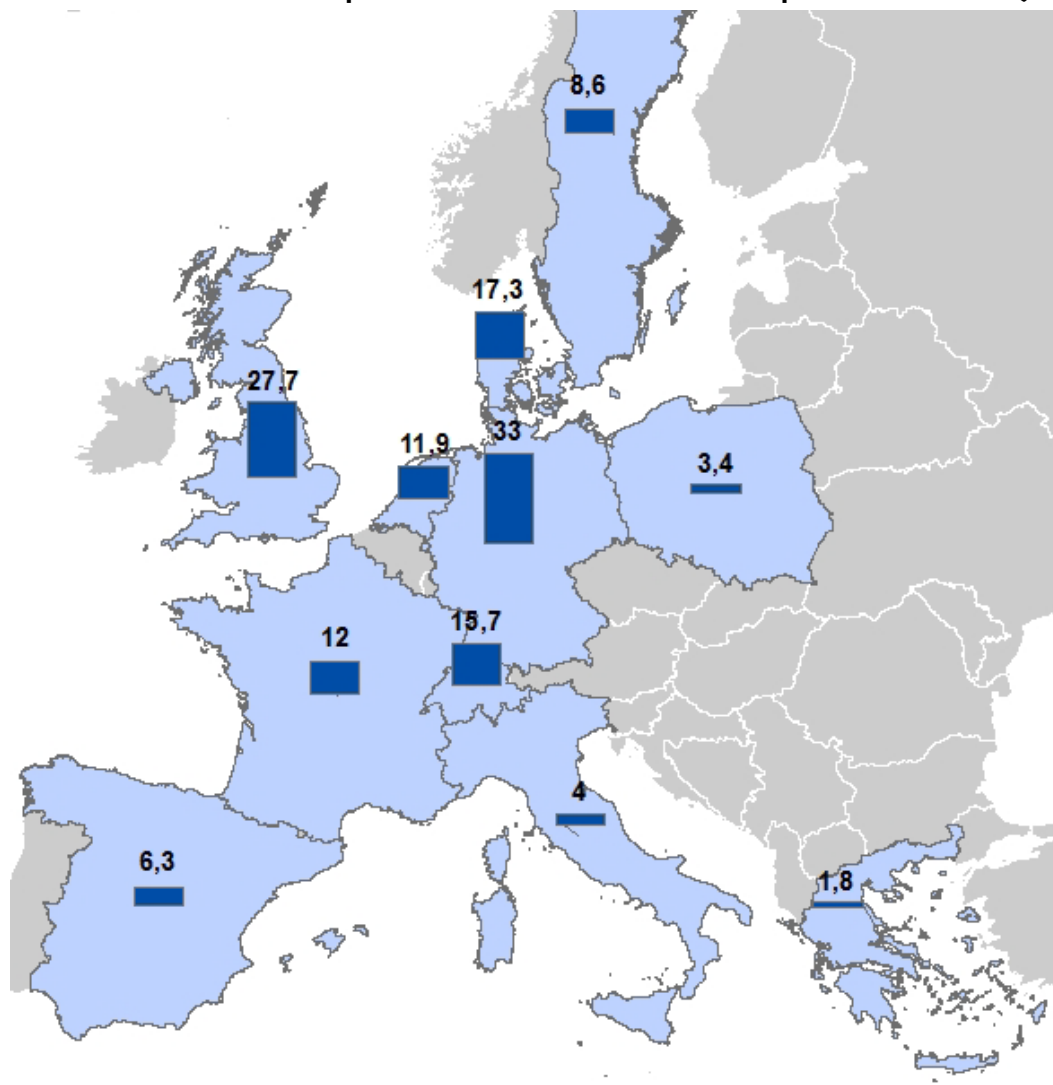
2.5 Huge differences in parcel and letter volumes between Member States

Since the adoption of the Postal Directive in 1997, several sector studies organised by the Commission have reported huge difference in volumes among the Member States. The latest of these reports, in 2013, reported volumes ranging from less than **20 letters per inhabitant** (in Bulgaria and Latvia) **to more than 300 letters per inhabitant** (in Austria and Luxemburg).¹¹

For parcel volumes, no complete data sets are available across the Member States. Several operators are active in the parcels markets in all Member States, but no data is collected systematically from other operators than the national posts in many Member States. For ten European countries, figure 2 indicates the average number of parcels per inhabitant (based on data for 2013). The **difference in parcel volume between Member States is significant**, about as significant as for letters. It is clear that cross-border traffic will be more important for smaller Member States than for larger ones. However, there is a lamentable lack of reliable statistics on the volume of cross-border parcels in the EU.

¹⁰ See SWD(2015) 207 final.

¹¹ See WIK-Consult, (2013).

Figure 2: Parcel volumes per inhabitant in eleven European countries (2013)

Source: WIK-Consult/TÜV Rheinland.

2.6 Huge price differences for cross-border parcels between Member States

The simplest, and often the only transparent, indicator of prices for cross-border parcels are the public tariffs, i.e. the list prices offered by national postal operators to consumers and small businesses. Several studies have highlighted that **list prices for cross-border parcels are very substantially higher than domestic list prices, typically three to four times as high** as domestic parcel tariffs.¹² However, there are indications that cross-border parcel prices, and the relation to domestic tariffs, are lower in more developed parcels markets, and higher in markets with substantially lower e-commerce volumes.

It is questionable whether list prices are good indications of the prices paid for cross-border shipments by e-retailers as they negotiate individual agreements with parcel delivery operators. However, these average prices that would be more representative of the actual

¹² For example, see Université Saint-Louis Bruxelles (2015), or WIK-Consult (2015). This first study by Université Saint-Louis, sponsored by the European Commission, finds that cross-border parcel (list) prices are 471 percent higher than domestic prices on average (for all products, regardless of utilisation). Price levels for domestic parcels, cross-border parcels, and the ratio of the two prices are very different in different Member States. The second study, sponsored by the German Federal Ministry of Economics, finds 'typical' ratios between 2 and 7 for different countries, with a median between 3 and 4. It notes that prices for cross-border parcels, and the relation to domestic tariffs, are lower in developed parcels markets (such as Germany, UK, and Sweden), and higher in Southern and Eastern Member States that have substantially lower e-commerce volumes.

prices paid by e-retailers are not transparent. **Achieving more transparency on actual prices paid should be a priority**, and would usefully inform policy-making in this area. A study prepared for the European Commission in 2014 recommended that **average prices and service levels for parcel delivery should centrally be collected for each Member State**. The study listed such average prices for two countries: 3.20 EUR for Germany and 4.10 EUR for Greece.¹³ The examples of these two very different Member States suggest that average prices are significantly lower than list prices, even though they include, in addition to parcel from national postal operators, shipments from express parcel and express carriers (that often have higher service levels).¹⁴ A report published by economic think tank Breugel in May 2016 re-iterates the urgency of gathering comprehensive statistics on parcel prices at European level, stating: *'Today, hardly anything is known, either to the public or to national and European regulatory authorities, about actual wholesale payments and [...] effective prices paid by senders other than individual consumers.'*¹⁵

¹³ See WIK-Consult (2014).

¹⁴ Average revenues may be compared to list prices presented in a study for the European Commission in 2015. See Université Saint-Louis Bruxelles (2015).

¹⁵ See Marcus/Petropoulos (2016b).

3. CONCERNS IN LIGHT OF THE DIGITAL SINGLE MARKET AND POLICY OPTIONS

KEY FINDINGS

- Many e-retailers do not sell to all EU destinations, or charge high shipping fees, leaving consumers behind. For consumers, **high shipping fees are obstacles to more cross-border e-commerce**.
- For many intra-EU destinations, **prices for cross-border parcel delivery are very high**, and **volumes are low**. While there is little transparency about the prices paid for parcel delivery by e-retailers, current **list prices of national operators are clearly too high** on many cross-border links, compared to what consumers are prepared to pay for shipping and for returns.
- **Specific costs for cross-border parcels cannot justify current high prices** in many Member States. In some Member States, parcel volumes are low and there are insufficient (or overly expensive) offers to consumer and for e-retailers shipping to consumers. As **volumes are low**, costs are shared over few parcels so that **average costs are high**. **Overcoming this vicious cycle is the key challenge** to promote cross-border e-commerce.
- Key factors for the additional costs of cross-border parcel operations are the **transaction costs of interconnecting** with other parcel operators. **More standardised terms for interconnection** would reduce costs for cross-border parcels.
- EU parcel operators today are **competing fiercely against each other**, but are not seizing the opportunities of **more intense cooperation** that would be desirable from a wider economic perspective. In other markets and industries (including the US parcels market), cooperation between rivaling parcel carriers is more common.
- Nationwide **retails networks are needed to organise collection of shipments that are returned by consumers**. There are several competing networks of 'parcel shops' in the UK, France, Germany, Belgium, and some other Member States, but postal outlets (operated by national postal operators) are the only viable alternative for collecting returns in other Member States. In absence of alternative retail networks, **access to postal outlets** would be beneficial.

A number of concerns about the deficiencies of current market supply for cross-border parcels have been raised by politics, consumer bodies, and industry stakeholders since the beginning of the Digital Single Market Strategy. This section discusses these concerns in light of current market performance, offers the author's assessment of the concerns, and discusses relevant policy options.

3.1. Some e-retailers have expensive shipping fees and refuse to sell to foreign Member States

It is within the **commercial freedom of e-retailers** to determine the products they want to sell, set prices, including fees for packaging and shipping (that need not be closely related to the cost paid for parcel delivery), as well as the destinations they will ship to. In an economic perspective, however, it is difficult to understand **why an e-retailer would not want to sell to foreign destinations**, provided the price covers the cost of delivery, including transaction cost. And from the perspective of the Digital Single Market, it is clearly **desirable that e-retailers offer their products to consumers in all EU Member States**.

In practice, however, many e-retailers **do not sell to all EU destinations, or charge high shipping fees**, leaving consumers behind. They have to abandon their purchases once they realise high shipping fees at the end of the process, or that a good will not be shipped to their home address at all. Indeed, consumer surveys and the Commission's 2015 consultation on cross-border parcel delivery indicate that a substantial share of consumers is concerned with high shipping fees, indicating these high fees are obstacles to more cross-border e-commerce.¹⁶

In light of the complex considerations leading e-retailers to determine, and possibly excuse, high shipping fees (transaction costs, cost for parcel delivery, billing issues, etc.), it appears very difficult to justify direct regulation of shipping fees charges by e-retailers. Taking a **softer approach to regulation, e-retailers could be enabled to sell more to foreign Member States** if more transparency about delivery options, standards, and consumers in other Member States was created, and parcel delivery carriers were incentivised to offer lower prices to those e-retailers for cross-border shipments.¹⁷

3.2. Parcel prices are expensive on many cross-border links

High parcel prices for cross-border shipments are detrimental to the Digital Single Market for e-commerce in two ways: First, they may stop e-retailers from offering shipments to some destinations, or make them charge prohibitively high shipping fees. Second, convenient and affordable options for returning purchases, if needed, are a key component of creating consumer trust in e-retailers. If returns are too expensive, consumers will be frustrated to buy online (from other Member States). This is even more of a concern for cross-border e-commerce than for domestic e-commerce because consumers often pay public list prices for returns, and list prices are very high for cross-border parcels.

For many cross-border links, **current list prices of national operators are clearly too high**, compared to what consumers are prepared to pay for shipping and for returns.¹⁸ That said, it is difficult to determine which prices are 'too high'. Indeed, volumes on many cross-border links are likely low, too, and average costs of those parcels therefore are high.¹⁹ In this situation, standard principles of cost-orientation may not be sufficient to bring down cross-border parcel prices (enough). By contrast, such cost-oriented price control incurs a risk to impede market dynamics and frustrate investment in cross-border operations.

While national postal operators have long been hesitating to commit to investments in higher-scale systems for cross-border parcels, this appears as a temporary issue. Due to strong economies of scale in parcels delivery, it will be possible to bring down average costs (and prices) in the future, if cross-border parcel volumes increase. Likewise, setting lower prices for cross-border parcels creates a potential for volumes and revenues to increase – or the other way around.

3.3. Parcel prices are based on national borders

Much to the frustration of consumers living near national borders, **list prices for parcels are lower even for the longest national journey than for a short distance across a border**. This frustration is understandable, **but cannot be avoided** if uniform prices for national territories are maintained. Parcel carriers set national prices based on average

¹⁶ See European Commission, Consumer survey identifying the main cross-border obstacles to the DSM and where they matter most, 2015; and Summary of responses to the European Commission's 'consultation on cross-border parcel delivery', 2015.

¹⁷ A list of features that should be more transparent about parcel delivery has been proposed by WIK-Consult (2014), p137ff.

¹⁸ Such list prices have been compiled and analysed in, for example Université Saint-Louis Bruxelles (2015).

¹⁹ In a study sponsored by PostEurop, Copenhagen Economics discuss the factors driving cross-border parcel delivery prices. See Copenhagen Economics (2016).

distances and cost, and need to do so to avoid high transaction cost for standard (inexpensive) parcel delivery.²⁰

Asking the prices to reflect actual distance would likely sacrifice the low transaction costs achieved by national standardisation. In that case, domestic and cross-border prices for a similar distance may become more similar, but will be considerably higher than current domestic parcel prices. Indeed, for less standardised products such as taxi transportation or freight forwarding, national border are hardly relevant today, but the price level is much higher than for parcels.

3.4. Parcel market performance is not transparent

As various reports point out, there is **no clear consensus even about the most straightforward data on the European parcel delivery market**. Total market size is known only very vaguely. Price levels are unknown to most e-retailers and regulators, and there is no transparent information on quality of service.

More transparent information on parcel markets is urgently needed in order to improve the political understanding of the shortcomings in cross-border parcel delivery, as well as to assess, and continuously monitor, the impact of proposed legislation for parcel delivery. Most importantly, information on cross-border volumes, product features, and average price levels for domestic delivery should be collected on EU level and published (while respecting legitimate concerns about commercially sensitive data).

3.5. In some Member States, parcel markets are insufficiently developed to meet e-commerce's needs

In any Member State, cross-border volumes are lower than domestic volumes. In order to achieve low costs (and prices) for cross-border shipments into a country, **there must be sufficient domestic volume to afford a regular, high quality domestic parcel operation** at reasonable average cost. Where domestic markets lack sufficient volumes to achieve economies of scale today, it seems very hard to improve the situation only for incoming cross-border items.

Developing domestic delivery markets, both for e-commerce and parcel delivery, therefore appears as a pre-condition for effective cross-border shipments. Where there is **no sufficient volume in a country today to afford modern and potent parcel operations**, it may be necessary to **fund investments in such delivery networks**, at least temporarily, or in specific (e.g. rural) regions. In principle, such public funding should not be limited to national postal operators. Delivery being a transport service, links to the work of the European Parliament's TRAN committee work, and available funds for local infrastructure in this policy area may be considered by EU institutions and local authorities.

Subsidising parcel delivery on a local level can be seen as an extension to current levels of universal postal services. Such **compensation for universal service** would positively affect not only local traffic, but cross-border imports to those areas, and ultimately benefit local consumers. In general, universal service for parcel delivery is compatible with competition, and has been for decades. Indeed, if universal service standards for local delivery should not cover the cost of delivery, additional cross-border traffic will increase utilisation and universal service will become economically more viable and require less compensation.

3.6. No critical parcel volumes to realise scale economies on many cross-border links

One side effect of the lamentably low level of cross-border e-commerce is that **current parcel volumes are low on many cross-border links**. By consequence, it is difficult for

²⁰ For a discussion why uniform national prices, and why higher prices even for short-distance cross-border parcels are justified, see Marcus/Petropoulos (2016a); and Copenhagen Economics (2016).

parcel operators to invest in interconnection and operations as there are **no sufficient volumes to afford the investment**. At the same time, sufficient volumes will only emerge if there the parcel delivery services (and prices) improve.

The good thing about this deadlock situation is that it can improve quickly as soon as one party starts moving. In this situation, any political action has good chances of stirring up one of the market participants, and effecting improvements in market performance.

3.7. EU parcel operators compete but could cooperate more

Since the emergence of private, commercial express and parcel delivery networks in Europe in the 1970s, there has been **fierce competition**, mutual resentment, and intense legal controversy among incumbent postal operators and private parcel carriers.²¹ With postal reform in Europe, national postal operators have established, or acquired, commercial parcel networks to compete with each other as well as the private parcel delivery firms.

In this competitive situation, establishing cooperation among different parcel operators is difficult, because the **cooperating parties are rivals** in many markets at the same time. Indeed, the regional parcel networks of Deutsche Post DHL, La Poste (DPD/GeoPost), and Royal Mail (GLS) all compete in the major EU parcel markets.

While this competition has clearly stimulated development of modern parcel markets and led to improved service and, sometimes, lower prices, the efficiency potential of more intense cooperation may not have come into play as much as would be desirable from a wider economic perspective. **In other markets and industries, cooperation between rivaling parcel carriers is more common.**

In the USA, for example, the key private parcel carriers (UPS and FedEx) contract with state-owned United States Postal Service for delivery in some (rural) areas, at least for some products. The benefits of such '**co-opetition**' in the USA have been described by prominent economists recently, demonstrating the efficiency improvements that result from this cooperation, and the sharing of scale economies in parcel delivery²²: *'The basic conclusion of my analysis is easy to state: co-opetition improves the efficiencies of the postal sector. By doing so, it makes it possible to increase the profits of the Postal Service and its rivals, without increasing prices to consumers.'*

3.8. Standardised interconnection can reduce transaction costs at borders

Key factors for the additional costs of cross-border parcel operations are the transaction costs of interconnecting with other parcel operators. **More standardised agreements for interconnection have the potential to reduce costs for cross-border parcels**, and align them more with domestic parcel prices.

In Europe, the European Commission has achieved a **commitment from leading postal operators in 2013** to invest in a programme to improve interconnection for parcels between EU national postal operators, managed by the International Post Corporation.²³ Reports about actual results of the programme are not available to date (at least not to the author). In developing legislative proposals for the Digital Single Market, EU institutions will need to take account of the progress and results of this initiative.

In parallel to European initiatives to improve parcels' interconnection, the Universal Postal Union (UPU) is currently discussing **improvements to the UPU 'terminal dues'** (transit prices for letter post that national postal operators charge each other). These discussions are preceding the UPU Congress to be held in September/October 2016 in Istanbul. As a practical matter, only national postal operators have access, and carry obligations, under the UPU

²¹ For an excellent history of express and parcel operations in Europe (and globally), see Campbell (2001).

²² See Panzar (2015).

²³ See Götz (2014).

Convention. It is highly unlikely that these agreements can be extended to other (private) operators in the near future. However, the issue of **UPU terminal dues reform is not immediately relevant to the Digital Single Market** because UPU terminal dues do not apply (as an obligation) to intra-EU traffic.²⁴ Where UPU rules conflict with EU law, the latter supersedes, at least for intra-EU traffic.²⁵

At the same time, **global integrators and European parcel networks are working to improve interconnection of their national parcel operations**, and may likewise be interested in cooperating with national postal operators. Standards for interconnection and possible multi-lateral pricing agreements should therefore not be limited to national postal operators, but be accessible for all interested parties (parcel operators and possibly e-retailers).

In other industries (e.g. gas and electricity, railways, or telecommunications), **structural separation of the last mile** is seen as an option to create competition and increase market performance in upstream market segments. In parcel markets, structural separation would mean separating local delivery from long-haul logistics, and network managements. This approach **does not seem appropriate in the parcel market** since integrated networks are needed to manage the complex parcel logistics, and achieve and exceed the high quality standards expected by e-retailers. Ensuring equal, non-discriminatory access by all EU parcel operators to domestic deliveries seems sufficient to improve cross-border parcel service in the EU.

Better interconnection among postal and parcel operators will be needed to achieve more effective and more affordable cross-border parcels services between all Member States. Such interconnection will ensure that parcel operators have **access to delivery services in other Member States** (where they do not have own staff and facilities for delivery). This can be regarded as *access to a downstream (delivery) services*. In addition to such access to services, in contrast to other network industries, e.g. telecoms or energy, there is **no need for access to infrastructure** in the postal sector. Given the major importance of labour for any delivery service, there would be very little use for other operators' facilities. Consequently, there have not been any serious requests for access to infrastructure by parcel operators.

3.9. Make returns solutions available to all parcel operators and e-retailers

E-retailers typically expect that parcel carriers not only offer delivery of their shipments, but also **collect and return shipments** that are returned by consumers. The most convenient and cost-efficient method for collecting returns is to **accept returns in retail outlets**, such as public post offices. However, not all parcel carriers operate retail networks. While there are several competing networks of 'parcel shops' in the UK, France, Germany, Belgium, and some other Member States, postal outlets (operated by national postal operators) are the only viable alternative for collecting returns in other Member States. Therefore, **access to (collection services through) postal outlets is crucial in those countries** where carriers have not set up own networks of pick-up points and where no alternatives to the network of the national postal operator exist.

There are several instances in Member States where posts and fulfilment services providers (like B2C Europe) or posts and other carriers (like Hermes) cooperate successfully and have agreed terms for collecting returns in postal outlets. However, EU institutions should monitor

²⁴ See WIK-Consult/Jim Campbell (2010); and TMC Asser Institute (2004).

²⁵ While they not strictly relevant to the Digital Single Market, UPU terminal dues are certainly relevant to national postal operators from the EU where they concern parcels exchanged with non-EU countries. The most relevant traffic flows with non-EU countries are mail imports from Asia (that arguably are delivered by EU postal operators below cost).

whether returns solutions are offered at non-discriminatory terms to all interested parties, and **consider access obligations** if that were not the case.

4. CONCLUSIONS

KEY FINDINGS

- Consumers are concerned with **high shipping fees charged by e-retailers**, but are not directly affected by the prices paid for parcel delivery by e-retailers. Nevertheless, **restrictive pricing rules for e-commerce seem excessive** in light of the complexities e-retailers face with cross-border operations today, and the infant stage of the e-commerce market in many Member States.
- More **affordable prices for cross-border deliveries**, and high-quality, will **empower e-retailers to sell more** to foreign customers.
- The Commission's **proposal for a Regulation on cross-border parcel delivery services** offers **effective measures to promote the Digital Single Market** by requiring **better interconnection** and **promoting competition** for cross-border parcel service. **This paper recommends supporting the proposed Regulation in full.**
- This paper presents **four recommendations to improve and align the proposed regulation** in order to ensure effective delivery solutions for the Digital Single Market:
- First, **local governments should promote parcel delivery where needed**, i.e. in Member States or regions where there is a lack of acceptable, affordable service.
- Second, the Commission should take an active role in **facilitating cooperation among NRAs** in order to ensure that the reference offers approved by national regulatory authorities (NRAs) will create similar, **standardised terms of access** across the EU.
- Third, **Article 6 of the proposed Parcel Regulation** (transparent and non-discriminatory cross-border access) should be edited to **specifically apply to returns solutions**.
- Fourth, EU institutions should **monitor shipping options and fees offered by e-retailers** for cross-border delivery. This monitoring of e-commerce market practices will help to assess (ex-post) the impact of the DSM parcel initiative, and make sure that improvements in parcel delivery for e-retailers are translated into benefits to consumers buying online.

Parcel delivery is an important input for e-commerce. Consequently, parcel delivery markets are relevant for the Digital Single Market because of this input service they provide, allowing e-retailers to offer home shipments of their merchandise to consumers.

4.1. High shipping fees for consumers are the core concern, but regulating fees charged by e-retailers appears disproportionate

One fundamental problem to the growth of cross-border e-commerce, and thus the development of the Digital Single Market, are **high shipping fees charged by e-retailers** to consumers. By contrast, consumers are not directly affected by the prices that e-retailers pay to parcel delivery operators. At present, **regulating e-commerce shipping fees nevertheless seems overly restrictive and disproportionate** in light of the complexities e-retailers are facing with cross-border operations. Regulation of shipping terms and fees offered by e-retailers should only be considered if discriminatory or otherwise abusive practices (such as excessive shipping fees or refusal to sell to other Member States) should persist once a sufficient supply of parcel delivery has become ubiquitously available, and other barriers to cross-border e-commerce have been removed.

4.2. More affordable cross-border parcel prices will empower e-retailers to sell more to foreign consumers

A political alternative to regulating e-retailers' shipping fees, is to focus on **achieving affordable prices and high-quality for cross-border deliveries**. By this means, **e-retailers will be empowered to sell more to foreign customers**. Once there is satisfactory supply of cross-border parcel delivery (and collection of returned goods), politics should trust in e-retailers' self-interest to grow their business, and avoid unnecessary regulatory complexity for e-retailers.

Prices for cross-border parcel delivery, for many intra-EU destinations, are very high. This is definitely true for public prices (used by consumers and small enterprises) and is likely true for bulk prices in some Member States, too (although current bulk prices are not transparent). At the same time, volumes on those cross-border links are low, which means that average costs remain high. **Overcoming this vicious cycle is the key challenge** to promote cross-border e-commerce: Average costs for cross-border parcel delivery will be lower if volumes increase. Indeed, there are indications that average prices are relatively low already for high-volume links (e.g. FR-BE or DE-AT).

4.3 The proposed Regulation sets out effective measures to improve cross-border parcel delivery and e-commerce

On 25 May 2016, the Commission has proposed a **Regulation on cross-border parcel delivery services**.²⁶ Specific objectives of this proposal are 1) to 'make markets work more effectively' by **broadening the role of national regulatory authorities** (NRAs) with a specific mandate to oversee cross-border products, including wholesale agreements between parcel operators, and **encouraging competition** for cross-border delivery; and 2) to **increase the transparency of tariffs**, and ultimately achieve **lower tariffs for consumers** and small businesses.

Specific measures set out in this proposed Regulation include:

1. An **obligation for all parcel operators to provide basic volume and revenue data**, separately for domestic and cross-border services (Art. 3).
2. An **obligation for national postal operators to report public prices** for a set of cross-border letter and parcel products (i.e. undiscounted list prices), for publication by the Commission (Art. 4.1 and Art. 4.2).²⁷
3. An **obligation for national postal operators to report wholesale prices** agreed for delivery of incoming letters and parcels to their NRAs. NRAs are called to communicate this information to the Commission (Art. 4.3 and Art. 4.4).
4. A **Mandate for NRAs to assess affordability of cross-border tariffs**, and an obligation for NRAs to communicate their assessment to the Commission. These assessments will be published by the Commission in non-confidential form
5. An effective mechanism to ensure **transparent and non-discriminatory access to interconnection** with national postal operators. This includes a requirement for national postal operators to **publish reference [interconnection] offers** for delivery of incoming letters and parcels.

²⁶ COM(2016) 285 final.

²⁷ The legal requirement to report public prices applies only to universal services providers (national postal operators). Other parcel operators may, however, be included in the Commission's publication on public prices.

Table 1: How the proposed Parcel Regulation addresses policy concerns

Concerns	Addressed by Proposed Regulation?	Additional policy measures needed?
E-retailers charge expensive shipping fees, or refuse to sell	No	Consider monitoring e-retailers' shipping fees in relation to the prices they actually pay for delivery (if proposed parcel regulation should not prove effective in medium term).
Expensive public parcel prices for many cross-border links	Yes	No. Proposed mix of transparency and soft regulation is well-balanced.
Parcel markets not transparent	Yes	Consider further standardisation of parcel statistics if implementation by NRAs should not produce comparable results in the medium term
In some Member States, parcel markets are insufficiently developed to meet e-commerce's needs	No	Local governments should promote parcel delivery where needed. Where no acceptable, affordable parcel delivery service is available in a peripheral Member States or rural region (or island), local governments could promote or subsidise local business models to ensure parcel delivery and collection. EU institutions may support to funding, but should not centralise local decision-making.
No critical volumes on some cross-border links	(Yes)	Proposed regulation and improved interconnection will likely facilitate growth in cross-border volumes. Improved interconnection may allow achieving critical volumes by consolidating parcels from several Member States.
Insufficient cooperation among parcel operators in different Member States	Yes	No. Implementation of proposed Regulation offers clear remedies.
Lack of standardization and transparent terms for interconnection	Yes	More transparency will result from public reference interconnection offers . In controlling reference offers, NRAs should seek to promote EU standardisation.
Simple, affordable returns solutions are not available in all Member States for all (foreign) parcel operators and e-retailers	(Yes)	To avoid any ambiguity, article 6 of proposed Regulation (transparent and non-discriminatory cross-border access) could be revised to apply to returns solutions more clearly.

Source: Author.

The **proposed Regulation offers effective measures** to address most of the concerns to development of the Digital Single Market in the area of cross-border parcel service (see table 1). By relying on better interconnection and promoting competition, the Regulation can indeed be expected to facilitate better cross-border services, and make this service available to all interested parcel operators and e-retailers.

4.4. Recommendations

Based on the assessment presented above, the **key recommendation** of this paper is to **support and finally adopt the proposed Regulation on parcel delivery**, and to maintain the proposed scope of the draft Regulation despite opposition from parcel operators.

In addition, we offer four specific recommendations to improve and align the proposed regulation in order to ensure effective delivery solutions for the Digital Single Market

First, the proposed regulatory approach and the ambition of cross-border e-retailers will only be successful for cross-border links where sufficiently effective parcel operations are in place that can be interconnected. Typically, the weakest link is availability of **reliable and affordable local delivery**. Therefore, **local governments should promote parcel delivery** where needed. For example, where no acceptable, affordable parcel delivery service is available in a peripheral Member States or rural region (or island), local governments could promote, and possibly subsidise, local business models to ensure delivery and collection of parcels in these areas. Given these problems are local, political action to address them should likewise be local. EU institutions could **support this process, first, by creating transparency about parcel delivery markets**, service quality, and prices (as the proposed Regulation suggests). This transparency will also offer relevant benchmarks to inform local policy-making. Second, EU institution may contribute to **funding local parcel service and infrastructure** in remote or peripheral areas where external funding should become necessary.

Second, the approach to achieving more effective and transparent terms for access to local delivery is based on a requirement for national postal operators to publish reference offer, to be approved by NRAs. To **avoid fragmentation of terms for interconnection**, NRAs will need to cooperate in order to ensure that terms of access are standardised as much as possible among the Member States. Given the experience with limited harmonisation in the postal sector, the **Commission should take an active role in facilitating cooperation among NRAs**, possibly involving the European Group of Regulators for Postal Services (ERGP). As some of the complexity for e-commerce in organising cross-border deliveries relates to ambiguous terms and definitions, creating common definitions would enhance transparency about parcel offers across the EU.

Third, it is essential for e-retailers to be able to offer consumers **effective and affordable options for returning parcels**. Obvious examples for the importance of returns are shoes and clothing (where many online purchases are regularly returned after fitting by the consumer). Article 6 of the proposed Parcel Regulation requires transparent and non-discriminatory ‘access to all network elements and associated facilities as well as relevant services and information systems, necessary for the provision of cross-border parcel delivery services.’ While this requirement logically includes access to wholesale products for returning parcels, the **Regulation could be edited to address returns solutions more clearly**, and thus avoid any ambiguity. Because the national post office network is the only choice for accepting returns affordably in many Member States, access to returns collection through post offices is essential to empower foreign parcel operators, including private parcel carriers, to offer solution for e-retailers that want to export into these Member States.

Last but not least, from a consumer perspective, the key problem addressed by the proposed Parcel Regulation is **high shipping fees charged by e-retailers** to consumers. By improving service levels and transparency of cross-border delivery, the Regulation will lead to lower shipping fees in cross-border e-commerce, and more available options for cross-border delivery. However, the success of any policy action on parcel delivery rests on the **assumption that e-retailers pass on improved parcel service offers to their consumers**. To ensure success of the DSM policies, EU institutions should therefore **monitor developments in e-commerce shipping options and fees** for cross-border delivery. This monitoring of e-commerce market practices will help to assess (ex-post) the impact of the DSM parcel initiative.

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