



SERVING EUROPE'S CITIZENS BETTER EVERY DAY

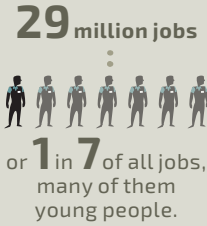
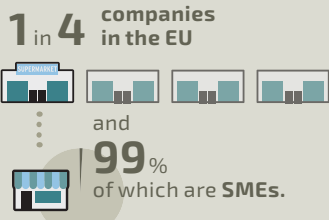
RETAIL AND WHOLESALE
IN TIMES OF CHANGE



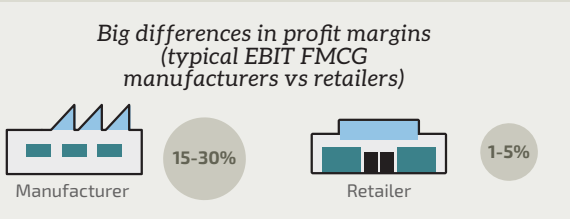
A MANIFESTO FOR THE NEW EUROPEAN COMMISSION AND PARLIAMENT

RETAIL AND WHOLESALE: A SECTOR UNDERGOING FUNDAMENTAL CHANGE

Retail and wholesale makes up 5.4 million businesses or 1 in 4 companies in Europe. It employs 29 million Europeans, and accounts for 1 in 7 jobs, and is thus the largest private sector employer in Europe. The sector is central to the European economy: it accounts for 10% of EU GDP – it provides a vital service to millions of businesses – and contributes, through its efficiency and unparalleled supply chain expertise, to the purchasing power, choice, and convenience of Europe's 500 million citizens every day.



This is a sector operating on low margins, with all players fighting for market share by offering consumers the best choice of quality, innovation and price. Retailers are consumers' solid defence against inflation, constantly creating new efficiencies in their own operations and fighting pressure from large suppliers with much larger margins to put up prices.



The digital revolution in the economy is presenting challenges to retail and wholesale. It is forcing fundamental change – in its business models, the way customers buy, and the whole shape of the sector.

In an EU economy still undergoing a fragile recovery, ours is a sector directly affected by consumer and business confidence. And for many retail and wholesale businesses, the crisis is not over.



The distributive trades depend on the free movement of goods and services around Europe and the world. The sector therefore shares with the whole EU economy the imperative of resisting populist pressure to break up the Single Market and the world trading system.

It also has to react quickly to changes in consumer choices and behaviours, against a background of structural changes in households and an ageing population.



Globalised supply chains and the internet mean that people can buy from anywhere in the world; this presents opportunities but also risks, as European consumers can be exposed to goods that are unsafe and do not meet EU standards. Because of this and the fact that some foreign-based competitors are enterprises supported by the state, European retailers and wholesalers are subject to unfair competition.

Finally, it also suffers from an increasing volume of unnecessarily burdensome regulation and an ever-increasing shift of responsibilities on it. Because retailers and wholesalers provide a direct interface with customers, they are often expected to take over much of the role of public authorities, or the responsibility of upstream suppliers, in policing the implementation of a wide set of rules. We see this in areas such as product information and liability, consumer protection, consumer security and privacy, or waste collection.

Retail and wholesale needs the Commission, Council and European Parliament to fulfil the undertakings in the Inter-Institutional Agreement on better regulation. Despite major improvements during this legislature, poorly justified proposals are still getting through the system, and being amended in the EP and Council without thought given to their impact on business, or in some cases their compatibility with Treaty rules.

With so many roles, our sector is uniquely affected by a very wide range of regulations. While other sectors have whole committees in Parliament or whole directorates in the Commission, ours receives little attention in either. We therefore ask:



- the **European Parliament** to set up a dedicated group on retail and wholesale and its future. This could act as a forum for dialogue with stakeholders and EU institutions on retail and wholesale related issues;



- the **Commission** to increase its resources dedicated to retail and wholesale, including inter alia the establishment of a directorate able to form a better understanding of an industry central to the EU economy, and a motive force in creating competitive, open markets.

KEYTREND

DIGITAL TRANSFORMATION OF THE ECONOMY
CHANGING FACE OF RETAIL & WHOLESALE

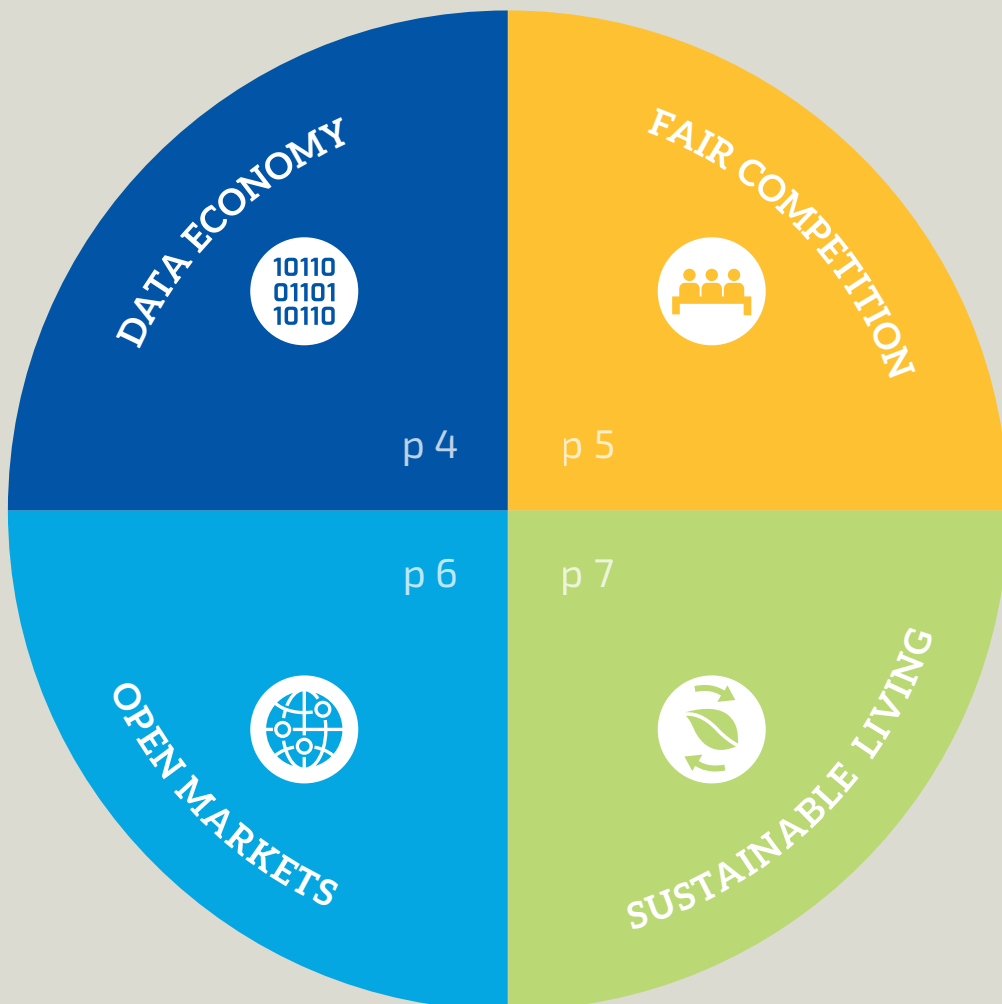
KEYTREND

SLOW ECONOMIC GROWTH
PROTECTIONISM

KEYTREND

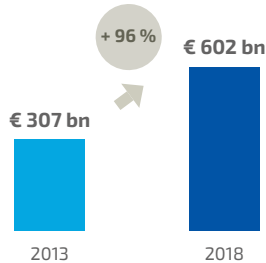
GLOBAL HEALTH
& ENVIRONMENT IMPERATIVES

OUR POLICY ASKS FOR 2019-2024



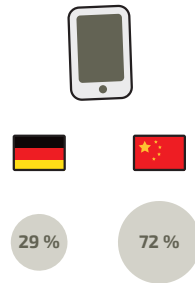
E-commerce and the use of wider digital technologies in retail and wholesale are growing fast everywhere

Annual double digit growth for e-commerce



Source: Ecommerce report 2018

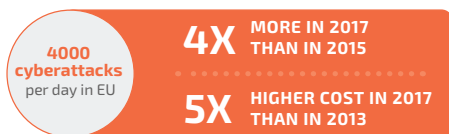
Use of mobile to shop



Source: GfK

Europe needs to be able to match effectively the massive progress being made in the US and China, who have embraced digitalisation much faster, facilitating access and interoperability. At the same time Europe must reassure consumers that their personal data is safe, and preserve its global leadership in data protection, privacy and intellectual property.

As the holder of a lot of personal, financial, and sensitive business data, the sector is at risk of cyberattack. It is working to make its systems as robust as possible to combat this threat; nevertheless, the number of attacks is on the rise, and the cost escalating.



Source: European Commission

Cyberattacks happen across borders. A country-by-country approach to cybersecurity is ineffective. A solid and coordinated European response, with global coordination is needed.

Europe needs to resolve questions about who owns and has the right to access data, whether generated by companies, machines, or people.

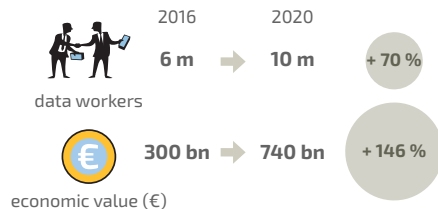
Also, individuals expect that their data will be safe.

Policy-makers need to look to:

- Ensure that rules on **GDPR and e-privacy are enforced consistently and in a business-friendly way**. EU rules should demand from major third countries the steps needed to allow free flow of data, and make EU rules a global standard;
- Have a **pan-European approach to cybersecurity**, strengthen powers of ENISA (European Union Agency for Network and Information Security) and accelerate a European cybersecurity certification framework;
- Ensure consistent rules on **ownership, interoperability, and access** rights to business (non-personal) **data**;
- Make the review of the **Interchange Fee Regulation** on card fees and the payments directive PSD2 work together for affordable and efficient payment systems. Create open and transparent competition in fintech, with common standards for payment acceptance, to encourage competition and innovation, while giving protection to merchants' customer data.

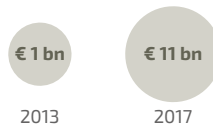
Retail and wholesale is becoming a fully data-driven business: not only in introducing innovations such as paying online with mobile devices, but with using core data on what customers buy, on products, and processes subject to data analytics, deep learning and machine learning (artificial intelligence).

The data economy: jobs & revenue



Source: European Commission

Global investments in AI

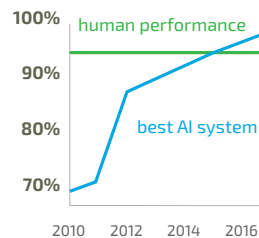


Source: European Commission

BUT
"Right now, AI is a two-horse race between China and the US"

Anthony Mullen, Gartner

AI's performance is increasing dramatically



2.5%
error rate for image recognition & labeling have fallen from 28.5% to below 2.5% since 2010

Source: AI Index (Stanford University)

The digital revolution also affects the way people pay for their purchases. Cash is being replaced by electronic payments, in particular contactless and mobile payments. New payment service providers (part of the so-called fintech industry) are disrupting traditional payment business models. They bring convenience and competition, but often also additional costs for retailers. Data access and ownership are also key issues.

Mobile payment revenue (fcst)



Source: Forbes



SECURING FAIR COMPETITION (LEVEL PLAYING FIELD) AND FREEDOM TO DO BUSINESS



Digital technology creates many opportunities, but also a significant disruption in a sector still dominated by traditional bricks-and-mortar shops. Online players can offer 24/7 shopping from anywhere in the world on a potentially infinite product range. Outdated national and local rules restrict the hours physical shops can do business.



Retailers who operate thousands of shops pay taxes where they do business (nationally, locally) and taxes on premises in many countries create sometimes crippling burdens on them. Pure online traders have fewer premises and are less burdened by such local taxes.

The outdated taxation system needs reform to reflect the global nature of buying and selling, and ensure that businesses are taxed on a fair and equal basis.



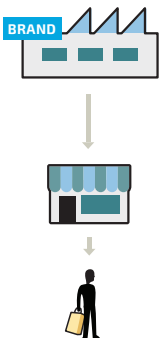
Reputable retailers and wholesalers work to ensure that their customers buy safe products which conform to EU consumer safety and protection rules. They face unfair competition from unscrupulous traders, many of whom are from outside Europe, can save significant amounts by not complying with EU standards and can escape inspections and sanctions. Consumers' direct imports from, particularly, China often flout EU rules on safety, consumer rights such as withdrawal and guarantees, and tax.



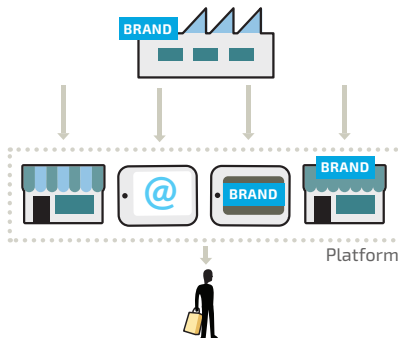
The flood of parcels from China also benefits from artificially low postal charges under Universal Postal Union (UPU) concessions for developing countries, which create unfair competition to European traders, who pay much higher parcel delivery charges.

Manufacturers are increasingly using technology and new business models to serve/distribute to consumers directly.

Pre-digital era

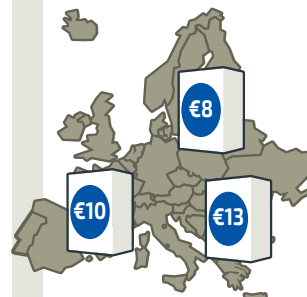


Digital era

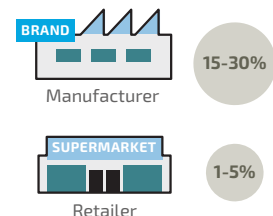


Regulation of the supply chain at national level, and soon in the EU, risks distorting the supply chain to the detriment of consumers, strengthening already powerful brands who have much bigger margins than retailers. Brand manufacturers also use current competition rules to fragment the European market and impose severe constraints on where retailers can buy their products.

Artificial price differentials maintained by suppliers



Big differences in profit margins (typical EBIT FMCG manufacturers vs retailers)



Sources: annual reports, company websites, company reports

Our sector is already adapting to these changes, but needs fair rules to ensure a level playing field.

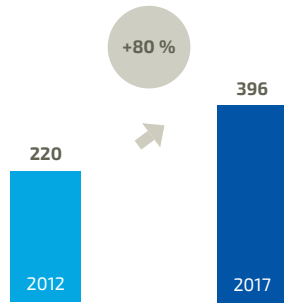
Policy-makers need to look to:

- Keep EU intervention in **B2B contractual relations** to a minimum, with a clear focus on ensuring that legislation (on the food supply chain or on platforms) does not skew relationships in favour of the most powerful suppliers, with no benefit to farmers and real harm to consumers;
- Ensure that the review of the **Vertical Block Exemption Regulation** reflects the changing competitive environment and generates a balanced outcome for retailers and wholesalers. As part of this, address **territorial supply constraints** imposed by suppliers, fragmenting the Single Market and creating unjustified differences in price and quality for consumers;
- A tax system which allows all retailers and wholesalers, online and offline, a fair chance to succeed. Further progress internationally, building on the Commission's ideas on a significant digital presence to ensure a **fair distribution of the tax burden**;
- Earlier **implementation of simplified VAT rules** and the One-Stop Shop to encourage the growth of cross-border sales and reduce VAT fraud;
- Protect EU consumers and retailers from operators outside Europe who breach EU rules on **consumer safety or VAT**, and exploit outdated **international postal frameworks** (UPU), which allow these to deliver goods at near-zero cost.



Retailers, wholesalers, as well as importers and exporters, all rely on goods and services moving freely across Europe and the world. The current wave of populism, protectionism, and economic nationalism risk making Europe - and the world - poorer. New barriers to the Single Market, which is Europe's strongest tool for growth and jobs - and the creeping withdrawal of the US from the international trading system, which has brought so much prosperity to the world over the last 70 years - endangers Europe's and the world's fragile economic recovery.

Trade barriers on the rise (as recorded by the EU)

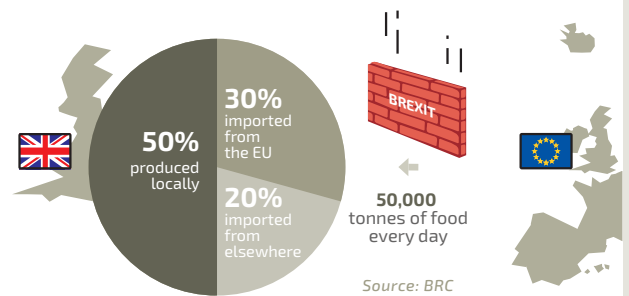


Source: European Commission

The trade war initiated by the US President is upsetting this world order.



The forces behind Brexit are a further reflection of this trend of economic nationalism. But analyses of potential Brexit outcomes show the real impact of trade barriers and protectionism on supply chains and people's lives.

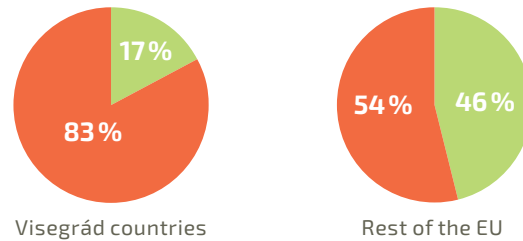


Disproportionate or discriminatory regulatory action and fines in Central and Eastern Europe make it difficult to do business there, and are ultimately a tax on every consumer. This is a threat that Europe needs to address robustly on all fronts.

% of operators

- experiencing barriers when trading across borders
- not experiencing barriers when trading across borders

The biggest impact of trade barriers is perceived by retailers & wholesalers in the Visegrád countries (CZ, HU, PL, SK).



Source: Centre for European Policy, Freiburg (DE)

This is a threat that Europe needs to address robustly on all fronts.

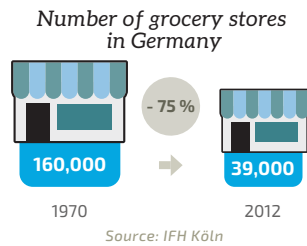
Policy-makers need to look to:

- ▶ Communicate to a wider audience **the benefits of open markets and free trade**;
- ▶ Implement the **Single Market strategy**, requiring prior notification of national measures affecting services, fairer and more transparent rules on retail establishment, mutual recognition for products and proportionate national rules;
- ▶ Remove discriminatory measures, and equip the Commission with the **resources and powers needed for enforcement of EU rules**, including suspension of national measures. More transparent enforcement processes involving stakeholders;
- ▶ **Delivering on the recent Commission communication on Retail Fit for the 21st Century**, removing barriers to investment in innovation to meet the challenges of digitalisation. An urgent review of Single Market barriers and an action plan to tackle them, including enforceable delivery on country-specific recommendations under the European Semester;
- ▶ Pursue and quickly ratify at EU and national level free trade agreements with countries keen to do business with Europe, including **Canada, Japan, Mercosur, Vietnam, Australia and New Zealand**, while forming new alliances to reform and strengthen the WTO;
- ▶ Find a solution to **Brexit** which minimises regulatory and customs controls which would disrupt supply chains, while ensuring the integrity of the Single Market.



Towns & shops

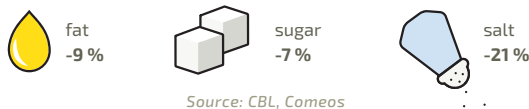
Retailers and wholesalers are the heart of every community. Shops do not just supply goods we all need every day; they also play an important role in offering a space for people to meet and obtain expert advice, and on top of this provide important services such as cash machines, waste collection points, or postal and delivery services. Shops provide a vital support in rural areas and keep the community alive, especially for the elderly and those without cars. Despite their vital role, the number of shops has declined dramatically.



Health & environment

Retailers are very active in helping to make Europe's economy more sustainable and circular, encouraging recycling, reducing food and packaging waste, sourcing responsibly, pushing for more organic agriculture, and using more environment-friendly transport, energy, and buildings. They are also helping consumers eat and live healthily, reducing fat, salt, and sugar in their products, encouraging exercise and more balanced diets with more fruit and vegetables.

Reduction achievements by retailers (2012 - 2017)



These many roles are based on the sector investing in delivering these services. But, to continue to do so, the measures imposed must be proportionate to the environmental objectives pursued. The sector also works to provide consumers with the information they need to achieve health and environmental goals, as well as ensuring that the goods we sell are sourced responsibly. But they are not roles retailers and wholesalers can fulfil alone. Often, measures are imposed on them unilaterally, such as information obligations or responsibilities, with little regard for their practicability.

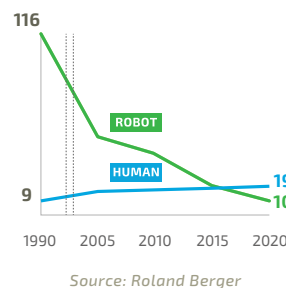
Joint responsibility



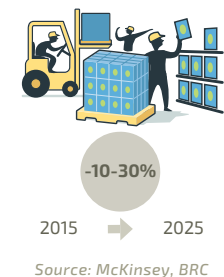
Jobs & skills

As the largest private sector employer in Europe, and one employing many people whose skills are first developed in work, retail and wholesale faces a major shake-up of its current workforce over the next 7-10 years. Many expect that changes in consumer behaviour, digitalisation and automation, as well as many regulatory pressures, will result in a reduction of up to 30% in their workforce. Large companies and small entrepreneurs alike will urgently need to retrain and recruit staff to have better IT skills, but also deeper product knowledge and the ability to interact positively with customers. These changes will need funding, concrete policy responses, and collaboration in the social dialogue, to minimise the disruption of workers' lives through these changes.

Hourly cost of robot vs human operator (€)



Predicted reduction in the number of workers in retail



Policy-makers need to look to:

Towns & shops

- Introduce new EU action to support national and local initiatives to **revive town centres**, with targeted regional funding to help private-public partnerships, making towns attractive places to visit and do business in.

Health & environment

- A **shared responsibility for supporting healthy living and reducing waste**, recognising that our sector cannot shoulder the whole burden;
- Enact **risk-based and proportionate regulation in product safety, circular economy, and plastics**: more achievable and realistic outcomes and clarity about the responsibilities of all parts of the supply chain (e.g. extended producer responsibility).

Jobs & skills

- Adjust **employment laws** to provide **flexibility** to deploy human resources where and when they are needed, and allow to employees more freedom to decide on their own working patterns;
- Devote **more resources** to boost digital skills of employees and entrepreneurs **through education and training**;
- Provide support through the **European Social Fund** to help retrain and redeploy people in the current retail and wholesale workforce who will be affected by the massive changes the sector is currently undergoing.



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June 2019