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TOWARDS A SINGLE MARKET IN DISTRIBUTION

**Internal trade in the Community, the Commercial sector,
and the Completion of the internal market.**

(Communication from the Commission)

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Internal Trade in the Community, the commercial sector and the completion of the internal market.

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TOWARDS A SINGLE MARKET IN DISTRIBUTION

Introduction - The Distributive Trades in Europe at the Threshold of the Internal Market.

- I** This Communication has been prepared in response to a Resolution of the Council dated 14th November 1989.
- II** Commerce is indispensable to the efficient working of the market. Sustained economic prosperity depends on a balanced development of productive and commercial activity.
- III** Important changes in commercial methods, and in the structure of the commercial sector (which accounts for about 17% of output and employment), are now gathering pace throughout the EC. The last forty years have seen first the emergence of very large vertically integrated retailers, especially in Northern Europe, and profound changes in the structure and role of the wholesale trade. The pace of change has been much less rapid in Southern Europe than in the North, and there are important differences in commercial structure between countries.
- IV** Modern commercial methods, which are developing rapidly in response to the new technologies, place as much emphasis on the management of information within supply channels as on the management of goods. The approach of the single internal market has prompted an increase in cross-frontier initiatives by leading commercial firms.
- V** Nevertheless, European commerce is still strongly partitioned on national lines; very few commercial firms hold significant market share outside their country of origin, and the failure rate of international initiatives by trading firms is high. The evolution of a single market in distribution, in which traders learn to do business across frontiers as readily as they do now within their country of origin, is crucial to the success of the Single Market. Small and medium sized firms in particular cannot penetrate new markets in the absence of a genuinely international distribution system. To some extent the obstacles to internationalisation are the natural consequence of the local character of service at the point of sale. But there are other obstacles arising from differences in regulation, in the structure of commerce, and in commercial methods which need to be identified and overcome.
- VI** The programme of work presented in this Communication is designed to improve understanding and awareness of these obstacles, and, so far as possible to remove them.

SUMMARY

THE PROGRAMME OF WORK

1. Working methods - consultation and dialogue

The Committee for Commerce and Distribution (CCD) , created by the Commission in 1978 (provisionally - definitively in 1981) is increasingly recognised as a valuable source of expert advice on technical issues in the preparation of proposals for Community legislation in such fields as the environment, consumer protection, means of payment and external trade. With the completion of the 1985 White Paper programme, the focus of attention within the Community is shifting to broader social, economic and environmental objectives. This will imply an increasing role for the CCD and for the trade federations which undertake much of the detailed work on which its deliberations depend.

Because of the predominant role of national and regional authorities in determining the business environment for Distribution there is a need for improved arrangements for consultation with and between member states.

The Commission is encouraging a process of social dialogue between trade federations representing the retail and wholesale trades on one side, and trade unions representing employees in these sectors on the other. This consultative mechanism is particularly valuable as a forum for the examination of the impact of Community social policies on employment, training and other aspects of distribution.

2. Transparency and understanding of commercial activity

The Commission is planning a series of measures to raise awareness, in the commercial professions, in industry, and in national authorities, of the importance of commercial activity in the economy as a whole. Lines of action include :

- A programme of action led by the Statistical Office of the EC to provide for the first time a reliable and comparable series of quantitative data on the commercial sector in the Community;
- The creation of reliable sources of reference on national and community laws and regulations affecting commerce;
- Improving the level of understanding and debate on distributive issues, both by means of the Commission's in-house research, and within University and other research centres specialising in commercial subjects.
- Improving the quality of information supplied to the business community, both through the Commission's information activities and via the specialist press, on the commercial implications of Community policies;

SUMMARY

3. The legal framework for Distribution at Community Level

Differences in national systems of regulation of trade may constitute potential obstacles to the internationalisation of the commercial sector. Any such difficulties are likely to increase as the process of integration proceeds. The Commission's aim is to anticipate problems before they arise and to encourage self regulation. Formal proposals for Directives and Regulations to eliminate such difficulties will be made only as a last resort.

The newly emerging Community wide market in mail order and telemarketing may require particular attention.

Competition law, particularly as it relates to agreements between undertakings, may be a constraining factor in a situation where the nature of relationships is being transformed by the information revolution, and by the growth of knowledge-based business services. The Commission recognises the importance of ensuring that Community law in this field is clear, and clearly understood.

4. Application to the distributive trades of Community policies for economic cohesion and development.

The commercial sector is a major employer of labour, much of it unskilled and/or part-time. Commercial change, coupled with demographic pressures, require new efforts in the field of vocational training. Community programmes provide many opportunities open to commercial firms. At the same time these programmes have in general been designed with the needs of the productive sector particularly in mind, and there is some evidence that existing opportunities are not sufficiently appreciated within the commercial sector. The Commission has decided that the retail trade will be the first sector to be examined within the context of its new programme for the development of vocational training within firms (FORCE), and preparatory work in this context will provide the basis for the development of future Community policy in this area.

The structural funds, which exist to promote economic and social cohesion, have a limited role to play in assisting the process of commercial development, particularly in regions where the development of the productive base may be constrained by the inadequacy of existing distribution channels.

Technology is driving a radical process of change in the nature of relations between firms. It is essential that this revolution in commercial methods should spread as rapidly as possible from large firms to the business community as a whole, and from the prosperous regions of Northern Europe to the countries of Southern Europe, to the Eastern part of Germany and to rural areas. Differences in management styles and levels of development within the EC give rise to particular difficulties in developing the intimate links between firms that are characteristic of the most advanced commercial methods. The Commission is undertaking new work to identify these difficulties, with particular attention to the situation of small and medium sized firms, and to links across frontiers.

"TOWARDS A SINGLE MARKET IN DISTRIBUTION"

INTRODUCTION - THE DISTRIBUTIVE TRADES IN EUROPE AT THE THRESHOLD OF THE SINGLE INTERNAL MARKET.

I - Purpose of the Communication

This Communication responds to a Resolution of the Council of Ministers dated 14th November 1989.

Recognising the important role which this sector will play in making a reality of the internal market, ministers invited the Commission to make suggestions for an approach to distribution which would fit into existing Community policies and would avoid creating new institutional structures.

The structure of the Communication is determined by the guidelines established by the Council. This introduction considers the role of the distributive trades in the economy as a whole, and in particular within the context of the completion of the Internal Market. This analysis provides the background for a programme of work designed to ensure that the importance of distribution is properly reflected in the full range of community policies - for information, education, training, competition, innovation, structural funds as well as enterprise policy.

II - The role of Commerce in modern economies and the need for balanced development of commerce and industry.

Trade is an indispensable aspect of economic activity. Almost all goods, and many services, pass from producer to consumer via some sort of process of trade and/or distribution. In the EC economy about 17% of output and employment arises in the trade and distribution sector (retail, wholesale and associated trades), and these trading activities constitute about one half of the "service" sector of the economy - (much of which is also engaged in facilitating trade). A succinct statistical overview of the Distributive Trades is at Annexe 1.

Even these statistical measures do not take account of the sales, marketing and distribution activity of the productive sector. Trade needs to be considered not only as a sector but as a process or function within the economy. Neither commercial activity, nor productive activity are of economic value in themselves. It is only through the association of production with trade that the whole process of supply gives rise to value in the hands of the final user.

Sustained economic prosperity depends on balanced and simultaneous development of the productive and trading functions. The success of the European and American economies in the 19th century, and the relative success of the economies of the Far East in more recent times both illustrate the importance of this balance. In contrast, the recent changes in Eastern Europe illustrate strikingly the failure of any productive system which is divorced from the discipline of the market, which alone ensures that the productive sector is responsive to the needs of the customer.

The role of the commercial sector in encouraging this cooperation between suppliers and traders is especially important to the process of internationalisation of the European economy stemming from the completion of the internal market. This Communication emphasises in particular the importance of fostering links between firms in prosperous and less developed regions, between larger and smaller firms, and across frontiers.

III - The Commercial Revolution in Europe (1950 - 1990)

Forty years ago the commercial sector, like much of industry, was highly fragmented, with very few large firms. There were clearly defined frontiers between the productive and distributive sectors and between wholesaling and retailing. In these circumstances commerce was generally regarded as a "passive" element in the economy, which responded to decisions taken by suppliers, and which had little decisive influence in determining the direction of economic development.

During the last 40 years, the structure of commerce and commercial methods have undergone profound changes, a process which matches and complements the emergence of mass production industries. This process is continuing and even accelerating. The most visible development was the emergence of multiple general retailers operating through chains of shops, which are frequently large (supermarkets) and sometimes very large (hypermarkets). This process of concentration is frequently associated with a process of vertical integration in which the distinction between

manufacturers, wholesalers and retailers becomes less easy to define. Many manufacturers developed extensive sales and distribution networks which took the place of conventional wholesalers, and in some cases including their own retail network. Similarly some retailers have acquired or created their own manufacturing capacity; more commonly they have created very close vertical links with suppliers involving close collaboration between suppliers and distributors but falling short of complete integration through common ownership of the entire supply chain.

However, the pattern of commercial development differs markedly between product sectors and between different countries of the Community.

So far as the retail trade is concerned, it is possible to distinguish three types of different retail structure in different areas of the Community.

- Concentration in retailing, especially in food and other household goods is particularly strong in Germany, France and the United Kingdom, where the retail structure resembles that of North America.

- In Denmark, Benelux and the industrial regions of Italy the same general trends can be observed, but the process of concentration and organisation has tended to occur further upstream. In these countries the development of very large supermarkets and hypermarkets has been relatively constrained, especially in the non-food sector, and the market share held by small firms is relatively high.

- In Spain, Portugal, Greece, Ireland and rural areas of Italy the Commercial Revolution arrived later. Only in the late 1980's has there been a rapid development in large scale retailing in parts of these countries; and there are signs of continuing resistance to supermarket and hypermarket development. Although there has been steady growth in the market share of large and very large scale retail outlets, especially in Spain, some features of commercial development in these countries suggest that it may take a form more like that of the Netherlands and Denmark, rather than of the UK or France; that is to say that retailing may continue to operate through large numbers of small shops, and the process of concentration and organisation will occur further upstream.

The wholesale trade shows the same markedly uneven pattern of development. Indeed specialisation and diversification in distribution upstream of the retailer is so complex that it is increasingly difficult to consider the wholesale trade as a single sub-sector. The traditional functions of warehousing and transportation of bulk goods have been overtaken everywhere by the commercial revolution, and it becomes increasingly difficult to distinguish "wholesalers" from such related businesses as :

- Retail-like activities such as mail order houses, "cash and carry" wholesalers, and discount stores;
- The upstream purchasing and logistics activities of major retailers;
- The marketing, sales and distribution activities of manufacturing firms;
- Suppliers of other commercial services such as physical distribution, marketing services, brokers, and commercial agents who facilitate and even generate trade, but without taking title to the merchandise traded.

There are also substantial differences in structure within the wholesale sector depending on the type of goods traded:

- Geographical variations in the structure of wholesaling in food and household goods are evidently closely related to the development of the retail sector described above. The wholesalers' traditional intermediary role has been severely squeezed wherever large-scale retailing has become the norm. In their place, new types of wholesaler-like commercial firms have emerged, including buying groups owned and operated in association by small retailers, wholesaler owned "voluntary chains", other types of "associated trade" - including franchising and exclusive dealerships -, and various forms of commercial agency.
- Similar pressures have affected wholesalers of bulk raw materials and other inter-industry bulk goods as improvements in transport and communications have encouraged firms to trade directly with each other rather than through intermediaries. In many cases commercial aspects of such links are handled by supplier and customer firms, but the physical handling of merchandise is subcontracted to other operators. There is therefore an important developing role for physical distributors engaged in the sophisticated management of warehousing, transport and logistics.

