



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 27.01.1999
COM(1999) 6 final

COMMUNICATION FROM THE COMMISSION

TO THE COUNCIL, THE EUROPEAN PARLIAMENT,
THE ECONOMIC AND SOCIAL COMMITTEE
AND THE COMMITTEE OF THE REGIONS

WHITE PAPER ON COMMERCE

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INTRODUCTION

This White Paper is about how commercial enterprises and their suppliers provide what consumers want, in terms of choice, quality, price and service. Commerce (used in this White Paper to mean the same as the term "distributive trades") employs some 22 million people in the European Union, making it one of the largest sectors of the economy. The performance of the sector has a major impact on the lives of the citizens of Europe:

- in making available to them a very wide variety of merchandise, with a range of prices to suit all sections of society;
- in contributing to the quality of life in towns and cities, where shopping facilities constitute the focal point of much human activity;
- in the maintenance of good environmental, ethical and social standards as regards the products and services which it sells.

Commercial enterprises need to be competitive to survive. A good level of competitiveness means growth and profitability. This is good not only for the owners of shops but also for consumers in terms of quality and continued provision of services. Increased competitiveness is a way to protect existing jobs and to create new sustainable jobs.

This White Paper is an expression of the recognition of the role which commerce plays in the economic, social and cultural life of the European Union. It is a policy document with ideas for shaping Community activities so as to reinforce its contribution towards improving competitiveness in the sector, in the knowledge that this is the best way to continue to play the role described above and to maintain its position as the second largest employer in Europe.

The activities of the European Union already affect commerce in a great many ways. Commerce already takes indirect advantage of Community policy instruments, in such fields as regional development, environmental and consumer protection, research and training, to help to strengthen its competitiveness. However, this can be reinforced by maximising understanding of such opportunities by enterprises, at both Community and Member States levels. It is necessary to ensure that the circumstances of commerce are fully understood in the debates on future Community policy initiatives.

One of the keys to achieving optimum use of existing Community instruments lies in widening knowledge about commerce among decision-makers at all levels. The question of recognition of the sector, of spreading knowledge about it, is one of the points which came out most strongly in the reactions to the Green Paper on Commerce, published in 1996. Commerce is not always recognised as an important sector of the economy, when policies which affect it are formulated.

Acknowledging the need to reinforce recognition of the sector cannot be done by a few sweeping legislative measures but rather through careful attention to the interfaces between commerce and Community policies. Many actions of modest size individually will, when taken collectively, help in increasing the competitiveness of the sector both directly and also, by putting commerce "on the map", help to ensure that maximum value added is taken for the sector from Community policies.

The scenario may be summarised as follows: this White Paper is a policy paper, which will further develop the issues of particular concern to the sector. The best contribution which commerce can make to the large-scale provision of good jobs in the future is by increasing its competitiveness. The Community can make a contribution to this by direct actions and by

raising the sector's profile. A summary of the actions proposed and an implementation timetable is annexed.

I. THE CONTEXT AND PURPOSE OF THE PRESENT DOCUMENT

The purpose of this White Paper is to set out the European Commission's follow-up to the Green Paper on Commerce¹, which it adopted on 20 November 1996. This followed on from the Commission Communication of 11 March 1991 entitled "Towards a Single Market in Distribution"². The aim of the Green Paper was to provide food for thought and to launch a consultation procedure on the importance of this sector of the economy, on the challenges facing it and on possible ways of remaining competitive, thus maintaining its major contribution to employment and social cohesion.

The Green Paper on Commerce was widely distributed among public administrations and institutions at Community, national and regional level, professional organisations and enterprises. The European Parliament³, the Economic and Social Committee⁴ and the Committee of the Regions⁵ and well over a hundred commercial organisations at European and national level have made substantial contributions to the debate. The responses to the Green Paper were to some extent predictable and reacted to points raised in the Green Paper itself.

The effectiveness of the single market and the need to create a real enterprise environment with a reduction in the administrative burden placed on commerce by the public authorities were much referred to. Interest in the use of the new technologies was considerable. There was interest in policies leading to greater competitiveness, including the potential contributions to it, which are in the hands of those responsible for land-use planning, in both urban and rural areas and to a lesser extent, to the need to improve personal security.

Two items were raised by a large number of respondents, without the Green Paper having mentioned them as major challenges. One was the need to remedy the poor recognition of the sector by the public authorities at all levels, which is said to result in the sector's interests being ignored in debates on a variety of policies, which nevertheless have a major impact on the sector. The other, not so widely cited but raised with particular force by those who did raise it, concerned the application of policies regulating competition which are said by some to put independent SMEs in commerce at a disadvantage as compared to the large retailers. These two groups of reactions merit a response by the Commission.

The commerce sector, like other sectors, is affected by various public policies designed to achieve a range of policy objectives, in terms of economic, environmental, social, cultural, regional development, training, research, consumer protection and other policies. These policies sometimes have the potential to hamper commerce even without any intention to do so. The Commission therefore considers it timely and necessary to insist that the legitimate interests of the sector are properly taken into account in the formulation of policies which affect it and that the benefits of those policies, where relevant, are effectively made available to the sector.

¹ COM (96) 530 final

² COM 1991/0041 final

³ Report N°(A4-0254/97) discussed by the European Parliament's Economic and Monetary Committee and approved on 23 July 1997

⁴ Opinion of the Economic and Social Committee of 28/29 May 1997

⁵ Opinion of the Committee of the Regions of 10 July 1997

which will have an effect on employment in that new skilled jobs will arise in Europe while less skilled jobs are exported.

Distance selling to consumers, including electronic shopping via networks such as the Internet, are growing rapidly. The tools and opportunities offered by this new medium will form the basis of a considerable restructuring of the sector, which will require major investment in equipment and training.

Finally, consumers themselves are also changing rapidly. They have become more demanding and want an integrated set of services at their disposal (including tourism, culture, information technology, personal security and transport as well as commerce itself). This ever more complex pattern of demand raises the question of the synergy needed between these various services at the various places where people live.

III. DEVELOPING A STRATEGY FOR COMMERCE : THE KEY ISSUES

The need for better recognition of the sector is justified by the fact that the commerce sector is the second largest employer in the European Community and that it has been able, over the last decade, to create jobs where other sectors have been shedding labour. This has been made possible by its flexibility in adapting to changes in demand.

Employment in commerce will be subject, in the coming years, to both gains and losses. Gains will come from new forms of retailing with increased emphasis on customer service. Losses will come from greater mechanisation, computerisation and increased size of operations in the fields of logistics and the management of stocks. Also, as globalisation of markets continues to grow, new challenges and opportunities in developing areas such as electronic commerce will have an impact on jobs. The value added of Community action in this area is to seek to improve the competitiveness of commerce enterprises in the European Union and through this to enhance their chances of creating new jobs.

The importance of the contribution of the sector to the well being of the citizen makes it sometimes necessary for the public authorities to take action so that opportunities for improvement do not go by default. This is a matter of maintaining a network of shops which is diversified, competitive and sustainable.

The competitiveness of the sector is not just a matter of achieving lowest market prices and lowest costs. Consumers increasingly seek high quality products and a satisfactory range of services at price levels which are acceptable to them, without being necessarily the lowest. A successful enterprise is therefore one which operates with a blend of all these factors.

At the present time, the big stores offer a large selection of merchandise at attractive prices. Small stores are generally local, in relation to the homes of their customers, and offer personal service. There are strengths and weaknesses in both of these situations. The great challenge for commerce in Europe is to maximise its strengths, offering both quality and attractive prices, while continuing to be a major employer. The structural changes that European commerce is undergoing will require more skilled labour and part-time jobs.

Paradoxically, commerce is a sector with which the citizen is very familiar but which is not fully taken into account by the public authorities, the decision-makers. The reason for this lies in the extremely diversified nature of the enterprises within it, with their different market segments, business cultures and types of location, all of which make public presentation of

their case difficult at Community level despite the intensive work of EuroCommerce, the European umbrella organisation. The other organisations which represent the enterprises in the sector are fragmented, particularly at national level, hampering the effectiveness of the dialogue with the public authorities. The sector is affected by a large number of horizontal, national and European policies but often without its particular characteristics and needs being taken into account in the formulation of these policies.

What contribution can the European Community make to this? On all these matters affecting commerce, it has a role to play in making the sector and its strong points better understood in policy formulation. It can improve consultation between the parties involved, that is to say, between the trade organisations and the national, regional and local authorities. This dialogue can, among other things, give rise to the identification and dissemination of Best Practices which will contribute to improving competitiveness and the provision of sustainable jobs. Disseminating these Best Practices requires incorporation of the needs of the commerce into relevant policies. The European Commission is favourably placed to lead an exercise to spread knowledge of these Best Practices.

Long-term prospects

The aim of this White Paper is not to launch a major initiative nor to introduce radical changes of policy. The commerce and distribution sector needs a strategy essentially based on improving competitive conditions in the market in which competitiveness is the best response to consumer demand. The White Paper therefore sets out specific problems and practices calling for action at Community level in order to ensure the smooth running of the market and thereby guarantee that the sector can best contribute to consumer welfare.

Some of the chapters in the White Paper outline the possible medium- or long-term outlook for the sector. These are not concrete measures but topics warranting broad and thoroughgoing discussion in the future. Certain factors need to be realised in the commerce sector before it is too late. Some priorities for action are discussed below. It should be borne in mind that solutions to these problems may well go beyond the competency of the Community (taking into account the principle of subsidiarity) even though the problems in question often manifest themselves in the same way in all the Member States and the solutions often require cross-border co-operation.

This Paper proposes a number of actions designed to create a coherent strategy for promoting the sector in the coming years; these actions fall into four priority groups:

- **Improving the use of policy instruments to assist commerce;**
- **Improving the administrative, legislative and financial environment;**
- **Strengthening competitiveness and promoting entrepreneurship;**
- **Encouraging europeanization and internationalisation.**

IV. MAJOR PRIORITIES FOR ACTION

A. Improving the use of policy instruments to assist commerce;

Market trends need to be identified, and a clearer picture obtained, of the web of commercial activities making up this sector in the European Union. There will first be a thorough

stocktaking, which will form the basis for further observation of development and should ideally make it possible to anticipate future developments.

1. Better understanding of the sector

Commerce is a very important part of the European economy. Its importance needs to be properly taken into account in the formation of policies dealing with many other areas of activity. Policy initiatives must be based on a full and proper understanding of the factors involved.

The sector has a major impact on the quality of life of citizens, through the convenience of access for consumers to goods and services. The sector dominates the potential use of electronic commerce. The sector has a number of characteristics, which often differ from those of manufacturing. The sector does not generally share the preoccupations of manufacturing, with heavy investment in machinery, with scientific research, and with long-term marketing campaigns. It is different also from other service industries, such as financial or health services, tourism or entertainment. While some of the retail enterprises are only concerned with selling services, for most of them the problems of purchasing methods, management of stocks and of working capital are the key issues for their survival, development and profitability.

Large and small enterprises in the sector handle the same merchandise, deal with the same suppliers and are subject to the same laws on consumer protection, on environment, on transport and so on. The superstore, the corner shop and the mail order agent share many of the same concerns.

Commerce is a diversified sector. It contains not only retailers but also wholesale companies, franchisers, commercial agents, street markets, mobile shops, vending operators, and even hotels and restaurants. These enterprises may be single businesses or chains; they may be self-employed businesses, co-operatives or may belong to groups of independent traders buying or selling jointly. While it is the legislators who enable all the various types of business to operate in a favourable environment, it is the consumers, with all their varied tastes and preferences, who have the last word.

It is therefore a complex and varied sector which is in a constant state of flux and which warrants further investigation.

Actions

- There will be a major information campaign visiting some forty locations in the Union to publicise this White Paper and the work of the Commission which affects commerce and to generate feed-back from interested parties.
- Further improvements to the European statistical system on commerce will be continued. An annual report will be published and a conference held to disseminate information about changes and trends in the structure of commerce.

2. Changes in the structure of commerce: new challenges for policy

One of the Community's principal successes is the substantial achievement of a single European market. Many goods and services can now benefit from the principles of free movement and are bought and sold across frontiers without legal or administrative impediment. The Commission will continue to be vigilant to ensure that the objectives of the Single Market are fully applied.

Within this context, one area requiring a thorough study is that of multilevel marketing. Multilevel marketing is one form of direct marketing whereby sales agents call directly at the residences of potential customers. These agents work directly for the principals involved, or through intermediaries, sometimes in the form of a chain.

The Commission needs to examine whether these practices are adequately distinguished from pyramid selling, an activity which is not allowed in many countries. It must also be established to what extent differences in national legislation on this question may constitute barriers to trade or distort competition within the European Union. This will be examined by the Group of Experts from the Member States set up by the Commission in the framework of the policy on commercial communications⁶.

Another form of selling to which attention has been drawn is that of commercial agents. A Council Directive of 1986 (86/653/EEC) brought about a measure of harmonisation of their activities. The Commission will continue to examine the question of harmonising certain practices in this area and the possibility of drawing up a standard contract for such activities.

The Commission will also examine the changing situation in wholesaling. Wholesalers are affected by the growth of very large retail chains with integrated wholesale and retail functions. Market forces must not be prevented from bringing about consequential changes in the structure of the wholesale sector. There is however a case for monitoring the effect of these changes on two types of SMEs which will be particularly affected - small retailers and small producers of consumer merchandise. While decline of wholesale enterprises is one possible outcome of changing market conditions, transformation into cash-and-carry stores, voluntary chains or commercial agencies is also possible. Wholesalers also have to compete with supplies via the Internet or other modes of distribution. However, the sophistication of its logistics continues to be one of the strengths of existing wholesaling.

Actions

- The Commission will carry out and publish studies on future developments in the fields of multilevel selling, commercial agents and wholesaling. This will include consideration of benchmarking. Meetings will be organised with the professional organisations in the branches concerned before initiating these studies and then again later to discuss the final reports in order to identify areas for Community actions.

B. Improvement of the administrative, legislative and financial environment

1. Simplification of administrative procedures

European enterprises face an increasingly complex legal, fiscal and administrative environment in which they have to operate in order to be competitive, to grow and provide job opportunities. In addition to the compliance costs of regulations, the total annual cost of administrative burdens on all enterprises in Europe has been roughly estimated to be of the order of ECU 150 to 250 billion, or 3% of Community GDP.⁷

On a general level, the SLIM initiative (Simpler Legislation for the Internal Market)⁸ has made it possible to identify the problems resulting from the existing rules and to make recommendations for remedying them. At the end of the second phase of SLIM, specific

⁶ COM (1998) 121 final

⁷ Source: Report of the Business Environment Simplification Task Force (BEST), May 1998

⁸ COM 97/618 final of 24 November 97

proposals were made with a view to simplifying the rules of the single market, particularly regarding VAT and the Combined Nomenclature.

Administrative burdens have a much higher impact on SMEs than on large companies. This applies particularly to very small retail outlets. Most legislative and administrative burdens imposed on enterprises stem from Member State and not European Union regulations. The Commission has been involved in concerted actions exchanging information about best practice, both with Member States, representatives of business organisations and with individual entrepreneurs. This work has been carried out with the assistance of a Group of Experts on Improving and Simplifying the Business Environment made up of representatives from the Member States and from the European SME Business organisations. The first part of this work resulted in the Commission Recommendation of April 1997 addressed to Member States on Business Start-ups⁹. It should be stressed that commerce provides a good field for entrepreneurial activities for those willing to take risks, despite the strong competition in this sector. Business start-ups are primarily to be found in the area of sales of new products and services and advice-oriented services.

The Amsterdam European Council invited the Commission to set up the Business Environment Simplification Task Force (BEST). BEST was given the mandate to simplify existing and new legal and administrative regulations and reduce their burden on European businesses, particularly SMEs. It was also to review major policy areas of concern for SMEs development in the EU. The Commission's response to the BEST Report was given in its Communication "Promoting Entrepreneurship and competitiveness" of 30 September 1998, including an action plan which was submitted for approval to the Council¹⁰. It contains measures to be taken by the Commission and the Member States to enhance competitiveness and the enterprise culture, which plays a key role in commerce. Several aspects of this policy framework such as training and access to finance are examined elsewhere in this White Paper.

Actions

- The Commission will organise meetings of CCD and national government experts in order to draw up and publish actions for commerce which would be taken in the light of the BEST report.

2. Access to finance

Just like other businesses, commercial enterprises need access to finance for investments in sales infrastructure and especially in the new technologies. Regarding sources of finance, these enterprises especially need easy access to overdrafts and short-term loans at acceptable interest rates. In fact, SMEs have to pay on the average between 1.5% and 5% higher interest rates than big enterprises because of the higher risk (cf. Commission Communication on the financial problems experienced by small and medium-sized companies¹¹). This reduces the competitiveness of SMEs.

Access to finance may be limited because small commercial enterprises often do not have real estate or machinery to offer as security but only goodwill which is normally not taken into account by the banks. In addition, the equity of smaller commercial businesses is very low and amounts to approximately 20% of the total available capital.

⁹ OJ L 145 of 5 June 97 pages 29-51

¹⁰ Commission Communication to the Council "Promoting Entrepreneurship and Competitiveness" The Commission's Response to the BEST Task Force Report and its Recommendations, COM (1998) 550.

¹¹ COM (1993) 528

Thus access to these financial sources depends upon good relations with the banks. In particular, commercial SMEs suffer from difficult access to risk capital, venture capital etc.

Venture capital is greatly underdeveloped in Europe. In particular, certain fast growing markets such as franchising still need better access to venture capital in order to finance rapid growth¹². However, several information and telecommunication retailers recently successfully went public using the new electronic stock exchanges such as Easdaq and EURO-NM. They were able to raise substantial new financial resources in order for their growth and internationalization strategy.

The Commission, together with a high-level expert group from financial institutions of the 2nd Round Table of Banks and SMEs, came to the conclusion that better co-operation between banks and SMEs and training of staff in banks would substantially benefit SMEs.

A new initiative was proposed by the Commission in order to support the creation of joint ventures in the EU: JEV - Joint European Venture (Council Decision 98/347/EC of 19 May 1998¹³), part of the "growth and employment initiative" launched in November 1997. An amount of ECU 80 - 100 million is available for the period from 1998 to 2000 to support the creation of transnational joint ventures including the commerce sector.

In several countries, special institutions offer leasing, which may be particularly interesting for commercial enterprises. Leasing can make a major contribution to the well being of small and medium-sized commercial enterprises, through helping them to have the use of modern buildings and equipment.

Actions

- Facilitation of access to finance for the establishment of new companies through the third Round Table of Banks and SMEs and by implementing the "growth and employment" initiative for commerce.
- Identification of possibilities for businesses to gain access to financing and encouraging mutual guarantee systems for commerce.
- Implementation of a second seed capital initiative, for innovative enterprises and transfer of commercial businesses.¹⁴
- Identification of good practices in the Member States as regards financing, establishment and transfer, by means of concerted actions, conferences and studies.
- Organisation of a conference to create awareness in the banking sector of the special situation of commercial enterprises and to obtain better access to finance for them.

3. Improving the dialogue between commercial enterprises and their partners (employees, consumers, credit institutions)

Commerce has a number of partners with whom dialogue must be stepped up or renewed, with a view to avoiding conflicts, highlighting problems common to both parties and implementing equitable solutions.

a) Social Dialogue

Commerce must be able to play its part in the Social-dialogue in Europe. For 15 years now, there has been productive dialogue at sectoral level between the bodies representing

¹² Commission Communication "Risk Capital: A Key to Job Creation in the E U", SEC (1988) 552

¹³ OJ L 1998/155 p. 43

¹⁴ OJ C 363 of 9.11.98

management and employees in the commerce sector - EuroCommerce for the employers and Euro-Fiet for the employees. This dialogue, which has been supported by the Commission, has led to several joint initiatives. Nevertheless, the tertiary sector, which includes commerce, complains that it is under-represented, particularly at inter-branch level.

Quite apart from the old, familiar problems which would justify a smaller number of representatives (in the interests of efficiency and representativeness) and which continue to fall outside the Commission's remit, participation by representatives who could bring the peculiarities of commerce to bear could still be improved. EuroCommerce and Euro-Fiet are already involved in the four main areas of the dialogue, i.e. information, consultation, concertation and joint action.

In its recent Communication on "adapting and promoting social dialogue at Community level"¹⁵, the Commission described the means it intends to use and the measures that need to be taken to strengthen dialogue between management and employees at European level.

The Commission proposes a reform of the Standing Committee on Employment to improve the contribution of employees and management to the development and implementation of the guidelines for employment and the general thrust of economic policy. According to the Commission's proposal, EuroCommerce should be represented on the Standing Committee on Employment. Euro-Fiet will also be represented through its membership of the ETUC. The sectoral level dialogue is very important for joint action and negotiation. The Commission is establishing a new framework for sectoral dialogue, in the form of sectoral dialogue committees, which will apply to all the interested sectors including commerce.

Actions

- Improvement of the representation of the commerce sector in the existing and new structures such as the employment committee.
- Creation of a co-operation mechanism between entrepreneurs of the commerce sector (CCD) and the social dialogue committees.

b) Consumers

An acceptable balance must be struck between consumers' and traders' points of views. Consumers must support the development of the commerce sector, since the choice of merchandise, prices, and the quality of services and merchandise depends on the profitability of the business.

The implementation of the internal market programme and the development of the information society have made Europe's consumers more sensitive and more demanding.

They want access to a market that is more than just local or national - in other words, a Community market in the true sense, of which they and their families can take advantage on their travels. This development will be enhanced by the introduction of the Euro. It is important therefore to promote dialogue between the commerce sector and consumers.

Consumers are becoming more educated, have wider horizons in terms of what they want to buy and how they wish to make their purchases. They also have new expectations in terms of respect for the environment and ethical standards and new life-styles, such as home working. Through electronic trading methods, including the Internet, consumers are coming to have a vastly increased choice of products and suppliers.

Moreover, consumers' wishes as regards the type of service they are offered are constantly changing. Different ways of selling (fixed location or mobile trading, direct sale and mail order, distance selling and electronic shopping) combine with different types of sales outlets

¹⁵ COM(98) 322 of 20 May 1998

