TOWARDS COMMERCE 3.0

Roadmap for Building Sustainable Growth into Commerce
ABOUT THE AUTHOR

Founded in 1995 in San Jose, Calif., eBay Inc. (NASDAQ:EBAY) is about connecting buyers and sellers. We do so through eBay, the world’s largest online marketplace, which allows users to buy and sell on eBay platforms in nearly every country on Earth; through PayPal, which enables individuals and businesses to securely, easily and quickly send and receive online payments; and through GSI, which facilitates e-commerce, multichannel retailing and digital marketing for global enterprises. We also reach millions through specialised marketplaces such as StubHub, the world’s largest ticket marketplace, and eBay classifieds sites, which together have a presence in more than 1,000 cities around the world. For more information about the company and its global portfolio of online brands, visit www.ebayinc.com
EXECUTIVE SUMMARY

This Roadmap sets out to unlock the opportunities presented by a new technology-enabled and consumer-driven global commerce that we call Commerce 3.0. With this Roadmap, eBay proposes intelligently marrying technology tools with policy action in order to deliver sustainable growth on a global scale.

Through mobile technologies Commerce 3.0 is putting search and trust tools in consumers’ pockets, and is allowing merchants to put offline inventory online thus gaining visibility for their local and global offerings. In this way Commerce 3.0 allows consumers to find, compare, make sense of offerings, and then to transact with confidence, whether on the move, at their laptop, or in the store. At the same time, Commerce 3.0 allows merchants of all sizes to bring products and services to world markets efficiently and to establish trust despite geographical distance and other trade barriers. All of this means global trade is no longer the preserve of the privileged few or of the largest firms.

Unlocking the opportunities at the intersection of technology and commerce is the goal of this Roadmap. To that end, it looks at the technology tools that allow consumers and merchants to engage one another in new ways, as well as at the policy actions that promote these tools and the innovation behind them. The aim is to offer a strategic framework for what should be a crucial policy discussion.

Policy affects the way technology changes consumers’ role in commerce. It affects the way both technology and the internet enable merchants to enter, grow, and succeed in local and world markets. We ask policymakers to prioritise efforts that open up market access, instil trust and predictability throughout the consumer journey, and promote intermediation services and innovation.
In concrete terms, this Roadmap recommends the EU to:

1. Bring fast, affordable, reliable, accessible and transparent end-to-end, cross-border delivery services to market through pro-active public-private partnerships

2. Simplify, standardise and end discrimination with regard to VAT and customs duty obligations for electronically purchased products from EU and non-EU sellers

3. Design “21st century trade agreements”, taking the new generation of Free Trade Agreements to the next level by putting the needs of consumers and small traders at the centre

4. Become a world leader in promoting mutual recognition of customs programmes to facilitate trade

5. Drive a paradigm shift in legal thinking in relation to technology and Information Society services

This Roadmap does not call for more or less regulation. Instead it advocates “smart policymaking”, which can emanate from, and be implemented by, the private sector, the public sector, or a combination of both.

This discussion matters because there are significant and sustainable growth opportunities at stake. Commerce 3.0 is a force for: i) empowering consumers and merchants, thereby driving economic growth; ii) facilitating entrepreneurship and putting merchants of all sizes on a more equal footing, thereby promoting inclusive growth; and, iii) facilitating greener growth by enabling smarter consumer choices and opening up circular business opportunities.

An economic study commissioned by eBay has identified that these opportunities are emerging because the internet and technology tools are “shrinking the world” for consumers and merchants by lowering trade costs. This enables international trade that would otherwise not occur and makes existing cross-border trade more efficient.

This Roadmap’s ultimate objective is for Commerce 3.0 to be realised on both a local and a global scale: a world-wide, inclusive and consumer-driven commerce environment that delivers sustainable growth. It is an ambitious objective but one worth striving for.
INTRODUCTION

ROADMAP FOR BUILDING SUSTAINABLE GROWTH INTO COMMERCE

“The Internet has revolutionised the everyday lives of Europeans in a way comparable to the industrial revolutions of the previous centuries.”

European Commission, 2012 E-Commerce Communication

In June 2008, eBay launched the “Call for Action — Empowering consumers by promoting access to the 21st century market”. This report set out how the internet had empowered European consumers and given Europe’s entrepreneurs and enterprises an opportunity to penetrate established markets and open up new ones. But it also drew attention to how the EU regulatory framework caused bottlenecks, holding back the 21st century market.

Since then, EU legislators have come to more fully appreciate the role of e-commerce and the internet in making the EU single market a reality for consumers and merchants. Much work has been done to facilitate cross-border transactions over the internet within the EU. However, this is a fast moving area and what we saw in 2008 was just the beginning. E-commerce has since been joined by mobile commerce and social commerce; consumers shop both locally and globally, whilst merchants of all sizes can now compete on world markets.

“Inconsumers are taking the ‘E’ out of e-commerce”

John Donahoe, CEO eBay (October 2011)

Considering today’s economic, social and ecological challenges, now is the time to fully exploit the opportunities that lie at the intersection of technology and commerce. This is a new, technology-enabled and consumer-driven commerce that occurs anywhere, anyhow, and anytime the consumer decides. We call it Commerce 3.0.

Our Roadmap is the result of the fundamental change eBay is witnessing every day: the internet and technology now provide consumers and merchants of all sizes with the opportunity to connect, find a match, and establish trust.
Despite geographic distance and other trade costs. Simply put, cross border trade is no longer an activity exclusive to the largest merchants. Our Roadmap offers a perspective on how to: i) unlock the potential of Commerce 3.0 to empower both consumers and merchants, thereby driving economic growth; ii) put small and large merchants on a more equal footing, thereby promoting broader, more inclusive growth; and, iii) allow for smarter business opportunities and consumer choices, thereby facilitating greener growth.

An economic study by Sidley Austin LLP in cooperation with Professor Marcelo Olarreaga of Geneva University, commissioned by eBay, suggests that the potential gains of this change are significant. For example, a hypothetical projection, assuming all international transactions had the same low trade costs as the eBay marketplace, indicated an average increase in real GDP of 15.6%.

With this Roadmap, we want to intelligently marry today’s technology tools with tomorrow’s policy action. Policy is critical in supporting the way technology is changing commerce and in bringing down the barriers that occur where a now globally-interconnected digital world meets a still divided physical world. Our goal is to make Commerce 3.0’s mobility, inclusiveness, and choice integral parts of commerce and the consumer journey.

To this end, this Roadmap offers a strategy founded on:

1. **OPPORTUNITIES:** At the intersection of technology and commerce lie opportunities to drive economic progress, facilitate entrepreneurship, and promote smarter choices.

2. **TECHNOLOGY TOOLS:** Consumers and merchants are profiting from technology tools that allow them to create and engage in new trading patterns, overcome geographic distance and other trade costs, and to thereby turn the opportunities into reality.

3. **POLICY ACTION:** Policy must support a technology-enabled consumer journey, promote the technology tools that bring about this new commerce, as well as encourage the innovation process that brings these tools to the market.

“A genuine Digital Single Market would generate new types of growth. The hitherto unrealised potential is enormous and would benefit all the territories and economic sectors of the European Union.”

European Commission, 2012 E-Commerce Communication
CHAPTER I
IDENTIFYING THE OPPORTUNITIES

“The time has come to embrace a much more holistic, inclusive and qualitative approach to economic development [...]”

Professor Klaus Schwab, introductory ideas on the theme of the Annual Meeting 2012 World Economic Forum

Combining technology with commerce will equip Europe to promote the Information Society as an engine for economic growth. It will enable us to make the most of the Long Tail dynamic to secure inclusive growth, and it will encourage a more Circular Economy for greener growth. It also allows us to do so on a global scale because the internet and technology enable consumers and merchants of all sizes to overcome traditional barriers to trade and find a match across almost any distance.

Already today we see this playing out, with search and trust tools, technological convergence, and continued innovation increasingly embedding mobility, inclusiveness, and choice into the commerce environment and the consumer journey.

THE “INFORMATION SOCIETY” GROWTH ENGINE

“And growth in the future will depend more and more on harnessing information technology.”

Jose Manuel Barroso, President of the European Commission, State of the Union Speech 2011

Empowering consumers so that they are more willing to transact with sellers will help stimulate demand. The Information Society – a society which uses information technology in creative and productive ways –
is well positioned to meet this challenge since it offers consumers a compelling “360° Value Proposition”, providing advantages such as:

1. **CHOICE**: Accessing boundless choice
2. **RELEVANCE**: Quickly comparing relevant offerings
3. **MOBILE**: Carrying a connection to the world in my pocket
4. **CONVENIENCE**: Benefiting from 24/7 convenience
5. **SAVINGS**: Saving household money
6. **CONFIDENCE**: Being confident about buyers’ and sellers’ rights
7. **SHARE**: Sharing the experience

With the advent of Augmented Reality, consumers can also:

8. **EXPERIENCE**: Living a superior sensory experience

And it is increasingly easy to be:

9. **ETHICAL**: Being an ethical consumer

These advantages come with significant consumer welfare gains. The economic study we commissioned estimated that **Information Society** consumers experience an increase in online buying power by on average 42% by reason of transacting on eBay instead of via offline channels.

**Information Society** merchants also stand to gain a great deal. The economic study reveals that 81% of the smaller commercial sellers on eBay export to at least five foreign countries II, a phenomenon underpinned by the finding that a 1% increase in geographic distance reduces offline trade by 1.4%, while it reduces eBay trade by only 0.6% III.

With lower trade costs and the ability to reach multiple foreign markets, newcomers within an **Information Society** paradigm have greater prospects to grow and succeed as established firms. For example, the economic study showed that the market share of new entrants on eBay grows faster than new offline firms: after five years, newcomers on eBay have a much higher combined market share (22%) than do new offline firms (13%) according to available data IV. Moreover, transaction data from PayPal shows that the revenue earned by e-traders from online transactions flows back to the more traditional economy by being spent at supermarkets, post offices, bookstores and restaurants.

The opportunities presented by the **Information Society** are expanding for both consumers and merchants as a result of the uptake of mobile technologies: every second of every day a product is purchased via eBay mobile apps, and more than 1 million new listings are added via eBay mobile apps each week.

As mobile phones and applications move the consumer to the centre of the purchasing process, the merchants follow, embracing multichannel strategies to meet the needs of an increasingly “omnipresent” consumer and to profit from alternative ways of reaching new customers.
“A glittering range of new ways to use their smartphone, from interacting with distant friends or colleagues while waiting for a bus, to using it to buy their morning coffee”

Neelie Kroes, European Commissioner (February 2012)

IN MARCH 2011, BMW opened its e-commerce store BMW Direct on eBay.co.uk and became the first car manufacturer to join the hundreds of brands already enjoying the powerful capability to sell new and fixed price goods direct to their customers on the eBay marketplace. Millions of BMW related parts & accessories are sold every year on eBay.co.uk. BMW recognised an opportunity to engage with this audience to provide an additional revenue stream. This new partnership with eBay meant that, for the very first time, the BMW motoring enthusiast could buy parts and accessories direct from the manufacturer. By embracing this new and modern approach to e-tailing, BMW is able to satisfy the growing demand from motor enthusiasts for purchasing genuine parts online. The store layout has created a fully branded and managed BMW e-commerce experience, capitalising on the trusted and familiar eBay page design and shopping experience, and has made BMW into an eBay Top Rated Seller.
THE “LONG TAIL” DYNAMIC

“A lot more businesses will be starting up and existing companies will flourish by finding new market niches thanks to the “long tail” effect.”

European Commission, 2012 E-Commerce Communication

One way of illustrating the 21st century market is with Chris Anderson’s *Long Tail* model. In this model there is a shift away from a focus on only a relatively small number of high-street brands, well-known products, and metropolitan markets (“hits”) at the “head” of the demand curve, and towards including a vast number of “niches” (lesser known brands and products and local markets) down the “tail” of the demand curve.

This shift presents a wealth of opportunities for buyers, sellers and manufacturers.

*Essentially one says to the consumer:*

“So you’re interested in this hit product from this mainstream company. Have you also considered this related item from a less well known, smaller but nonetheless trusted seller?”

The economic study shows that online marketplaces such as eBay are enablers of the 21st century market: merchants can more easily find the right buyers for their products irrespective of whether a product is in the “head” or the “tail” of the demand curve. This can be seen in how the online “tail” does not end: online channels carry demand further along the (supply) “tail” than offline channels do – existing markets are expanded and new markets are discovered.

Existing markets may be local markets where small retailers and entrepreneurs can sustain their local operations because they can also tap into a larger, global, customer pool through online and mobile channels.
The local retailers and entrepreneurs with their global reach contribute to the economy and social life of their localities.

Internet and technology together facilitate transactions between distant sellers and buyers in a trusted environment. The economic study concludes that eBay, as an online marketplace, uses the internet and technology to create trust in key aspects of a transaction by establishing trust in the seller’s quality; by establishing (or reinforcing) trust in the quality of the product traded; and by substituting for a lack of trust in institutions and rule of law

This goes to the heart of how online trade makes the most of the Long Tail. It facilitates information exchanges and it provides transparent, interactive ways of displaying and sharing information, including user-created content. It even allows for the development of alternative mechanisms for resolving disputes.

**“BUT THE GREAT PART OF EBAY** is that even small countries like Finland, Norway and Belgium bring a good amount of business”. Ambesh Kanna is one of the largest operating sellers of online diamond jewellery in India. He has three eBay stores, listing on the US, UK, Canadian, Singapore and Australian sites. The business attracts its major buyers from the US, Germany and the UK.
Globalisation offers consumers the promise of increased choice and lower prices. But global trade flows also raise significant environmental challenges. Commerce 3.0 encourages behaviour that lowers the environmental impact of globalisation and moves us closer to a Circular Economy by:

**REDUCING:** Being more efficient with the natural resources that we use to produce items.

The internet allows both consumers and merchants to make informed choices. Online marketplaces serve as a great starting place and inspiration for encouraging greener shopping choices. eBay unveiled a Green Shopping Hub to help consumers access the millions of green products available on its platform. The Green Shopping Hub lets consumers shop for, and lets merchants market, sustainably-made or resource-saving products.

**REUSING:** Keeping items circulating amongst consumers until they reach the end of their useful life.

By selling unwanted items instead of disposing of them, we can extend the useful lifecycle of everything that already exists today. An example of an innovative program to raise awareness of product durability and to make reuse and resale easier is The Patagonia Common Threads Initiative + eBay. This is a multichannel collaboration stretching across the value chain. eBay users can buy and sell pre-owned Patagonia items on the branded storefront on eBay. Those eBay sellers, who take the Common Threads pledge, will see their pre-owned Patagonia listings promoted on Patagonia.com.

A US-based study by Cooler\(^4\) from September 2010, commissioned by eBay, found that small, online businesses with total combined revenues of $100 million generate approximately 1,400 tons fewer CO\(_2\)-equivalent emissions per year than a single big-box retail store grossing the same amount.

Online platforms can go further than this. eBay’s own Green Team worked with the United States Postal Service to develop Cradle-to-Cradle Certified eco-friendly boxes. The most recent innovation is *The eBay Box*; if every such box is reused at least five times, it will save nearly 4,000 trees, 2.4 million gallons of water, and enough energy to power 49 homes for a year.

**RETHINKING:** Streamlining sales and delivery processes so that items minimise their carbon footprint.

Online marketplaces offer merchants the means to devise business models that are less dependent on a carbon-intensive infrastructure.

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**The “Circular Economy”**

“The cost of inaction is high, while ambitious actions to protect the environment are affordable and can go hand-in-hand with economic growth.”

OECD Environmental Outlook To 2030 (2008)
Online reselling is not just a business opportunity in itself, it also boosts offline business opportunities. An empirical study, funded by the German Federal Ministry of Education and Research, published in June 2010, found through a series of interviews that offline second-hand store owners support the assumption that eBay significantly adds volume to the turnover in used goods: since eBay started its online business, their offline businesses achieved additional turnover.

RECYCLING: When items finally need to be disposed of, recycle them.

The eBay Instant Sale programme, for example, not only makes resale and trade-in of electronics easy, but also recycling. When a device no longer has a value, eBay’s partner in this program responsibly recycles it free of charge in accordance with legal requirements and the rigorous e-Stewards Certification.

Commerce 3.0 enables consumers and merchants to act on these points at the same time as achieving increased choices and lower prices. And, as our own experience proves, greener solutions go hand-in-hand with consumer satisfaction and business opportunities.

“…the development of e-commerce will benefit the environment. Growth generated in this way will be greener and more sustainable…”

European Commission, 2012 E-Commerce Communication

CLASSIFIEDS GROUP STUDY – THE STRENGTH OF CONSUMER TO CONSUMER TRADING

A 2011 study by Redshift, commissioned by eBay Classifieds Group, examined the patterns and attitudes of 9,000 respondents across nine different countries trading with other consumers in their area. The study revealed that during the past 12 months, more than a quarter of a billion people globally have engaged in the growing trend of consumer-to-consumer trading. Internal eBay data supports this finding: a total of 221 million classified advertisements posted across eBay’s online classifieds sites in 2010 represent a 22% increase since 2009. All this trading is generating a healthy income: 11.6% of German respondents stated they made more than €300 – projected on the German population this would bring a national income of €2.7bn. 1.8 million Britons claim to have made more than £300 – bringing a national income of £541.8 million. Nearly a quarter (24%) of Germans say they sell everything that can be sold rather than throw it away – second highest of the countries represented behind the Netherlands (27.9%).
CHAPTER II
WHEN TECHNOLOGY MEETS COMMERCE

“This new experience or revolution of shopping for anything, anytime, and anywhere in the digital age is driven by mobility and mobile devices, software and integrated shopping capabilities.”

John Donahoe, CEO eBay (January 2012)

In the previous section, we identified some of the opportunities to be found in the Information Society growth engine, the Long Tail dynamic and the greener Circular Economy.

In order to seize on these and other opportunities to unlock the transformative power of Commerce 3.0, we need a partnership that intelligently marries technology tools with policy action.

We see four key technology tools that are fundamentally changing the dynamics of commerce by embedding mobility, inclusiveness, and choice into the process. These are search, trust, technological convergence, and innovation platforms.

SEARCH tools allow consumers to find, compare and make sense of offerings – “From the myriad of items available can I find those relevant to my needs and make sense of what is being offered?”

TRUST tools allow consumers to make the leap and transact – “Once I have found the item I want, can I proceed with confidence to purchase it, and will my expectations be fulfilled?”

Search and trust tools not only benefit consumers. They allow merchants of all sizes to: i) bring their services and offers to the market more efficiently; ii) be found; and, iii) build trust with a much larger pool of potential customers, be it in their locality or globally.

The power these tools confer on both consumers and merchants is magnified through TECHNOLOGICAL CONVERGENCE and continuous INNOVATION using platforms.

Right now, eBay sees this play out in the way mobile technologies and applications put search and trust tools in the pockets of consumers, place merchants’ offline inventory online, and give visibility to local merchants irrespective of size.

Before we explore these technology tools, and before we identify where and how policy action fits with them, it is important to understand the environment in which technology companies such as eBay operate, as well as the mechanics of this “new” commerce.
Technology companies operate in a complex environment where systems and behaviours cannot be perfectly controlled or predicted. That is why these companies employ agile programming techniques, experiment iteratively, and accept that success can be preceded by failures.

Let’s take eBay as an example.

EBAY MANAGES:
- Over 100 million active users worldwide
- More than 58 million app downloads globally
- Over 330 million items for sale at any given time
- Almost 150 billion unique visitors per month

... IN A DYNAMIC ENVIRONMENT:
- Several new features introduced each week
- Roughly 4-5% of items are listed or ended every day

... WORLDWIDE:
- In 43 countries
- 24 hours a day / 365 days a year

This eBay example illustrates the level of complexity navigated by technology companies. To make such a complex environment manageable, one must adopt a flexible approach, which involves constantly innovating and evaluating the success of those innovations. For want of a better phrase this is a process of “trial-and-error”.

To adapt successfully one must recognise the strengths and limitations of the different means of solving problems:

- **“WISDOM OF CROWDS”** – Turning to the “wisdom of crowds” (such as a group of consumers) is sensible when we want to figure out the value of something or choose the right answer from among a small number of possible alternatives. So the “wisdom of crowds”, also known as “crowd sourcing”, is well suited for evaluating seller behaviour based on specific questions, such as whether, communication occurred promptly, shipping time was reasonable, etc.

- **EXPERTS** – If there is an identifiable expert in a group, it may be that the expert will do better than the group average. Experts come into their own when a combination of knowledge and initiative is required. That is why experts are relied on in software development, in product and brand development, in law enforcement, etc.

- **COMPUTERS** – In many areas computers are replacing experts when it comes to making rule-based decisions. However, computers lack common sense or sensitivity to context. There are other limits to computing power, such as software, data and cost limitations.

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“*The trick, with all the behavioural possibilities of complex systems, is ..., where possible, to arrange the structure and conditions to reduce the probability of destructive behaviours and encourage the possibility of beneficial ones.*”

Donella Meadows, leading systems analyst, Professor at Dartmouth College

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*XII*
The challenges that technology companies inevitably encounter when they design and constantly redesign technology tools for consumers and merchants is illustrated by the scope and complexity of those very tools.

**1/ SEARCH TOOLS**

“We’re solving probably the biggest problem that exists for [small retailers], which is giving them exposure on the web and doing it in a way that doesn’t require a lot of technical investment on their part.”

Jack Abraham, founder of Milo (June 2011)

**Search tools perform three basic functions:**

1. **ACQUIRE:** Seek out data which will be valuable to consumers

2. **ANALYSE:** Rank this data to make it “relevant” to consumer needs

3. **EMPOWER:** Turn this data into information that consumers can easily query and act upon

**SEARCH CHALLENGE**

“From the myriad of items available can I find those relevant to my needs and make sense of what is on offer?”
Search tools are drivers and central components of the opportunities within the Information Society growth engine, as they allow consumers to find and merchants to be found. They also have the power to release behaviours that promote the Long Tail and the Circular Economy by enabling users to also consider less mainstream and greener solutions.

Take for example:

WORLDOFGOOD.COM which seeks to secure livelihoods for sellers around the world and provide consumers with ethically-sourced, Fair Trade, and eco-friendly goods

EBAY INSTANT SALE which enables consumers to resell, reuse, and recycle their electronic items

EBAY GIVING WORKS which connects customers in the US and UK with the causes they care about, by offering convenient and trusted ways to give to their favourite non-profits

“I started international selling through the international site visibility feature... products started showing on overseas sites and sales increased. There was clearly an international opportunity for my products and I wanted to exploit it.”

John Pemberton, ‘Designer Clothes 2U’, with a shop on the eBay marketplace
These tools can make a significant difference; in just the first few months of eBay’s Instant Sale trade-in program (started in 2010), we found the combined impact of trading in iPhones, iPads, and iPods avoided the emission of 1,550 tons of CO₂. And, in November 2011, the eBay For Charity Team in the UK helped non-profits raise more than £1.5 million in a single month through high profile charity auctions, checkout donations, and community selling.

2/ TRUST TOOLS

“Shopping has evolved in ways that weren’t even possible years ago. Technology is at the middle of this.”

Naveed Anwar, Head of Community for X commerce (October 2011)

THE CONSUMER JOURNEY
- OBSERVE ORIENT DECIDE ACT

Trust tools carry out 3 basic functions:

1. ACQUIRE: Obtain valuable feedback about products and seller behaviour

2. ANALYSE: Rank this data based on the “fulfilment” of specific consumer expectations

3. EMPOWER: Transform this data into feedback profiles and tools to increase pre-purchase information for consumers

Trust tools play a key role in enabling consumers to transition from the “Observe” and “Orient” phases of the consumer journey to “Decide” and subsequently “Act”.

Feedback profiles are often useful tools for consumers. But we must never forget that seller behaviour can sometimes be unpredictable and that feedback profiles are only models.
To try and address this complexity, sophisticated trust tools are not only based on “wisdom of crowds” but on a mix of elements. For example, eBay draws on the strengths of other stakeholders, including:

- Rights owners’ expertise through its Verified Rights Owners (VeRO) Programme, which provides a Notice-and-Take-Down system for illegal items
- Law enforcement expertise
- Community referrals, such as via a “Report this Item” button
- eBay’s Trust and Safety Department, which educates consumers and sellers, for example through eBay’s Safety Centre, Help Pages, Listing Guidelines and Tutorials
- PayPal’s Safer Payments system

Social influence is increasingly driving consumer preference. Consumers can build up the requisite confidence by directly connecting with family, friends, “influencers” and fellow consumers – e.g. via social networks – when deciding and eventually acting on a purchase.

Social influence is, we have observed, also interacting with search tools to shape the “Observe” and “Orient” phases of the consumer journey by increasingly driving consumer awareness and product selection at levels approaching or exceeding traditional advertising, for example through promotion from social networks.

Trust tools also help to fulfil the need of merchants to build trust cost-effectively with consumers. For example, the economic study finds that eBay’s trust mechanisms instil confidence in sellers: the higher ranked a seller’s status is, the less buyers care about geographic distance and whether the seller is known or not.

In short, trust tools enable a far broader array of merchants and products to successfully come to market.

“Social design takes word of mouth and puts a bullhorn to it”

Katie Mitic, Director of Platform and Mobile Marketing, Facebook (October 2011)
“Where we talked of trade in IT products in the past, there is now a digital economy with little distinction between goods, services or national borders. The convergence is increasing with the new mobile and network technologies that have changed the nature of how the digital economy trades”

By increasingly merging mobile, local, social, novel interfaces, Augmented Reality and much more, technological convergence enables search and trust tools to become ever more integral to the consumer experience, and ever more global in their reach.

Christopher Payne, Head of eBay North America, explains:

“Commerce 3.0 is the intersection of technology and shopping. It’s promotions and coupons for local offers. It’s the idea of the digital wallet, where you can make online payments in physical stores, and, of course, it’s about enabling research and buying options using a mobile device. It’s clear that there is huge opportunity in this convergence.”

eBay is acting on this technological convergence in order to put power in the palm of the consumer’s hand: making more and more information accessible through the mobile
device the consumer is carrying at all times. This includes the development of eBay Mobile and acquisitions of companies like Where, RedLaser and Milo.

The RedLaser app, for instance, gives the consumer information about a product, photos, reviews and price comparisons across many merchants, as well as information on which local stores carry it, maps to the stores, phone numbers, and the ability to buy the product from within the app.

eBay’s experience is that the “self-sufficient consumer” is now emerging, using his or her mobile phone both inside and outside of the store to research products, as well as to receive advertising and promotion messages. This consumer also carries shopping lists, coupons, and loyalty rewards on his or her mobile phone to secure the best and right deals at all times. The same consumer, still using the mobile phone, self-scans and pays for the purchase online before leaving the store.

Technological innovation is also extending the consumer journey, allowing the consumer to retain control even after completing the transaction. For example, PayPal allows both merchants and consumers to stay in control of their finances, with the consumer deciding how to pay for a purchase — PayPal credit, bank account, or credit card — long after checkout.

Moreover, convergence means that social networks become influential throughout the “consumer lifecycle”, at the stages of search, purchase (trust), own, and repurpose. This helps consumers maximise personal, social, and economic value from the items they buy, own, and resell, e.g. by sharing interests and passions around products.

Today’s consumer-driven retail environment no longer revolves around the retail store; it is focused on where the consumer is. Success in this environment requires a whole new set of tools and expertise, some of them quite different from traditional retail capabilities. Many merchants do not have the time or resources to make their own significant investment in developing those solutions and tools.

4/ INNOVATION PLATFORMS

“Retailers and developers need a technology-driven global commerce partner to help them engage and connect with consumers anytime, anywhere.”

Matthew Mengerink, Vice President and General Manager of X.commerce (October 2011)

Innovation platforms pool and catalyse the power of third party developers and specialists to rapidly create even more innovative solutions.
Merchants therefore opt to engage with specialist partners to allow them to take advantage of new technologies, channels and solutions, whilst they continue to pursue their own skills of sourcing and servicing customers. For example, eBay-owned GSI Commerce enables brands and retailers to operate multichannel businesses by offering them solutions via a technology portfolio and an operations platform. Innovation platforms and the services they offer to developers, partners and merchants are crucial “commerce enablers” in this fast-moving and complex retail environment. eBay’s open commerce ecosystem — X.commerce — drives innovation by pooling resources from eBay, our partners and third party developers. Equally important, it allows merchants of all sizes to benefit from the latest innovations.

“At eBay Inc., we want to make sure merchants get what they need”

Matthew Mengerink, Vice President and General Manager of X.commerce January 2012

“Magento ecommerce gives merchants scalability and features for presentation, content and functionality.” Magento — part of eBay’s X.commerce unit — offers a platform for enterprises, supported by a global ecosystem of partners and third party developers. ComputerWorldUK (20 January 2012), Boost your web store with an open source shopping cart solution

The US company “Shop ePal” sells electronic products online. It started literally as a mom-and-pop store in 1999, and now averages $250,000 in sales a month. Right from the start, PayPal has been a key to the company’s success. Fifty to sixty percent of its customers live in Canada, Australia and Europe. And nearly 90% of them are using PayPal. “We keep track of fluctuations in currency exchange rates, so we can anticipate how rates will affect our overseas sales,” says co-founder Klaus Koch. PayPal and ChannelAdvisor, the integrated PayPal partner that provides Shop ePal’s payflow, provide the company with accurate and reliable business data. “With the sales and activity reports we extract from PayPal and ChannelAdvisor, we can track sales by all kinds of dimensions,” Koch says. “They really support the business analysis that keeps us on track.”
CHAPTER III
POLICY FOR THE “NEW” COMMERCE

“In order to win in today’s retail, it’s not about who can invest the most amount of money and who can have the best location. It’s about keeping up with the pace of innovation…”

Naveed Anwar, Head of Community for X.commerce (October 2011)

This Roadmap has described how search and trust tools, technological convergence, and continuous innovation – together combining online and offline advantages and today serving them up with mobile capabilities – drive the emergence of an increasingly “borderless” reality for consumers and merchants. Distance matters less and less today, making it possible even for small merchants to enter, grow and succeed on world markets. Herein lies the opportunities this Roadmap identifies.

Merchants and consumers are taking advantage of these developments. Our economic study finds that 97% of US “commercial sellers”\textsuperscript{xx} on eBay export. Moreover, the top 10% of US “regular exporters”\textsuperscript{xx} on eBay reach 18 out of the 20 largest markets and the smallest 10% reach 13. eBay buyers, when asked why they appreciate the ability to choose from a global inventory, mention that it provides access to unique products, products hard to come by where they live, better prices, and more choice in general.

The creation of new trade patterns, the facilitation of existing trade, and broad cost reduction are all happening fast. The economic study reveals that on the eBay marketplace the trade-reducing effect of transaction costs has fallen by 41% between 2005 and 2009. This decrease is three times faster than for traditional trade, where the drop has been only 14% over that period.

These changes are the result of iterative efforts, from putting in place the right enabling conditions, such as platforms allowing merchants to grow their business irrespective of their size and provenance, through to providing a global payment system and developing trust mechanisms that facilitate communication, dispute resolution, and clarity on rights and obligations.

Importantly, this process of change is dynamic, a virtuous circle of continuous innovation and heightened consumer expectations.

Against this backdrop, policy plays an important role in supporting the way technology reinvents commerce and brings down the barriers that occur where a global digital world meets a (still) fragmented physical world.

The right mix and the right level of policy action are necessary in order to:

- Promote uptake of this new commerce on a global scale
- Secure a climate of innovation for the private sector when navigating complexity
TOMORROW’S POLICY ACTION

“Informed by the economic study and analysis, we have identified four key areas where policymakers should act to support the way technology-enabled commerce is reducing distance between consumers and merchants. These are areas where policy action would promote the process of building sustainable growth into global commerce.”

European Commission, 2012 E-Commerce Communication

1/ PROMOTE OPENNESS

“SMEs involved in cross-border trade often have the highest growth rates and potential. The internet breaks down barriers to entry into export markets”

Angus McCarey, UK Retail Director for eBay UK (May 2011)

Policy that opens up market access to small and large merchants alike

The economic study shows how lower trade barriers coupled with an ability to reach multiple foreign markets translates into newcomers having greater opportunities to grow faster. Membership of the EU, for example, increases online cross-border transactions by 40.5% — a finding by the economic study confirming that market integration has a significant positive impact. Merchants need access to a sufficiently large pool of potential consumers to make their operations thrive. Part of the customer base will be local, and search tools ensure the merchant’s visibility to this group. Nonetheless, to ensure sustainable growth the merchant must often look beyond their immediate locality, their country and even their continent.

Policy has a key role to play in opening up markets to small and large merchants. Here, the European Parliament’s initiative on “Boosting Small and Medium Enterprises” (ALDE Manifesto for a European SME policy) is an important step in the right direction.
2/ ENSURE PREDICTABILITY

Policy that ensures there is transparency and predictability in delivery times, costs, administration and related legal obligations costs

The economic study found that the trade reducing effect of shipping costs is four times larger for eBay cross-border transactions than for offline trade. Put differently, if average shipping costs between countries decreased by 10%, then online trade would increase by about 5%.

In our experience, shipping “costs” must be understood in the broadest sense to encompass the cost of, and user confidence in, cross-border parcel services; the level and administration of customs duties and VAT; time delays because of customs procedures, etc. The consumer and the merchant must be able to (as far as possible) view and take into account such “costs” in the transaction processes.

Policy should ensure transparency and predictability on all these aspects for the merchant to offer products cross-border and for the consumer to make a cross-border purchase. The European Commission’s anticipated green paper on parcels provides an excellent opportunity to that end.

3/ STRENGTHEN TRUST

“If consumers cannot easily make choices and avoid harm, not only do they suffer but so do the innovative, honest businesses which drive growth.”

John Dalli, European Commissioner (April 2011)

Policy that strengthens trust between consumers and merchants

Trust between consumers and merchants are a key condition for transactions to happen. A consumer will not conclude the transaction where he or she perceives the risk that something will go wrong to be too high and sees no or little ability to redress the situation once it has gone wrong.

We have described how eBay employs technology tools to continuously build trust within the eBay community, allowing small retailers to operate successfully alongside larger merchants, and niche or specialised products to thrive alongside more well-known branded products.

Here, important element of trust is the availability of efficient and secure payment solutions.

Policy has an important role to play in ensuring a general consumer trust level in commerce and merchants collectively – and globally. Good examples include the proposed Common European Sales Law and proposals on alternative dispute resolution.
4/ FOSTER INNOVATION

“Internet intermediaries provide increasing social and economic benefits”

OECD Report (March 2010)

Policy that guarantees legal and operational certainty for providers of Information Society services whilst recognising the complexity of the 21st century commerce environment

*Information Society* service providers, such as online platforms and other internet intermediaries, are enablers of Commerce 3.0 because they:

- Stimulate employment and entrepreneurship by lowering the barriers to starting and operating businesses and by creating opportunities for Long Tail transactions to occur
- Provide access to information and choice, which empowers users and improves purchasing power
- Establish trust and enable collaboration to flourish among individuals and enterprises

These are the conclusions of the OECD 2010 Report on the economic and societal role of internet intermediaries.

Providers of *Information Society* services cannot, however, control or force specific behaviours on their sites. They can only seek to put in place structures and conditions that encourage virtuous behaviours. Policy must guarantee legal and operational certainty for intermediaries to innovate and experiment by tailoring any obligations or responsibilities to such a complex reality.
CHAPTER IV
THE ROAD TOWARDS COMMERCE 3.0

“Sometimes we should leave it to the sectors concerned and to the economic partners to address the issues. If we look at the legislative process, it is always running behind technological, economical and social developments.”

Margot Fröhlinger, European Commission (September 2011)

SMART POLICYMAKING – NOT REGULATION

Policymakers should prioritise four key areas (openness, predictability, trust, and innovation) in order to realise the global opportunities that lie in technology-enabled commerce. In other words, they play a key role in supporting technology’s ability to build sustainable growth into the commerce environment and its ability to allow consumers and merchants to overcome distance.

It is important to emphasise that this Roadmap does not make the case for more regulation. On the contrary, this Roadmap argues for “smart policymaking”. We deliberately suggest the term “policymaking” because it is broader in scope than the term “regulation”. It may encompass initiatives emanating from and implemented by the private sector, the public sector or a combination of both.

The choice is not one of more or less, of simpler or smarter, regulation but a question of taking a more holistic approach: “smart policymaking”.

By “smartpolicymaking” we mean:

1. **USE A MIX OF PROBLEM SOLVERS**, such as public and private sectors, computer software, wisdom of crowds, and experts, recognising that each has its strengths and limitations

2. **EMBRACE COMPLEXITY** by being flexible and evaluate progress over time, accepting uncertainty and proceeding on a trial-and-error basis

3. **PROVIDE TOOLS** that seek to release consumer and merchant behaviours that yield sustainable growth, evolve a solution — not determine it

For instance, smart policymaking is needed in the area of payments. Internet and mobile payments is a fast-moving area, and legislators must be vigilant to not hinder innovation by dictating the conditions of, or the direction for, technical development. The development of efficient, modern and safe payment methods relies on companies using models, software rules and human review to develop, over time and through constant iteration, solutions and systems that provide the right customer experience.

Furthermore, in its efforts to create an integrated European payment landscape benefiting consumers and merchants, the European Commission must leave consumers free to opt for their preferred payment method subject to appropriate safety standards. To that end, we suggest that legislation in this area should be guided by the following principle:

“These rules are technology-neutral, meaning they must neither require nor assume a particular technology, and forward-looking, meaning they must not hinder the use or development of technologies in the future.”

An example of where the means of achieving an otherwise legitimate objective harms the uptake of technology-enabled commerce is the proposed recast of the Directive on waste electrical and electronic equipment (WEEE), as approved by the Council.

Although the Directive seeks to contribute to sustainable production and consumption, it rests on a principle of destination. The consequences are that retailers selling online to consumers in other EU Member States must register with the relevant authorities and adhere to the reporting requirements in those Member States. By ignoring the nature of the new commerce landscape, this creates new administrative as well as economic barriers to cross-border trade flows.

The principle of destination is simply not appropriate for electronic commerce as it goes against the workings of online and mobile channels without playing to their strengths: these are also channels for consumers to reach retailers in response to the visibility that the internet gives them.
RECOMMENDATIONS FOR POLICY ACTION

Informed by the economic study and guided by the mechanics of Commerce 3.0, we have described four priority areas where policymakers can make a difference and we have set out three guiding principles for policymaking in technology markets.

Translating this into action, we identify five specific issues where policy action is needed in order to ensure that consumers and merchants can indeed make offerings available, find the right match, and transact through any channel and across borders.

Our five policy recommendations all seek to match legislation with a consumer journey that is increasingly global, mobile and digital.

POLICY RECOMMENDATION #1 – TRUSTED DELIVERY

“the way European citizens shop and pay is radically changing”

Neelie Kroes, European Commissioner (February 2012)

Bring fast, affordable, reliable, accessible and transparent end-to-end, cross-border delivery services to market through public-private partnerships

eBay has identified pricing, selection and delivery as three key “drivers” of online and mobile consumer demand. Among these three, delivery is the most critical as it largely drives pricing and selection for European consumers: more goods crossing borders increase selection and, in turn, drive down prices due to more efficient market competition. This is what underpins the EU single market project.

Even though the economic study found that the vast majority of sellers on eBay export, the volumes are far below their potential. This is to a large part due to costs, administration and uncertainty when shipping across borders.

Parcels and delivery services play a crucial role in the retail chain – in the relationship between consumers and merchants. A consumer who receives the purchased product promptly without
hassle is a happy consumer, more likely to continue exploring the opportunities of shopping online both within and outside the locality. On the other hand, products that take longer than expected to arrive, or worse are lost, undermine the value and convenience of online and mobile commerce.

Moreover, prices for cross-border delivery, when compared to domestic deliveries, represent a serious concern for consumers and retailers.

The importance of cross-border parcel services in fostering a healthy and efficient European (and global) commerce landscape cannot be underestimated. It should be a top policy priority for EU strategies aimed at realising a single market for European citizens and businesses.

We propose an EU Parcels Policy with the objective of facilitating the marketing of EU-wide services that meet five criteria:

1. **Fast** – 3-4 days anywhere to anywhere
2. **Affordable** – today, cross-border prices for parcels are on average twice as high as domestic benchmark prices
3. **Reliable** – delivery within 1 day of promise
4. **Accessible** – drop-off, pick-up, labels, information
5. **Transparent** – end-to-end shipment tracking, standardised returns

To engage in cross-border commerce, both consumers and merchants need delivery services that meet these five “FAARAT” criteria. Otherwise, the merchant becomes reluctant to expand a successful domestic business for fear of dissatisfied consumers.

We believe that large part of the European market are under-served, with significant untapped consumer demand, because one or more of the “FAARAT” criteria are not met.

The cross-border delivery experience in the EU remains highly inconsistent, dependent on the country and the delivery partner infrastructure. Improving quality, access and pricing of cross-border services will most certainly increase the volume of transactions. That means i) more growth opportunities for merchants, courier companies and postal operators; and ii) empowered consumers as selection increases and prices become more competitive.

We envisage the EU Parcel Policy pursuing this “FAARAT” objective based on a principle of partnership. For example, in Europe, Asia and the US, eBay is partnering with commercial courier companies and postal operators to negotiate and develop delivery solutions that meet the needs of consumers and sellers.

We see untapped opportunities for partnerships, supported by the European Commission and national authorities, that:

- Involves in particular postal operators -- e.g. develop services leveraging efficiencies in scale and aggregation to achieve volume discounts for small retailers; improve the sharing of tracking information between operators so that the sender can track the complete journey (end-to-end) of the parcel
• Improve and strengthen links between the services of commercial courier companies and postal operators – e.g. post office counters would allow couriers’ parcels to be dropped off

• Improve customer knowledge about the cross-border parcel market – e.g. small customers often do not know what options are available; what are the prices and quality of services; and what to do (in terms of documentation, labelling, and address format) to send a parcel cross-border

We call on the European Commission and national authorities to proactively promote public and private sector partnership models for bringing Fast, Affordable, Reliable, Accessible and Transparent end-to-end, cross-border parcel services to market by:

1. Involving postal operators in developing new, end-to-end services
2. Improving and strengthen links between the services of commercial courier companies and postal operators
3. Improving customer knowledge about the cross-border parcel market

POLICY RECOMMENDATION #2 – NON-DISCRIMINATION

"Cross border trade must not generate additional costs”

European Commission, 2011 VAT Communication

Simplification, standardisation and non-discrimination with regard to VAT and customs duty obligations for electronically purchased products from EU and non-EU sellers

The internet and technology revolutionise commerce by making global markets almost as accessible to consumers and merchants as local markets are to them. The VAT system must support this commerce landscape, which is increasingly borderless as European consumers shop for goods and services within as well as outside the EU using the offline, online and mobile channel of their choice.

VAT is a tax on consumption, thus relying on market transactions to happen. Accordingly, the VAT system should impose the lightest burden on commerce necessary to effectively collect the tax and limit the possibility of fraudulent abuse of the system.
We support the Commission’s ambition to create a VAT system that is:

- **Simple** – a taxable person should only deal with the tax authorities of a single Member State
- **Efficient and neutral** – broader tax base, taxation at the standard rate and equal rules governing right of deduction
- **Robust and fraud proof** – modern methods of collecting and monitoring VAT

Unfortunately, we understand that there is no political support at Member State level for an EU VAT system based on the principle of origin. The Commission has therefore accepted that the origin principle is unachievable in the foreseeable future and that alternative concepts must now be pursued to put in place a properly functioning system.

The proposal put forward as a high priority in the Commission’s 2011 Communication on the future of VAT is the One Stop Shop (OSS) concept.

Against this background, we urge EU Member States to:

1. **Commit to broadening the “mini OSS”** – which will cover electronic services provided to end-consumers – to apply also to electronically purchased consumer goods from EU and non-EU sellers. The special VAT scheme (introduced by Directive 2002/83) already applies to non-EU suppliers, though limited to electronic services. On 1 January 2015 it will become applicable also to EU suppliers of electronic services. Expanding this OSS regime gradually, the next step should be to broaden it to cover SMEs – established within as well as outside the EU – selling products over the internet.

2. **Commit to proactively standardise VAT rates and achieve EU-wide uniformity** on, in particular, registration thresholds, including the threshold exempting SMEs from VAT obligations, and the treatment of coupons and vouchers.

3. **Assist the Commission in putting in place an EU VAT web portal** to facilitate for, in particular, small EU and non-EU businesses to understand, access and comply with obligations on registration, invoicing, returns and rates.

4. **Urge the Commission to amend Directive 2007/74 and Regulation 1186/2009** so that the same principles and thresholds in terms of VAT and customs duties apply to goods purchased online from non-EU suppliers as apply to goods purchased when travelling outside of the EU.

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**We urge EU Member States to simplify, standardise and end discrimination with regard to VAT and customs duties for electronically purchased products from EU and non-EU sellers by:**

1. **Broadening the mini-One Stop Shop to SMEs and electronically purchased goods**
2. **Standardising VAT rates and registration thresholds**
3. **Putting in place an information web portal**
4. **Applying the same principles and thresholds to products purchased online and on travel**
We very much welcome these “new generation” FTAs, which recognise “the economic growth and trade opportunities that electronic commerce provides.” To ensure these opportunities are indeed open to consumers and small traders, we make five proposals for taking these “new generation” FTAs to the next level:

1. **Simplification and transparency in the area of consumer rights** – The European Commission’s proposed Common European Sales Law (CESL) could form part of future FTAs to help, in particular, small European businesses and consumers overcome legal risks and fears associated with cross-border transactions. The idea behind the CESL is to simplify life for exporting traders by giving them the option to export based on one single law irrespective of where the consumers are situated.

2. **Simple online processes for solving disputes between individuals and companies** – Future FTAs should mandate online “one-stop-shops” consisting of i) a single contact point in each signatory party and ii) processes for filing complaints and solving disputes. This could take the form of the Commission’s proposed Online Dispute Resolution Initiative.
Resolution platform, on which mutually recognised ADR schemes of the signatory party could be registered.

3. **Trade facilitation for exporters, not only producers** – At the heart of today’s FTAs is the rule of origin principle, whereby preferences under the agreement only attach to goods produced in the signatory countries. This essentially means that the FTA applies to products and producers, not necessarily to exporters of consumer goods who are often SMEs. Future FTAs should move beyond traditional rules of origin to truly open up market access for exporting firms, thereby ensuring consumers can take advantage of wider choice and healthy competition.

4. **Promoting new technologies to improve postal, shipping and delivery services** – The “new generation” FTAs harmonise certain customs requirements and procedures, whilst providing market access for express delivery services. Future FTAs should also include provisions on information-sharing and harmonisation between national postal operators. Future FTAs should also promote Intelligent Mailing Barcodes as a uniform standard to ensure better and real-time tracking of goods between the signatory parties.

5. **Promoting secure internet and mobile payments** – A key part of efforts to facilitate cross-border electronic commerce is ensuring there are secure and efficient payment methods that work smoothly across borders. This is crucial if consumers and merchants are to enjoy the benefits of freer trade from an FTA. Future FTAs should set out to achieve unified rules and standards based on the principle of technology neutrality, promote best practices, and encourage the uptake of secure and innovative electronic payments. For example, in the context of its Green paper on payments, the European Commission should aspire for a global payments landscape.

We call on the EU to design “21st century trade agreements” that take the new generation of Free Trade Agreements to the next level, putting the needs of consumers and small traders at the centre by:

1. Injecting transparency into the area of consumer rights
2. Simplifying online processes for dispute resolution
3. Extending trade facilitation to cover exporters
4. Using technology to improve delivery services
5. Promoting secure internet and mobile payments
POLICY RECOMMENDATION #4 – MUTUAL RECOGNITION

“... enhance the competitiveness of companies doing business in and with the Community, thus creating economic growth...”

European Commission 2005 proposal for a Modernised Customs Code

Facilitate trade through “mutual recognition” of other countries' customs programmes

An Authorised Economic Operator (AEO) is a trader who by satisfying certain criteria is considered reliable in its customs-related activity. Under an AEO programme, AEO companies are given certain advantages in customs procedures.

An AEO programme is one of several components under the World Customs Organisation (WCO) SAFE Framework of Standards to Secure and Facilitate Trade. Many of the 160 countries that have signed a declaration of intent stating that they intend to implement SAFE have also said they intend to introduce an AEO programme.

The EU’s AEO programme came into force in 2008. It provides for three types of certificates that grant the holder benefits from simplifications under customs rules and/or facilitations of customs control relating to security and safety. Current AEO benefits include fewer physical and documents-based controls, notification in advance when a shipment has been selected for inspection, less information required, and easier processes, etc.

There is, as yet, very limited data available, but the OECD concludes in a 2011 Trade Policy Working Paper that even though AEO traders make up a limited percentage of total traders, they handle a very significant percentage of total trade.

In Sweden, for example, around 60% of the value of imports and exports come from AEO companies whereas they represent only just a few percentage points of total traders.

The SAFE Framework of Standards calls on WCO members to provide for the mutual recognition of AEO validation and authorisation. This generally takes the form of an agreement or arrangement between two or more countries. The ambition of SAFE does not, however, stop with mutual recognition of AEO programmes but extends to mutual recognition of customs control results.

Mutual recognition of AEO validation and authorisation should mean that one country recognises the AEOs authorised by another country as being as reliable and secure as those authorised under its own programme.

Mutual recognition of customs control results would in practice mean that export declarations serve as import declarations and that control at export is normally accepted as sufficient for import purposes.

The EU should take a world leading role in promoting mutual recognition of AEO at bilateral, regional and global level. Mutual recognition has the potential of becoming a core instrument for facilitating international trade whilst allowing customs to more efficiently focus scarce resources.
“mutual recognition” of customs programmes as a key instrument for facilitating international trade flows and focusing customs resources by:

1. Making mutual recognition agreements a horizontal policy priority, in particular across trade, SME, consumer and the Digital Agenda policies
2. Publishing annual reports on the functioning and uptake of the EU Authorised Economic Operator programme
3. Ensuring the Implementing Provisions to the Modernised Customs Code promotes mutual recognition of customs controls
4. Including customs information provisions in mutual recognition agreements

POLICY RECOMMENDATION #5 – INTERMEDIATION CULTURE

Drive a paradigm shift in legal thinking applied to technology and Information Society services to support and foster a culture of innovation and intermediation

All the above recommendations effectively seek to ensure that consumer and merchant continue to engage in and create new Commerce 3.0 trade patterns.

Equally important is to secure a climate favourable for private sector innovation. As this Roadmap has explained, merchants increasingly rely on technology partners for the “back-end” support that powers the “front-end”, consumer facing, services of search, transaction, payment, etc. Improving this support and evolving new services are a constant process of iteration and experimentation: there is an “art” to the process.

Just as in the offline world, intermediary services can be misused for illegal purposes. They can be, and are being, abused for committing fraudulent activity soliciting counterfeit products, etc.

One area of contention in such cases of abuse is the role of the provider of Information Society services, i.e. the intermediary whose services are being misused. When might liability arise and what can be required of the intermediary in terms of stopping or perhaps preventing the illegal activity?

To a large extent this is about applying general principles around conditions for secondary liability, as well as grounds for and scope of injunctions.
Given the technological sophistication of innovation platforms and the complexity of the environment where technology companies operate, one can easily see how applying such principles to Information Society services would be a daunting task.

In the context of fighting illegal activities in the Information Society, this means that policymakers and law enforcers must understand and accept that:

1. **A MIX OF ELEMENTS IS NECESSARY FOR PROBLEM-SOLVING ON INNOVATION PLATFORMS** — Intermediaries need to rely on experts (e.g. Rights Owners to report suspected counterfeits or developers to design and redesign tools and services), the “wisdom of crowds” (e.g. users telling them and each other what is a good or a bad service and tool), and computers (e.g. software to filter out blatant breaches of the law).

2. **THERE ARE STRENGTHS AND LIMITATIONS TO EACH PROBLEM-SOLVING ELEMENT** — E.g. computers lack sensitivity to context, and so a software filter can only flag listings containing certain words; it cannot make its own determination as to the illegality of the listing; humans make errors and are limited in capacity and expertise.

3. **COMPLEXITY CANNOT BE “PREDICTED-AND-CONTROLLED”** — Due to their complexity (e.g. the overwhelming number of users, listings, transactions and URL requests they must host) and the fact of their operating in a complex environment, intermediaries such as eBay cannot predict and control certain types of activity with complete accuracy; they can only arrange conditions to reduce the probability of harmful behaviours and to encourage the possibility of beneficial behaviours.

These three strands – the need for a mix of solutions, strengths & limitations, and consequences of complexity – should guide the application and interpretation of, amongst other things, general principles on secondary liability and injunctions to Information Society services.

We call on the European Commission to identify the right mechanism for driving a paradigm shift in legal thinking in relation to technology and Information Society services — a new policymaking and enforcement mindset accepting that:

1. The old “predict-and-control” approach cannot achieve sustainable, desired outcomes

2. Successful innovation in technology and Information Society services comes from allowing solutions to evolve over time

“I have found this a difficult issue to decide. It requires the application of well-established principles to a new and rather different scenario to those to which they have previously been applied.”

Hon. Mr Justice Arnold (22 May 2009)
CONCLUSION

This Roadmap puts the spotlight on the sustainable growth opportunities which the “new” commerce — Commerce 3.0 — creates.

We see immense opportunities in how Commerce 3.0 equips consumers and merchants: Mobile technologies and applications put search and trust tools in the pockets of consumers, put offline inventory online, and give visibility to local and global offerings. This allows consumers to find, compare, and make sense of offerings; and, if they so decide, make the leap and transact with confidence, whether on the run, at their laptop, or in-store. And, it allows merchants of all sizes to bring products and services to world markets more efficiently.

Importantly, the economic study commissioned by eBay points to the essential driver behind these opportunities: the internet and technology “shrinking” the world for consumers and merchants by lowering trade costs. This enables international trade that would otherwise not occur and makes existing cross-border trade more efficient. World trade is no longer the preserve of the largest firms or countries: the internet is a fundamental game-changer allowing consumers and merchants of all sizes not only to connect on the global stage but to find a match and establish trust despite geographical distance, institutional differences and other trade costs. This enables smaller merchants to reach multiple markets and newcomers to gain a foothold, then grow and succeed.

By being global, inclusive and consumer-driven, Commerce 3.0 is a force for: i) empowering consumers and merchants, thereby driving economic growth; and, ii) facilitating entrepreneurship and putting merchants of all sizes on a more equal footing, thereby promoting inclusive growth. In addition, eBay’s own experience shows that this “new” commerce also facilitates greener growth by enabling smarter consumer choices and opening up business opportunities.

With this Roadmap, we want to help shape the policy environment to ensure that all the opportunities, which arise where technology meets commerce, are harnessed for the benefit of consumers and merchants.

Here we draw from our experience, our vision of the future of commerce and the economic study’s findings. The study shows what can be achieved in terms of bringing down barriers to world markets and creating growth opportunities if the right conditions are in place. These conditions include: trust mechanisms that facilitate communication, dispute resolution, and clarity on rights and obligations; global payment systems; and technological platforms enabling merchants to compete irrespective of size and provenance.

For policymakers, we believe this means they should prioritise efforts that open up market access, instil trust and predictability throughout the consumer journey, and promote intermediation services and innovation.

TRANSLATING THIS INTO IMMEDIATE ACTION
WE RECOMMEND THE EU TO:

Promote Fast, Affordable, Reliable, Accessible and Transparent (FARAT) end-to-end, cross-border parcel services brought to market through public-private partnerships that:

1. Involve postal operators to develop new, end-to-end services
2. Improve and strengthen links between the services of commercial courier companies and postal operators
3. Improve customer knowledge about the cross-border parcel market
Simplify, standardise and end discrimination in terms of VAT and customs duty obligations for electronically purchased products from EU and non-EU sellers by:

1. Broadening the “mini” One Stop Shop to SMEs and electronically purchased goods
2. Standardising VAT rates and registration thresholds
3. Putting in place an information web portal
4. Applying the same principles and thresholds for VAT and customs duties to products purchased online and on travel

Design “21st century trade agreements” taking the new generation of Free Trade Agreements to the next level by putting the needs of consumers and small traders at the centre, which includes:

1. Simplification and transparency in the area of consumer rights in bilateral situations
2. Simple online processes for solving disputes between consumers and traders
3. Trade facilitation for exporters, not only producers
4. Using new technologies to improve delivery services
5. Promoting secure internet and mobile payments

Become a world leader in promoting “mutual recognition” of customs programmes as a key instrument for facilitating international trade flows and focusing customs resources by:

1. Making mutual recognition agreements a horizontal policy priority
2. Publishing annual reports on the EU Authorised Economic Operator programme
3. Ensuring the Modernised Customs Code promotes mutual recognition of customs controls
4. Including customs information provisions in mutual recognition agreements

Drive a paradigm shift in legal thinking in relation to technology and Information Society services – a new policymaking and enforcement mindset which accepts that:

1. The old “predict-and-control” approach of trying to determine a solution will not achieve long-term, desired outcomes
2. Successful innovation in technology and Information Society services comes from allowing solutions to evolve over time
REFERENCES

I
We commissioned Sidley Austin LLP and Professor Marcelo Olarreaga of Université de Genève to study international trade flows and exporting behaviour, comparing the eBay marketplace with traditional offline channels. The findings of this research can be found in the report by eBay “Enabling traders to enter and grow on the global stage — story of an online marketplace: opportunities also for small traders and developing countries” (2012) and in the academic article, “There Goes Gravity: How eBay Reduces Trade Costs”, by Andreas Lendle, Marcelo Olarreaga, Simon Schropp, Pierre-Louis Vezina, (December 2011), available under: http://www2.unine.ch/files/content/sites/irene/files/shared/documents/s%C3%A9minaires/Olarreaga.pdf

II
This is based on 2010 data for US sellers on the eBay marketplace with annual sales of more than USD 10,000.

III
The robustness of this finding has been checked to ensure it is not driven by any outlier variable or composition effect that occurred during the aggregation of the results. The basic gravity regression was therefore repeated for online and offline trade for each of the 29 product categories, by year, by eBay site, for B2C and C2C commerce separately, and including domestic trade. The result was that the finding is robust and not driven by composition effects.

IV
The offline data comes from research by Eaton, Jonathan, Marcela Eslava, Maurice Kugler & James Tybout (2007). Export dynamics in Colombia: Firm-level evidence. NBER Working Paper No. 13531. The authors secured access to very unique data on Colombian exporters that allowed them to track these firms over a period of ten years. Their research concluded that on average 25% of all offline firms in a given year are new entrants.

V

VI
There are various ways of dividing goods into “hit” and “niche” products. One way is to identify the extent of brand intensity across goods categories. Products with many registered, and thus recognizable, trademarks could be seen as “hit” categories, while those with few registered brands are seen as “niche” categories. The intuition hereby is that protected and recognizable trademarks are the “currency” of branded goods, and product segments that register many trademarks apparently care about the “brand-image” of their products. We note that this view is taken by Anderson (Long Tail 2006).

VII
For example, the Sidley-Olarreaga team analysed the impact of different corruption levels (using the World Bank corruption index) between seller and buyer countries on the importance of distance to cross-border flows. In cases where the buyer’s country of origin has a particularly bad corruption score compared to the seller’s home country, distance matters roughly equally for online and offline trade. Clearly, buyers are eager to do business with reliable sellers, regardless of the trade costs involved. Sellers, eager to sell their goods, agree to the deal. In cases where the seller and buyer come from similarly-ranked countries, distance matters less for online than for offline trade. With growing levels of corruption in the seller’s country, offline trade occurs less and less frequently — whereas online trade is not similarly affected because alternative mechanisms, such as buyer protection programs run by online marketplaces, replace buyers’ mistrust in bad institutions in the seller country. In addition, the Sidley-Olarreaga team analysed the effect of “seller reputation systems”, such as eBay’s rating estimation system and found that the higher a seller’s reputation, the less buyers care about distance. Finally, comparing the effect of distance on “hit” and “niche” products, the Sidley-Olarreaga team found that the negative effect of distance is lower for “niche” products on eBay than offline. “Niche” products being a product category prone to asymmetric information problems, they concluded that the way information exchanges and communication between buyers and sellers are facilitated online helps to establish trust in the product quality.
This is a list of, in descending order, the top nine categories which we determined to be “hit” and “niche” categories by counting the number of registered trademarks listed in the Madrid System for International Registration of Trademarks, available on the World Intellectual Property Organization (WIPO) website. “niche” products: Home & Garden (16); Networking & IT (20); Coins (10); Stamps (26); Hobbies & Crafts (15); Antiques (1); Collectables (11); Sports Memorabilia (25) – “hit” products: Computing (12); Clothes, Shoes & Accessories (9); Sporting Goods (24); Toys & Games (28); Jewelry & Watches (17); Books, Comics & Magazines (3); Health & Beauty (37); Baby (2); Consumer Electronics, Video (34).

Jaron Lanier, “You are not a gadget”; Duncan Watts, principal research scientist at Yahoo, “Everything is obvious, once you know the answer”.

“Commercial sellers” are for the purposes of the economic study defined as US sellers on eBay with annual sales above USD 10,000.

“Regular exporters” are for the purposes of the economic study defined as US sellers on eBay with annual exports of above USD 10,000.

See, e.g., study for the European Commission by FTI Consulting (December 2011) describing a “two-tier” market for EU cross-border parcels where there are competitive alternatives and prices for customers with large and predictable volumes, whereas there are fewer actual or perceived alternatives and higher prices for customers with low and infrequent volumes.

This is the finding of FTI Consulting in their study on intra-cross-border parcel delivery for the European Commission (December 2011). Cross-border price differentials are lowest within the six largest Member States (15% for packets, 40% for parcels, 55% for express products) and highest within the more peripheral countries, corresponding to those whose letter mail markets will be fully liberalised in 2013 (47% for packets, 65% for parcels, 61% for express products). Study available: http://ec.europa.eu/internal_market/post/doc/studies/2011-parcel-delivery-study_en.pdf

The authors remark that: “the lack of mutual recognition of authorized trader schemes can limit the benefits these schemes bring at the national level”.
