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Empowered consumers: an engine of growth and jobs

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

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Ladies and Gentlemen,

I am delighted to have the opportunity to participate in and to meet you here at the Lisbon Council Growth and Jobs Summit.

Consumer policy has a significant part to play in generating growth and creating jobs. Informed and empowered consumers can turn up the competitive pressure.

Your agenda is close to my objectives as the Commissioner responsible for consumer policy. It is a pity and a missed opportunity that consumer policy has not been included in the Lisbon guidelines for Growth and Jobs.

National consumer policy has a major role to play in competitiveness, and this was recognised by those six Member States who spontaneously included it in their national reform programmes.

I hope this can be reflected in the next version of the guidelines.

Today I want to set out the important contribution that EU consumer policy can make towards our efforts for growth and jobs.

First, I should say that the economic underpinning of consumer policy is not well known, and the EU dimension perhaps less so. I hope to change this.

There are three important contributions EU consumer policy can bring:

- The first is through the completion of the internal market, notably the retail or so-called business-to-consumer (B2C) part.
- The second is through the intrinsic benefits of consumer policy measures in stimulating competition.
- Thirdly, I believe we can crank up EU economic performance by giving a greater weight to consumer welfare considerations in many areas across the policy spectrum, from Competition Policy and Internal Market to Trade, Energy, Transport and Telecommunications.

The retail internal market

493 million consumers make the internal market potentially the largest retail market in the world in economic terms. It could be the most competitive, innovative and dynamic retail market.

Instead, today we have 27 national mini-markets. The result is a lack of competitive pressure to reduce price divergence.

Back in 1992, the potential for integration of the retail side of the internal market was largely limited to shopping while on holiday and to those in border regions.

Today, the e-commerce revolution – which has yet to reach its critical mass – has transformed the potential for integration of retail markets in the EU.

But while the technological means are increasingly in place, business and consumer behaviour lags far behind, restrained by internal market obstacles and a lack of confidence in cross-border shopping. Consumers and retailers have begun to embrace e-commerce but mostly within strictly national markets.

The potential for a deeply integrated retail market is there, but it remains very far from being fulfilled.

Consider the following:

- In 2006, 26% of consumers made at least one cross-border purchase in the previous twelve months, compared to 12% in 2003.
- 50% of consumers with an internet connection at home bought on-line but only 12% bought from outside of their home country.
- 26% of consumers have bought a financial service on-line or over the phone or by post domestically, but only 1% have done so cross-border.
- 57% of consumers did not see a single cross-border offer in the previous twelve months, and only 19% of retailers advertised across borders.
- 57% of EU retailers (mostly SMEs) sell through e-commerce and 49% of them would be prepared to sell cross-border in at least one other EU country. But only 29% actually do so.

We have already started to see the competitive effects of e-commerce on the retail sector in some Member States, such as the UK and Denmark.

The transparency and competition it can offer represents a major change in competitive conditions. Ask travel agents, book, CD and DVD sellers if they agree.

What is so frustrating is that the potential benefits are not replicated across national borders.

An integrated retail internal market where consumers could compare and purchase from retailers throughout the EU would significantly sharpen competition and reward the most efficient retailers.

It would also help boost the EU's external competitiveness if it became a trusted and attractive destination for e-commerce shoppers from around the world.

Replicating the conditions of a national retail market at EU level is far from simple. The factors holding back business and consumers are complex.

We need to tackle the regulatory, enforcement and information obstacles. And we need to look at consumer contracts and redress.

Conventional wisdom has it that one should not open several fronts at the same time. But I have no time for conventional wisdom. I have 31 months remaining of my term in office and I intend to get busy on all these fronts, starting now.

The new EU Consumer Policy Strategy, which I will present to the College on 13 March, will set out the priorities and actions in greater detail.

I am hopeful we can lay the groundwork for a change in attitude for SMEs and consumers to retail in the internal market.

Language, so often cited as the main obstacle, proves not to be as big a problem as some regulatory obstacles, either for business or consumers.

64% of retailers are prepared to sell in more than one EU language and 32% of consumers are ready to buy in another EU language.

The process of creating the regulatory conditions for the development of the retail internal market involves a very careful harmonisation of consumer protection standards and rights.

These are often so deeply embedded in cultures and behaviours that their value and importance in underpinning the market process is often overlooked.

Allow me to recall the importance of fundamental consumer rules.

Even if we start from the classical basis of the perfectly rational consumer, information asymmetries exist in the market.

Especially for non-repeat purchases, there is an imbalance between the information available to the retailer and the consumer. Information may be incomplete – or even deliberately untruthful, misleading or deceptive.

Consumer legislation to require all advertising and commercial practices to be truthful, accurate and non-misleading and non-deceptive is required.

The Directive on Unfair Commercial Practices puts in place a harmonised standard for this across the EU. It also addresses another fundamental requirement for the market to function effectively: it obliges the retailer to supply information about the significant characteristics of the product.

Better informed consumers who are able to make a free choice are essential towards the efficient functioning of the market. They can drive forward a more efficient allocation of resources and higher economic welfare.

But the effective functioning of the demand side of the market is about more than accurate and complete information.

Consumers incur search costs in obtaining information. Market transparency about price, quality, choice and after-sales services is also essential. And this information needs to be comparable as well as accurate and transparent.

In a goods-based economy, this is simpler. A good example is the Directive on unit price indication.

It is thanks to EU law that you can compare the unit price of fruit, shampoo, textile and other products that are sold in units or different size packets.

So far so good. Increasingly, however, we are faced with the need to compare complex, tailor-made services.

15 years ago consumer organisations printed the various interest rates available for consumer loans. This is no longer possible as rates are personalised according to credit scores, making comparison harder.

We find a similar situation for services such as mobile phone calls. The proliferation of different tariffs tailored to different needs makes comparisons between suppliers difficult.

Some have labelled this phenomenon "confusopoly" – a term which captures well this element of market failure.

It seems increasingly clear that intervention is needed to enable consumers to make informed, rational choices without incurring excessive search costs.

If we fail to get this right, there is large price to pay in terms of competitiveness. Consumers cease to switch suppliers if the obstacles seem too high. A low level of switching in a sector is a sign of the absence of healthy competition. We have carried out some interesting research in the banking and electronic communications fields on these issues.

The evidence is alarming:

37% of internet users who tried to switch provider faced difficulties or gave up because of obstacles they faced. The economic benefits for consumers of a well-functioning retail market are clear in terms of higher individual welfare and better allocation of productive assets. But a well-functioning retail market can do much more for our modern economies.

Markets that are responsive to consumer needs are essential to the modern knowledge-based economy. Consumers are often the source of inspiration for new technologies and a key driver of innovation.

Consumer Strategy 2007-2013

The Competitiveness dimension will be at the heart of the forthcoming consumer policy strategy 2007-2013.

I also think it is essential that consumer policy will be at the heart of the Commission's Single Market review that is being carried out this year.

I have three main objectives for the strategy.

I want to **empower** Europe's consumers. This means creating the right market conditions for them to be able to make informed, considered and rational choices and equipping them with the tools to do so.

I want to **enhance** the economic and non-economic welfare of Europe's consumers, in terms of price, choice, quality and affordability.

Finally, I want to protect consumers **effectively**. Market failures for consumers fall into two categories – those that individuals cannot address and those that they should address themselves.

I want to ensure consumers are effectively protected from the former so they can devote their time and attention to the latter.

For example, we need to ensure affordable access to essential services for consumers. We should work towards a modern European economy with low levels of economic and social exclusion. It is an essential part of the political case for further liberalisation.

I have a number of key priorities in this respect.

First, we need a better **evidence basis** for monitoring and, where necessary, intervening in markets.

We need to develop a more sophisticated model of consumer behaviour so that policy is built on an understanding of consumers as they really are – rather than the entirely rational (almost robotic) beings presented in the textbooks.

Here I look to economists to help us develop a new model for consumer behaviour that takes into account both classical models of rational behaviour and perfect information together with the findings of behavioural economics that reveal the inherent biases in human nature.

Understanding these biases is crucial to smart consumer regulation - hence the need for more research in this area.

We clearly also need a robust and modern **regulatory framework** fit for the modern economy, more sophisticated markets and an integrated retail internal market. I have recently launched a major consultation exercise to help us improve EU rules on consumer contracts.

These rules also need effective and responsive **enforcement** mechanisms that allow national authorities to cooperate in real time. Consumers need both **information and education**. So do businesses, especially SMEs. They need to know what exactly the laws mean to them. The EU can complement national efforts well.

Finally I will seek to bring a greater consumer dimension to many other EU policies.

Energy, telecoms, transport, competition, trade, research, statistics and of course the internal market could all benefit from a consumer oriented approach.

I believe in an open economy. When faced with narrow national, regional or sectoral vested interests and protectionist tendencies, there is no better way to overcome them than leveraging consumer interest.

Picking winners is generally a poor proposition. Except if you pick the consumers. If we let consumer outcomes be the guiding standard for policy decisions we will hit two birds with one stone: efficient resource allocation and competitiveness on the one hand, and increased consumer satisfaction and therefore increased legitimacy for the EU on the other.

This is an important bridge between the Citizens' Agenda and the Growth and Jobs agenda.

Monitoring markets from the perspective of consumer outcomes is essential to better regulation. I hope we can develop the monitoring tools of consumer satisfaction and consumer detriment to identify and diagnose market failure.

In conclusion, I invite you to work with us to develop the economic dimension of consumer policy, which has hitherto been underplayed.

I am convinced that consumer policy is at the centre of many of the economic, social and political challenges the EU faces.

Through sound consumer policy the EU can make a significant contribution to competitiveness and to help re-connect Europe with its people. After all, we are all consumers. The biggest constituency of them all. As in economics, so in politics: numbers matter.