

**Report of the Expert Group on B2B  
Internet trading platforms**

**Final report**

## Introduction

A Commission staff paper published in November 2002<sup>1</sup> has provided a first assessment of business-to-business (B2B) Internet trading platforms and their potential opportunities and barriers for the participation of SMEs. As a follow-up to this analysis, Directorate General Enterprise has set up an Expert Group, with the specific mandate to further analyse the obstacles for the participation of SMEs in Internet trading platforms and to prepare for recommendations for better inclusiveness of SMEs; the list of members of the group is attached to this document (see Annex I). This report reflects the results of the discussions of the Expert Group and is based upon the consensual views of its members on the main challenges and the way forward. The views expressed by the members of the Expert Group reflect their personal views and do not prejudice the official position of the organisations they represent.

The main focus of the Expert Group was related to the identification of potential barriers for SMEs to better use B2B Internet trading platforms. However, it has to be clearly understood that the concerns of SMEs are shared by many larger enterprises, in particular in supplier industries. This report does not intend to favour the use of B2B Internet trading platforms over other forms of e-commerce or more traditional sales channels, but is strictly limited to the analysis of potential barriers to effectively use them as a new business tool. Similarly, the intention of the Expert Group is not to promote the use of specific forms of B2B Internet trading platforms. The general view of the Expert Group is that such electronic trading platforms will increasingly play an important role and that European enterprises should be as prepared as possible, to take advantage of them.

This report also reflects the discussions at an open workshop on B2B Internet trading platforms organised by Directorate General Enterprise, held on 10 June 2003 in Brussels. Stakeholders involved in B2B Internet trading platforms were invited to participate in this workshop and they provided important comments on the draft report of the Expert Group. In light of these discussions, the final report has been completed and will be published on the Commission's website.<sup>2</sup>

The Expert Group members wish to thank the European Commission, Directorate General Enterprise, for the organisational and conceptual support received in preparing this report. The statistical analysis is mainly based on results of the e-Business W@tch<sup>3</sup>. Mr Reinhard Büscher, Head of Unit, "E-business, ICT industries and services" chaired the meetings of the Expert Group and facilitated to reach broad consensus around the table. Mrs Perogianni organised and stimulated the discussions between the members of the Expert Group and assisted in drafting this report. However, the final responsibility for the content of this report and all remaining errors remains with the members of the Expert Group on B2B Internet trading platforms.

---

<sup>1</sup> Commission staff working paper on "B2B Internet trading platforms: Opportunities and barriers – A first assessment" [SEC (32002) 1217]

<sup>2</sup> <http://europa.eu.int/comm/enterprise/ict/policy/b2b/index.htm>.

<sup>3</sup> <http://www.ebusiness-watch.org/marketwatch>

## **1. B2B Internet trading platforms: New challenges for SMEs**

B2B Internet trading platforms represent more advanced forms of e-commerce compared to traditional web site based e-commerce activities. Beyond the opportunities of buying and selling online, B2B Internet trading platforms can facilitate the internal reorganisation of companies, through the integration of ICT into internal business processes. This offers new possibilities to reduce operational costs and to raise productivity. However, despite the potential benefits, the use of B2B Internet trading platforms is still relatively low and their acceptance by SMEs is not widespread.

### **The concept of B2B Internet trading platforms**

B2B Internet trading platforms may take many different forms. They include all Internet-based technical solutions that aim at facilitating the establishment of new trading relationships between companies or at supporting existing relationships. Some B2B Internet trading platforms focus on completing business transactions while others support the integration of IT systems and a third group simply provides information. B2B Internet trading platforms may be independent stand-alone platforms or integrated in individual companies' web sites. For the purposes of this report, B2B Internet trading platforms include, but are not limited, to transaction-focused e-marketplaces. These are changing in particular external business relations, by bringing together new partners and creating new forms of competition, as well as internal business organisation, by changing the links between front and back offices.

B2B Internet trading platforms can take many different forms:

- **Company web sites:** Company sites can be thought of as round-the-clock mini-trade exhibits. In some cases, company web sites serve as the entrance to an exclusive Extranet, available only to customers and registered site users. In other cases, company web sites have direct access allowing them to effectively retail to other businesses. In this sense, company web sites could be considered as a forerunner of Internet trading platforms.
- **Product supply and procurement exchanges:** A company can shop for supplies from vendors, request proposals, and, in some cases, bid to make a purchase at a desired price. Sometimes referred to as e-procurement sites, some serve a range of industries and others focus on a niche market.
- **Specialised or vertical industry portals:** These sites provide a “sub-web” of information, product listing, discussion groups and other features. They have a broader purpose than the procurement sites although they may also support buying and selling. A special form of this type of activities is brokering sites, which act as an intermediary between someone wanting a product or service and potential providers. Equipment leasing is an example.
- **Web-EDI:** The most basic Electronic Data Interchange (EDI) level consists of a computer-to-computer exchange over dedicated lines of normal business transactions including payments, information exchange and purchase order

requests. The second level incorporates an application-to-application design where individual companies link a minimum of one of their in-house systems to the EDI interface, gaining optimal productivity. A new type of EDI is based on real-time data exchange over the Internet between customers, partners and suppliers. Evolving from basic EDI, the solutions are becoming more complex. Participants in the data exchange may use different software, utilise different protocols, and data formats.

- E-marketplaces: They are defined as an online service run by a third party where several buyers and sellers meet to buy and/or sell products and/or services – the famous “butterfly” model.

Due to the variety of B2B Internet trading platforms, it would not be appropriate to focus only on e-marketplaces. To do so would certainly not reflect e-business as a whole as companies can use many other ways of communication for conducting their transactions electronically. The Expert Group prefers, therefore, the more general term of Internet trading platforms, as also suggested by the Staff working document of the European Commission. However, it has to be acknowledged that the borderlines between the different concepts are fluid. As most problems for SMEs are related to e-marketplaces, and here in particular to reverse auctions, this specific form of B2B Internet trading platforms has certainly earned most attention.

#### **B2B Internet trading platforms – a glossary**

**Pinboards** provide an opportunity to announce a concrete desire to buy or to sell something and to prepare for a transaction. The price negotiation and the actual transaction usually take place outside the scope of the e-marketplace.

**Exchanges** (also known as matching systems) are the extension of the pinboard idea. Their main difference is that the negotiation takes place on the e-marketplace and that the platform provides some mechanism for the matching process.

**Auctions** are formal price-finding procedures supported by the Internet trading platform. Sales auctions are initiated by a seller with the aim of selling products or services at the highest possible price. Procurement auctions are initiated by the buyer with the aim of obtaining products and services for the lowest possible price.

**Catalogue-based** Internet platforms are based on a combined product catalogue made up of the catalogues of the various sellers. The buyers can choose from this range of products, compare terms and other products. The seller usually fixes prices but they can also vary from one buyer to another.

**Settlement and fulfilment** includes functionalities like logistics, payment etc, offered by some Internet platforms.

**Collaboration** platforms enable the exchange of information to optimise ordering and delivery.

**Integration platforms** integrate the IT infrastructure of several parties to enable electronic document exchange.

## From euphoria to reality: Some facts and figures

In 2000, the number of B2B Internet trading platforms reached its peak. Since then, a consolidation process has started which seems not yet fully completed. Currently, it is estimated there are around one thousand B2B e-marketplaces world-wide, with about 300-500 active in Europe (Table 1). B2B Internet trading platforms are more common in some industry sectors than in others, with transportation & logistics, food and beverages, agriculture, and building and construction being the leading sectors.

Table 1: Estimated numbers of active B2B marketplaces by region of activity

Active in	Berlecon Research		eMarketServices	
	4/2002	2/2003	4/2002	6/2003
World	1060	889	1189	1008
North America	669	556	619	447
Europe	381	324	540	516

Sources: B2B marketplace databases from Berlecon Research ([www.berlecon.de](http://www.berlecon.de)), checked on 26 April 2002 and in February 2003, and eMarketServices ([www.emarketsservices.com](http://www.emarketsservices.com)), checked on 26 April 2002 and 22 June 2003.

Note: The regional information denotes activity within the respective region, not necessarily the headquarters.

Concerning the usage of B2B Internet trading platforms by enterprises, the *e-Business W@tch* reports for the 4 largest EU Member States (Germany, France, UK and Italy) that around 5% of European enterprises used e-marketplaces in mid-2002 and early 2003 and that a further 3-4% are planning to do so in the near future. These figures suggest that the overall impact of B2B e-marketplaces is still relatively low, but considerable differences exist between different industry sectors.

In the ICT services sector, for example, 7-12% are regularly trading via e-marketplaces, while a further 6-9% have reported that they are planning to do so. Also the tourism industry shows an above-average use of e-marketplaces. It is also interesting to note that the plans to use e-markets seem to be more developed in those industries that already use them to a larger extent, such as in ICT services, tourism or business services. This suggests that e-marketplaces are more suited to the Internet trading demands for some sectors than for others.

Table 2: Participation in B2B e-marketplaces by sector (2002/03)

Sectors (EU-4*)	Trading on e-marketplaces		Planning to trade on e-marketplaces within 12 months	
	6/2002	3/2003	6/2002	3/2003
Food, beverages and tobacco	0.7	0.6	2.7	1.1
Publishing, printing & AV services	4.7	-	3.9	-
Chemical industries	4.3	2.9	2.7	4.4
Metal products	0.8	-	2.4	-
Machinery and equipment	3.0	-	2.7	-
Electrical machinery and electronics	4.6	4.0	3.8	4.7
Transport equipment manufacturing	4.1	3.6	3.2	4.1
Retail	6.6	4.9	2.0	4.3
Tourism	8.6	5.5	5.0	4.2
Financial sector	3.7	-	1.6	-
Insurance and pension funding	4.2	-	5.0	-
Real estate activities	2.5	-	1.3	-
Business services	5.0	-	5.1	-
ICT services	11.9	7.2	9.0	5.7
Health and social services	3.8	-	2.3	-
<b>Total (EU-4*)</b>	<b>5.3</b>	<b>4.9</b>	<b>3.4</b>	<b>4.2</b>

Source: *e-Business W@tch* (2002/2003).  
Regional coverage: EU-4 (Germany, France, Italy, UK). Note that the sector composition of the EU-4 is a different one in 2003 (7 sectors, N=2815) than in 2002 (15 sectors, N=5917).

Some industries show considerable differences between the e-marketplace use of small and large companies (Table 3.) Generally, large enterprises are more likely to use e-marketplaces than SMEs. While almost 10% of the large enterprises confirm that they use e-marketplaces for selling or purchasing products and services, only about 5 % of the SMEs do so. This picture prevails in the data available for early 2003. The respective ratio is 7% to 5% for a subset of the industries studied in 2002. Among current non-users, the percentage of enterprises that plan to start using marketplaces is higher among large enterprises (5%) than among SMEs (about 4%), but not as significant as in terms of active participation. Also this picture is the same in 2003.

Table 3: Participation in B2B e-marketplaces by sector and size class (mid 2002)

Participation in e-marketplaces	0-49 empl.	50-249 empl.	250+ empl.
Food & beverages, tobacco	0.5	4.4	6.9
Media & printing	4.6	5.1	13.8
Chemical industries	3.8	2.4	23.2
Metal products	0.6	7.1	13.5
Machinery and equipment	2.6	5.0	19.5
Electronics	4.3	11.0	7.6
Transport equipment	3.6	3.9	20.6
Retail	6.6	5.2	5.5
Tourism	8.6	11.2	8.8
Banking and leasing	3.7	4.7	1.5
Insurance and pension funding	4.0	4.6	6.4
Real estate activities	2.5	2.5	10.5
Business services	5.0	2.9	3.5
ICT services	11.9	14.5	7.8
Health and social services	3.8	0.0	0.8
<b>Total (EU-4*)</b>	<b>5.3</b>	<b>5.1</b>	<b>9.8</b>
<i>Total (EU-15)</i>	<i>5.3</i>	<i>5.2</i>	<i>8.6</i>
<i>Total EU-4 in 3/2003*</i>	<i>4.9</i>	<i>6.0</i>	<i>7.3</i>
<p><u>Source:</u> <i>e-Business W@tch</i> (2002/3).</p> <p><u>Regional coverage:</u> EU-4 (Germany, France, Italy, UK). Note that the sector composition of the EU-4 is a different one in 2003 (7 sectors, N=2815) than in 2002 (15 sectors, N=5917).</p>			

B2B Internet trading platforms differ considerably with respect to their functionality, ranging from electronic tendering to full business integration. There is hardly any difference, how and for what purposes SMEs and large enterprises are using e-marketplaces (Table 4). "Simple" catalogue-based offering and purchasing are the most important types of transaction, while participation in auctions is less important, notably for SMEs. While Table 4 shows strong differences between the 2002 and 2003 data for bidding in auctions or launching calls for tenders, these results might indicate changes but might also be due to different industry composition of the data. Less than a quarter of all companies indicate that they answer calls for tenders placed at e-marketplaces, but it is interesting to note that this percentage is significantly higher among medium-sized enterprises.

Differences between larger and smaller companies appear also in terms of their preferred way of operating e-marketplaces. Whereas large enterprises clearly favour e-marketplaces operated by an industry consortium of buyers/sellers, smaller companies prefer e-marketplaces that are operated by a single buyer/seller or by an independent third party, the latter also being the most preferred among medium-sized enterprises. The fact, however, that none of these activities has a participation rate of

more than 50% indicates that enterprises tend to assume very specific behaviour and roles in their approach towards e-marketplaces. In particular, it can be concluded that most enterprises use e-marketplaces either as vendors or as buyers, but not as both.



**Table 4: Activities on B2B e-marketplaces by size class**

Activity	All enterprises		0-49 empl.		50-249 empl.		250+ empl.	
	6/2002	3/2003	6/2002	3/2003	6/2002	3/2003	6/2002	3/2003
Catalogue-based offering on e-marketplaces	41	39	41	39	46	49	46	53
Catalogue-based purchasing on e-marketplaces	36	29	36	29	48	46	42	59
Auctions on e-marketplaces: selling	16	13	16	13	14	14	27	13
Auctions on e-marketplaces: bidding	18	27	18	27	14	21	24	25
Launching calls for tender on e-marketplaces	15	3	15	2	17	10	24	28
Answering calls for tender on e-marketplaces	24	20	24	20	42	45	22	25
Online-marketplaces operated by a single buyer/seller	36	-	36	-	31	-	23	-
Online-marketplaces operated by an industry consortium of buyers/sellers	14	-	14	-	31	-	45	-
Online-marketplaces operated by an independent third party	31	-	31	-	38	-	33	-
Online-marketplaces operated by others	17	-	17	-	5	-	6	-

Source: *e-Business W@tch* (2002/2003).

Regional coverage: EU-4 (Germany, France, Italy, UK). Note that the sector composition of the EU-4 is a different one in 2003 (7 sectors, N=2815) than in 2002 (15 sectors, N=5917).

Base: Enterprises trading on e-marketplaces. Figures for 2002: N=290 for all enterprises, N= 154 enterprises with 0-49 empl., N=87 enterprises with 50-249 empl., N=49 enterprises with 250 or more ). Figures for 2003: N=128 for all enterprises, N=68 enterprises with 0-49 empl., N=39 enterprises with 50-249 empl., N=21 enterprises with 250 or more ).

In summary, B2B Internet trading platforms are, contrary to public perception, still alive. Comparing the available data for 2002 and 2003 shows no major changes in the use of e-marketplaces for most industries. Thus, there is no evidence for a declining importance of Internet trading platforms for enterprises nor for the contrary. Moreover, even in sectors that are currently lagging behind, it seems that there is an important growth potential. Catalogue-based transactions are, by far, the most popular activity within B2B Internet trading platforms whereas electronic auctions are not as widespread as often assumed. In general, larger enterprises are stronger users of B2B Internet trading platforms than SMEs and more in favour of e-marketplaces operated by an industry consortium of buyers or sellers. This may well indicate different economic interests between larger enterprises and SMEs.

## The specific problems of SMEs

The emergence of B2B Internet trading platforms raises several new challenges for companies. This is especially relevant for SMEs, due to their lack of disposable time,

*“...it seems that the threat of a “digital divide” between larger and smaller enterprises in terms of simple Internet access and usage is no longer the most important policy issue...Future policy discussion should therefore focus on how best to help SMEs to transform their businesses into “e-companies” rather than on how to promote e-commerce.”*

Commission’s communication on “Adapting e-business policies in a changing environment” (March 2003)

capacities and funding to adjust to this new way of trading in comparison with larger enterprises. Some of these barriers may be real, others only perceived as such. But whether justified or not, they may have a real impact, to the detriment of SMEs and the economy as a whole.

Some forms of B2B Internet trading platforms offer significant benefits to all enterprises, whether large or small, by creating new virtual communities of buyers and sellers and thus facilitating the bringing together of enterprises with complementary interests. Enterprises eager to broaden their

customer base, looking for new partners or interested in buying or selling specialised products may find new opportunities by using B2B Internet trading platforms. At the same time, by offering integration and automation of business processes between trading partners, Internet trading platforms offer new ways of maximising efficiency and improving profitability. Therefore, the emphasis on challenges and risks should not ignore the potential benefits.

However, enterprises are confronted with new uncertainties related, for example, to the impact of B2B Internet trading platforms on their internal business organisation or to the introduction and reliability of new technologies into the transactional process. To fully reap the potential benefits of trading online, product-specific data needs to be digitised in a systematic manner and workflow has to be adapted to ensure better integration between front desks and back offices. This is, by no means, a trivial task, as it requires important investments supported by some managerial vision.

SMEs are still lagging significantly behind larger companies in integrating their ICT systems. Statistics from the *e-Business W@tch* suggest that less than 10% of those small enterprises that sell online have fully integrated the ordering process with their back-end system, less than 20% of medium-sized companies have already done so, while well over a third of large enterprises have accomplished this task. Moreover, the same statistics suggest that there are twice as many large enterprises as small ones reporting that online orders “trigger business processes”.

<b>Table 5: Method of processing online orders</b>		
EU-4 (D, F, I, UK)	Online orders are fully integrated with the back-end system	online orders trigger business processes
0 – 49 employees	8.4	26.1
50 – 249 employees	17.9	35.0
250+ employees	39.7	53.6
<b>Total EU-4</b>	<b>26.9</b>	<b>42.4</b>
<b>Total EU-4 (3/2003)</b>	<b>38.1</b>	<b>48.5</b>

Base: enterprises selling online. Figures for 2002: N=805 for all enterprises, N=422 enterprises with 0-49 empl., N=252 enterprises with 50-249 empl., N=131 enterprises with 250 or more ). Figures for 2003: N=436 for all enterprises).

Data are employment weighted, i.e. should be read as "enterprises representing ...% of employees"

Note that the sector composition of the EU-4 is a different one in 2003 (7 sectors) and in 2002 (15 sectors).

Source: e-Business W@tch (2002/2003)

Despite all difficulties, the need to further integrate ICT into the business process is not generally ignored by SMEs. The vast majority of enterprises with more than 10 employees already use ICT in one way or another. Moreover, the perception of the importance of digital technologies for doing business does not differ significantly between small, medium and large enterprises. Indeed, the *e-Business W@tch* survey revealed that, although the applications used and the level of integration of e-business differs between smaller and large enterprises, companies across all size-classes perceive - in a more or less similar way - the importance of their respective e-activities.

<b>Table 6: Significance of e-business for the enterprise today</b>		
EU-4 (D, F, I, UK)	e-business constitutes a significant part of the way the business operates	e-business constitutes some part of the way the business operates
0 – 49 employees	11.4	37.7
50 – 249 employees	9.6	42.2
250+ employees	10.6	51.8
<b>Total EU-4</b>	<b>10.9</b>	<b>44.1</b>
<b>Total EU-4 (3/2003)</b>	<b>11.5</b>	<b>47.9</b>

Computational base: all enterprises (N=9264 for 2002, N=3515 for 2003)

Data are employment weighted, i.e. should be read as "enterprises representing ...% of employees".

Note that the sector composition of the EU-4 is a different one in 2003 (7 sectors) and in 2002 (15 sectors).

Source: e-Business W@tch (2002/ 2003)

From this analysis it can be concluded, that most SMEs are, in general, aware and convinced of the advantages of e-business. However, their full participation in B2B Internet trading platforms depends on a number of conditions that will only be fulfilled over time. Most importantly, many SMEs find it difficult to streamline their business processes in a manner that would allow for fully integrated e-business solutions. Whereas it is relatively easy to buy or sell via websites, the full

participation in the most advanced forms of B2B Internet trading platforms depends on further automatisisation of internal procedures based on digitised information and new workflow schemes.

Given these uncertainties, it is not surprising that many enterprises, in particular many SMEs, are still sceptical about participation in B2B Internet trading platforms. However, some SMEs, in particular as suppliers of larger enterprises, may not have the choice whether to participate or not in these new trading platforms. Many large companies are increasingly steering towards electronically conducting transactions with their suppliers or subcontractors and, in some sectors, they are operating their own portals to procure goods or services.

As public authorities are also increasingly opting for electronic procurement techniques, SMEs that are not well prepared to effectively participate in Internet trading platforms may soon face severe difficulties.

However, many enterprises and, in particular, SMEs still hesitate to fully engage themselves in electronic trade. In some cases, they may have good reasons not to, based on a clear assessment of potential costs and benefits. In other cases, they may underestimate the dynamics that lie behind the transition from paper-based to electronic transactions. The following problems seem to be of particular relevance:

- Lack of awareness of the risks and benefits: Searching for information is not a priority for most SMEs as their limited size does not allow them to spend a lot of time or designate appropriate staff to the task. It is often unclear whether e-business is beneficial to them.
- Difficulties in identifying the most relevant B2B Internet trading platforms: In cases where SMEs actually intend to develop an e-business strategy, they face the difficulty of identifying the most relevant Internet trading platforms for their specific activity. In most sectors, a great number of trading platforms exists, with some of them of dubious character. Due to the lack of market transparency, it is not always easy to select the right ones, as this would require time and money. This may result in the need to participate in many different Internet trading platforms, with multiple fees and higher investment costs.
- Insufficient clarity of product definitions and incompatible technical standards: The diversity of standards makes it difficult for SMEs to choose the most stable solution. SMEs are normally not actively engaged in the standardisation process and rely, to a large extent, on IT vendors offering packaged solutions. This may not necessarily result in interoperable products and data.
- New commercial risks resulting from incomplete information about market rules, business partners and unfair practices: E-marketplaces have their own rules that are sometimes distinct from usual business, e.g. for electronic auctions. SMEs will have to learn to fully understand them in order to minimise financial and economic risks and to develop new strategic behaviour.
- Financial barriers to enter into e-business: The cost of implementing a secured transaction protocol and to maintain IT systems and websites can be very high. Larger companies can usually better afford these costs, spreading them more widely and benefiting from the economies of scale. According to the *e-Business W@tch*, the costs of ICT usage are lower for large enterprises, even though their

systems are more sophisticated, as smaller enterprises are forced to invest six times more human capital in their poorer ICT infrastructure and medium-sized enterprises have to invest about twice as much. Therefore, SMEs usually start with e-business in a “low budget” way, which seems to be the most appropriate strategy.

- Lack of qualified personnel: Qualified personnel are either not directly available within the existing staff of the enterprise, or hard to find on the job market. High salaries required by qualified IT experts are often not affordable, considering their limited use for most SMEs. Another problem arises in the case of an “explosive” success of selling online, if insufficient staff are available to handle an unforeseen number of orders around the clock and for new destinations.

In conclusion, the new challenges for SMEs are numerous. Most of them may be resolved by providing SMEs with accurate, reliable, sector specific and up-to-date information. The major question to be answered is however “Will e-business be profitable for my company?” The current reservations relating to B2B will only be overcome if SMEs are convinced that further investment and organisational changes make business sense.

## 2. Policy recommendations of the Expert Group

E-marketplaces are still in a phase of infancy. Should the further development be entirely left to market forces or is there a need for accompanying enterprise policy initiatives, notably to facilitate the participation of SMEs in B2B Internet trading platforms? It is the view of the Experts Group that the further development should be left primarily to the market. In particular, there is no need to consider specific legislation to regulate B2B Internet trading platforms, even if undoubtedly new risks are emerging. The main role of enterprise policy should be to reduce economic risks, due to the lack of information and interoperable solutions, and to prepare SMEs for participating effectively in the new forms of electronic trading.

*"Internet trading platforms present a huge opportunity for the e-economy. We will see a large variety of practices, models and technological solutions and in the majority of cases the adoption of these new platforms will be a boon to e-Europe. We must not shy away from the development because of power shifts between suppliers and buyers in the market - but adopt these new technologies on rational grounds."*

Nicklas Lundblad, Eurochambres

In addition, enterprise policy should encourage business associations to better inform their members about the possibilities and risks of B2B Internet trading platforms and to provide them with the necessary information to take informed decisions. But business associations will have to play the main role in promoting trust and confidence in e-business, e.g. through the development of codes of conduct and the arbitration of conflicts. In addition, the private sector will have to develop standards that allow seamless communication and full business integration. Therefore it is considered to be mainly the task of the private sector to

properly address the potential risks of B2B Internet trading platforms.

The further development of B2B Internet trading platforms strongly depends on the willingness of enterprises to share common business practices. In this sense, electronic trading will deepen business integration and foster co-operation between enterprises. Enterprise policy can play a useful role in helping SMEs to adapt to the new challenges of Internet trading platforms, by promoting market transparency, interoperability and fairness. On the other hand, public authorities should not promote specific forms of e-commerce but remain neutral with respect to different sales channels and different functionalities at Internet trading platforms. All members of the Expert Group share these basic enterprise policy principles. Based on them, the Expert Group has intensively discussed how the participation of SMEs in B2B Internet trading platforms could be further enhanced, by using available instruments of enterprise policy.

The results of this discussion are presented in this chapter. A need for further actions has been identified in particular in the areas of:

- Awareness building
- Market transparency
- Standardisation
- Trust and confidence

For each of these themes, a rapporteur was nominated to prepare for the discussion and to present first ideas for actions to be taken. The recommendations resulting from this open discussion reflect the consensual views of the Expert Group, taking into account the different interests and expertise of its members. Therefore, the Commission is invited to assess carefully these recommendations, with a view to implementing them as widely as possible within the framework of the European competitiveness policy.

### **To raise awareness**

*"E-markets have changed considerably since their invention. However, the public understanding of e-markets is still at the state of 1999. It is of crucial importance – especially for smaller companies – that they understand Internet trading platforms better, so that they can make optimal use of them."*

Thorsten Wichmann, Berlecon Research

The Expert Group notices that awareness campaigns are among the most popular policy actions to help SMEs to “go digital”. Enormous efforts have been undertaken in recent years, with and without public support, to raise the general awareness on the benefits of e-commerce and to assist SMEs in taking the first steps to connect to the Internet. Also as a result of this, enterprises are increasingly using the Internet as a tool to buy and sell online. However, there still seems to be an important gap between SMEs and larger companies with respect to more advanced e-business applications and the integration of ICT into internal business processes.

B2B Internet trading platforms, as more sophisticated forms of e-business, have the potential to help SMEs to move towards the full integration of ICT into their business processes, thus helping them to increase their competitiveness and productivity. To

encourage SMEs to engage into this transformation process, the Experts Group is of the opinion that raising awareness has to be reoriented towards addressing more specifically the problem of B2B Internet trading platforms and their impact on business models. The emphasis has to be shifted from stimulating connectivity to a more advanced use of the Internet.

Awareness campaigns designed to better inform about B2B Internet platforms should preferably be organised by neutral intermediaries, such as business associations and other institutions, at national or regional level, which are in regular contact with SMEs and are well aware of their specific needs. However, it may be necessary to better educate these institutions about the benefits of e-business and to provide them with practical information material in order to help SMEs to get a better understanding on how such trading platforms operate and how to use them efficiently. This, unfortunately, cannot be taken for granted.

Awareness actions for SMEs should be based upon true and unbiased facts and practical examples. Thus, SMEs have to be informed that the development of e-business in general and of B2B Internet trading platforms in particular is still in its infancy, as demonstrated by the fact that many B2B Internet trading platforms have been shut down in recent years. Therefore, the landscape is still rapidly changing. In addition, SMEs should be made aware of the fact that the different forms of online trading further enhance competition, by lowering the access barriers to market entrance and by further stimulating cross-border electronic transactions. As a result, this offers new opportunities for enlarging the customer base and finding new partners, not only within Europe.

*"Using e-reverse auctions for customised, product related supply leads often to less efficiency and the destruction of the real key benefits of e-commerce. The underlying assumption of very frequent supply switches leads indeed to less exchange and e-cooperation, necessary to co-develop and to optimise the supply chain, production lines and inventory levels".*

Jan Cardon, ECMA – European Carton Makers Association

In particular, awareness campaigns should stress the fact that transactions via B2B Internet platforms should be seen as part of an overall e-business strategy. In the development of their e-business strategy, SMEs should take into account that benefits from participation in B2B Internet trading platforms can go beyond the benefits from buying and selling online. For example, participation in B2B Internet platforms may provide important benefits in other areas, such as co-operation, collaboration and information exchange, improving relations with suppliers and customers and increasing the efficiency of internal business processes.

As a result, important cost savings could be achieved from reduction of processing costs. On the other hand, processing costs may increase and long-term relationship with suppliers may suffer in the case of unfair trading practices, e.g. in the field of reverse auctions.

In addition, awareness actions related to B2B Internet trading platforms should be tailored to the needs of specific industry sectors. Although e-commerce, in one way or another, may be beneficial to all sectors, it is important to highlight that not all



products and services are well suited to trading via e-marketplaces. For example, standardised commodities seem to be more eligible than customised goods. Awareness campaigns should particularly be addressed to industry sectors with a high potential but still lagging behind in the use of B2B Internet trading platforms.

Furthermore, awareness raising initiatives should take into account the different forms of B2B Internet trading platforms, their respective risks and benefits and the conditions for their effective use. In most cases, B2B Internet trading platforms are not offering all types of trading functionalities. The selection of the most appropriate platform strongly depends on the specific trading needs of SMEs. Better awareness is needed with respect to the potential risks of specific forms of B2B Internet trading platforms. For example, suppliers should be well aware that online reverse auctions are also used as a tool to reduce prices, mostly for ad hoc transactions and do not necessarily intend to establish long term business relationships. Buyers using online reverse auctions should therefore be made aware of the fact that total process cost may rise considerably and long-term partnership with suppliers may be destroyed as a consequence of opaque, purely price driven and short term oriented e-procurement. SMEs have to adapt their strategies taking account these realities in order to avoid negative surprises. In addition, it should be clearly understood that online auctions and catalogue-based platforms are best suited for standardised products whereas this may not necessarily be the case for customised goods and services.

*"Enterprise policy has promoted raising the awareness of the use of the internet for trading. It now needs to support awareness campaigns to show how SMEs can effectively use B2B Internet trading platforms to meet their own business needs. »*

Angus Townley, Corus Construction & Industrial

Moreover, awareness campaigns should focus on guiding and training SMEs through the various steps towards the full implementation of a consistent e-business strategy. In this context, the dissemination of best practice cases, particularly focusing on SMEs and linked to specific industry sectors, can help SMEs to learn from successful experience. In addition, guidance on other practical questions, in particular the provision of indicative calculations of the

cost of investment and potential cost saving, for the various types of functionalities, can be of practical help.

To be effective, awareness raising actions should not ignore the specific legal and regulatory environment affecting B2B Internet trading platforms. The question of applicable law in cross border electronic transactions may lead to legal uncertainty. SMEs should be aware of the fact that their national law may not always be applicable and that the applicable law is usually defined as part of the general terms and conditions of the contract. In addition, further awareness is needed on the legal status of online auctions, which is not always clear and may differ from one Member State to another. As part of awareness building, specific emphasis should be given to transparency obligations, resulting from the e-commerce directive and the relevant competition rules, in particular as regards the need to protect the confidentiality of sensitive data and the question of transparency in online auctions. In addition, awareness on the legal framework for participation in electronic public procurement should be further promoted.

By using B2B Internet trading platforms, new business practices are being established. To promote “fair” trade, awareness campaigns can contribute to the dissemination of Codes of Conduct developed by industry sectors. Similarly, raising awareness should focus on better informing SMEs on the existence of alternative dispute resolution systems (ADR), including online, and their potential advantages over court litigation. In this respect, it has to be noted that not only consumers have to be aware of the risks of Internet trade but enterprises as well. As much attention has to be devoted to convince suppliers to “go online” to sell as to convince buyers to use the Internet as a tool for buying.

To conclude, the Expert Group considers further awareness actions to better inform enterprises about the opportunities and risks of B2B Internet trading platforms still to be necessary. However, the emphasis has to be shifted from general awareness to better train SMEs and industrial suppliers to effectively use the Internet as a business tool to find new customers and partners and to reduce process costs.

In this sense, awareness building not only contributes to a better integration of e-commerce into business processes but also helps to build trust and confidence into new forms of buying and selling over the Internet. Many concerns of SMEs in this respect are due to a lack of understanding and can be relatively easily removed by better awareness. For this, awareness building has, however, to be based on true facts and concrete examples, reflecting the real situation in different sectors. SMEs can learn a lot from previous experiences of e-business and should be especially aware of successful best practise.

**The Experts Group invites the European Commission:**

- **To help to re-orientate regional and national e-business awareness campaigns towards the new challenges emerging from B2B Internet trading platforms, by providing relevant information and by practically demonstrating how SMEs can effectively use them. To this end, co-ordination among the different regional and national awareness initiatives should be enhanced via the European eBusiness Support Network.**
- **To support the development of a European SMEs toolkit. This could help to harmonise awareness campaigns. As the SMEs sector is diversified, the Commission should financially support the development of a toolkit for medium sized enterprises (50 employees and more) and another for small and micro enterprises as the needs and the understanding of e-business issues are different.**
- **To launch, in close co-operation with business associations, Chambers of Commerce and Euro-Info-Centres, a European awareness campaign to better inform SMEs on the forthcoming European legal framework for participation in electronic public procurement.**
- **To specifically address the need for better awareness on B2B Internet trading platforms in the candidate countries, in order to facilitate electronic cross border transactions throughout Europe.**

## **To enhance market transparency**

In general, SMEs are not establishing their own B2B Internet trading platforms but they are using platforms operated by large companies or independent operators. As a result, they depend on neutral and unbiased information about existing possibilities and potential trading partners. The Expert Group recognises that this is hard to find, even in the off-line world, and that it is unrealistic to demand the existence of totally unbiased and neutral information in any marketplace. However, the Expert Group is of the opinion that improved transparency about relevant B2B Internet trading platforms would facilitate building trust in these new forms of bringing together demand and supply, reduce market risks due to incomplete information and thus strengthen motivation to use them.

As many B2B Internet trading platforms have shut down in recent years, the question of which e-marketplaces are truly active is of major importance for SMEs. Contrary to large companies, SMEs often have limited financial resources to conduct the necessary market research and cannot bear the risk of engaging in speculative activities. Therefore, access to reasonably neutral information is vital in order to reduce search costs, minimise risks and improve market transparency, thus contributing to the creation of a level playing field between large companies and SMEs. At the same time, increased market transparency would also be beneficial to Internet trading platform operators as this would contribute to enhanced confidence and trust into these new ways of doing business.

Business organisations in different sectors of trade and industry have an important role to play in providing enterprises with relevant information to develop their e-business strategies. Indeed, many good information services exist already, which offer valuable information on B2B Internet trading platforms. This includes information about the type of goods and services traded online, the different services offered by B2B Internet trading platforms, their ownership etc. However, there is still the need to further improve transparency on B2B Internet trading platforms. Information about them needs to be constantly updated and further disseminated through channels best known by SMEs. In addition, increased information is clearly necessary about the effective use of B2B Internet trading platforms and the relevant trading rules, to help SMEs to make an informed decision on the most economically sustainable and trustworthy Internet platforms.

The Expert Group notes that there is a risk that some operators of B2B Internet trading platform will be reluctant to reveal more information, in particular on the effective usage of their platforms and the number of contracts concluded. However, this is not a good sign for trust and confidence in these new trading facilities. It is in the general interest of European enterprises that the consolidation process in this field is accelerated in order to reduce further risks and uncertainties. Therefore, the Expert Group considers it as an important task of enterprise policy to provide European enterprises with the best available information about the further development of e-marketplaces in Europe and to disseminate, as widely as possible, the practical experience made by buyers and sellers in an unbiased manner. There seems greater readiness by operators to increase the available information about the e-marketplace.

In particular, better information on the commercial value added of the different B2B Internet trading platforms, such as the number of participating companies and the transaction volumes would be very helpful for SMEs to better assess their economic relevance. In addition, reliable information on potential trading partners, such as the country of establishment, registration number, legal form etc. would certainly be welcomed. Similarly, transparency on B2B Internet trading platforms could be further improved through the provision of information related to the reliability and trustworthiness of B2B Internet trading platforms. In particular, the provision of information on the rules for participation in and exclusion from an e-marketplace, on contractual and membership terms and on the subscription to Codes of Conduct is recommended by the Expert Group.

Business organisations and information service providers can further stimulate the efforts of increased transparency on B2B Internet trading platforms, for example, through the development of rating systems, based on the willingness of e-marketplace operators to disclose, on a voluntary basis, their policies and other relevant data to assess the trustworthiness. Rating systems should be evaluated, by SMEs or others, to examine whether they are based on neutral assessment of available data, such as the number and volume of transactions and the availability of transparent policies on exclusion and participation rules and on contractual terms, with the view to helping SMEs to select the most reliable and beneficial e-marketplace. For Internet trading platforms focusing on integration or providing support for procurement auctions, different indicators may have to be used. Hopefully, a number of these rating systems will develop, compete and strengthen each other.

B2B Internet trading platforms, and in particular e-marketplaces, are subject to different legislation, both at national and European level. Not all players involved in electronic transactions are necessarily fully aware of the legal provisions to be respected. Apart from raising general awareness there is a need to provide specific information about legal issues related to the operation of B2B Internet trading platforms.

For example, electronic public procurement is currently regulated differently at national level. Therefore, information services on the legal framework for electronic transactions have to take into account such national differences and should be tailored to the specific needs of SMEs, through the provision of FAQ's and customised guidance to SMEs.

In this context, the Expert Group would welcome the establishment of "hot line" services, which would facilitate SMEs to complain about unfair behaviour in B2B Internet platforms, for example, in online auctions. Even though only a few complaints are officially reported, the experts are worried that there may be a more widespread discontentment due to the fact that many participants may refrain from expressing complaints and instead silently choose not to participate in the Internet trading platform activities. "Hotline" services would help to better understand the type of problems SMEs are facing when conducting transactions electronically. Such services could be complemented by the provision of information on whether such behaviour is unlawful and, if this is the case, to provide them with guidance on how to deal with the complaint in a quick and efficient manner, for example, through existing alternative dispute resolution systems.



In summary, it can be concluded that the provision of more and better customised information on B2B Internet platforms, preferably at national level and in the national language, would help SMEs to select the most appropriate and beneficial Internet platform for their purposes. Such information should be made publicly available and, if possible, for free. This would help to reduce financial risks for buyers and sellers and create a more favourable e-business environment, in particular for SMEs.

**The Experts Group invites the European Commission:**

- To set up a European wide information service to provide, in close co-operation with Chambers of Commerce, Euro-Info-Centres, trade associations etc., neutral information about B2B Internet trading platforms, with the view to promoting customised information and establishing effective complaint mechanisms for SMEs.
- To further improve the statistical information about the various B2B Internet trading platforms. It is suggested to include this, in a systematic manner, in the collection of statistical data by Eurostat (e-commerce survey) and Directorate General Enterprise (*e-business w@tch*).
- To provide European wide, information on legal aspects of B2B Internet trading platforms. To this end, the information services of the European E-Business Legal Portal should be extended accordingly.
- To provide financial support to “training of the trainers” on legal and competition aspects of B2B Internet trading platforms.

## To promote interoperability

SMEs face many practical difficulties when using B2B Internet trading platforms to buy and sell products and services online. The lack of commonly used standards for the communication of data and for catalogues and product classification is among the most prominent difficulties. Many B2B Internet trading platforms, in particular in the area of e-procurement, are based on different requirements and technical specifications. Therefore, suppliers willing to trade electronically with their customers often have to adapt to several different business procedures. In addition, public authorities are following their own paths. A co-ordinated approach towards e-procurement is urgently needed. The potential savings of B2B Internet trading platforms can only be realised if buying organisations and sellers commonly agree on the development and maintenance of standardised e-catalogues and on the procedures to be followed for online order processing.

The Expert Group does not claim to have a definite solution to this problem. However, it has to be acknowledged that e-business strongly depends on streamlined business practices, both internally and externally. It should be clearly understood that networking requires more than technical interoperability. Equally important is interoperability of communication protocols, messaging and – beyond that – semantic interoperability of business processes. Only the standardisation of e-procurement procedures will enable both buyers and sellers to have a clear understanding of each other's responsibilities, thus creating stability and trust in electronic transactions.

Today, there are, however, many different ways of recording and processing catalogue data. Most SMEs do not have any catalogue data in a form to be automatically integrated into business processes and to be used for online procurement purposes without major human intervention. In addition, most of the software related to e-catalogues is not capable of handling different languages. Furthermore, there are major differences with respect to the elements covered by e-catalogues, including product descriptions and prices. All this diversity is increasing the participation costs of SMEs in Internet trading platforms.

*"Why should we have 300 structures of catalogues, more than 40 classification schemes and at least 5 global eBusiness standards? Why complicate the work of business people that have to compare, buy or sell products or services? Interoperability between data and standards is a minimum requirement if we want the eBusiness community to work efficiently, in an integrated global environment. But convergence is even better, and eBusiness standards are now compelled to co-operate!"*

Raymond Betz, CIDX – Chemical Industry Data eXchange

To formulate a strategy for establishing a harmonised methodology for multilingual e-catalogues is certainly a huge task for European Standardisation Bodies. There are, for example, several national and sectorial initiatives related to recording and processing catalogue data but most of them are not interoperable beyond their narrow national or sectorial scope. Thus, cross border electronic transactions are still confronted with many practical difficulties. To address the problem requires not only ensuring interoperability between heterogeneous systems but also the promotion of the practical use of multilingual e-catalogues by buyers and sellers. The Expert Group considers this to

be an important task of European enterprise policy in order to foster the internal market.

Related to e-catalogues, but not identical, is the complex issue of e-classification of products. In order to find any given product in any given B2B Internet trading platform, products need to be systematically classified. This is currently not the case. It is reported that there are more than forty different e-classification schemes used in Europe today; some of them are vertical, others are horizontal. Standardisation should ensure that such systems encompass all industries, are multilingual, sufficiently detailed and maintained over the years.

It is the view of the Expert Group that European Standards Bodies should play a stronger role in developing and promoting common standards for e-cataloguing and product classification. European Standards Bodies are thus encouraged to further promote standardisation work at European level, with the view to supporting convergence of different communication standards and to further developing harmonised product classification schemes and e-catalogues. However, in order to be effective such standardisation work should be carried out in close co-operation with both buyers and sellers and be based on commonly agreed principles. Too often, standards only reflect the interests of one side of the market or are limited to a specific sector, which can be detrimental to industries, such as chemicals, where products are sold to many sectors.

In recent years, many different initiatives have been launched to build a global product classification system but none has really succeeded until now. The objective of the “Product Description and Classification Forum” – PDCF under the auspices of CEN is to harmonise existing standards for product description and classification towards a common, cross-industry system. The Expert Group welcomes this standardisation initiative and its intention to overcome the current fragmentation of locally based classification systems. However, at the same time more efforts should be undertaken to better inform SMEs about how they can use already existing formats and which e-business standards offer the most robust and stable solutions.

**The Experts Group invites the European Commission:**

- **To further provide, as a matter of priority, financial support to European standardisation initiatives, with special emphasis on the development and promotion of harmonised standards in the field of e-catalogues and product classification. Such standards should reflect both the interests of buyers and sellers and be based on commonly agreed principles.**
- **To support large-scale e-business interoperability testbeds at European level, in order to demonstrate practically the use of the standards necessary to buy and sell online.**
- **To promote streamlined e-procurement procedures used by the private and the public sector, based on commonly agreed standards and business practices.**



- **To better co-ordinate the different Commission's initiatives in support of e-catalogues and product classification, in order to avoid further fragmentation and to use synergies between standardisation and research initiatives.**

### **To promote trust and confidence**

B2B Internet trading platforms are an important element of business integration, with the vision of truly automated supply and demand chains, where buyers and sellers are electronically connected. To make this vision happen, new business practices have to be developed, based on mutual trust and confidence. What applies to traditional business also applies to the emerging electronic environment. Business in general has risks, but there may be increased risks related to Internet trade, not only for consumers (B2C) but also in relations between businesses (B2B).

The Internet offers new opportunities for enterprises to trade globally and to find new business partners, but it also brings new uncertainties related to the reliability of the business partners, the security of the technology and the transaction procedure. Furthermore, since many electronic transactions are cross border, the question of jurisdiction and applicable law may add further uncertainties. Therefore, the Expert Group considers it to be important to reduce such risks and to further develop trust and confidence in B2B Internet platforms. This is seen as a major condition to facilitate participation of SMEs in such platforms.

The relevance and nature of the trust issue varies depending on whether business partners have already well established business relationships in the offline world or whether they are so far unknown to each other. Regular transactions between well-established partnerships raise less concern than ad hoc transactions via the Internet. In a stable business environment, the problems are mainly related to the security and cost of the technology, resulting from systems integration. On the other hand, transactions between new business partners raise in addition the question of more fundamental trust barriers related, for example, to the reliability and trustworthiness of the business partner or the transaction process.

*“No trust - no business. Unless fair rules, with a maximum of transparency, are implemented for reverse auctions the situation will arise when there is an auction and nobody takes part.”*

Stefan Glimm, EAFA – European Aluminium Foil Association

Thus, the main trust barriers are more related to e-marketplaces than to forms of B2B Internet trading platforms that are based on long-term business relations. In particular in this case, issues like the lack of transparency, uncertainties about the confidentiality of sensitive data, not well documented security of the technology and doubts about effective dispute resolution mechanisms play an important role. The

lack of transparency may concern either information related to the B2B Internet trading platform as such, to participating companies, to access and exclusion terms, the transaction process or the price setting mechanism. Lack of information is closely connected with the trust issue, taking into account the recent shakeout of B2B Internet trading platforms and the fact that the consolidation phase is not yet completed. In this respect, transparency of data on the number and volume of transactions and other

financial aspects of the Internet platform has to be seen as a condition to further enhance trust of enterprises in them.

Concerning transparency of information about participants, it is important for enterprises to have easy access to information on legal and financial data of companies participating in the Internet trading platform, in order to help them to select the most reliable business partners. In some cases, it is considered essential to be aware of the identity of the participating company. For example, buyers generally benefit from knowing the identity of the seller, as the reputation of the seller in describing the product accurately and delivering it as promised is important. However, it has to be acknowledged that B2B Internet trading platforms may not offer this possibility and reveal only limited information about participants. There are a number of good reasons for such a policy. For instance, knowledge about the identity of the bidder in an auction may influence the price setting mechanism in an auction or exchange, it may facilitate the settlement of transactions outside the platform, the creation of auction rings and other types of collusion etc. Therefore, the Expert Group acknowledges the dilemma between better transparency and the risk of anti-competitive behaviour.

Another issue related to information about participants is access and exclusion terms. The less information provided about the identity of the participants, the more important it becomes that the Internet trading platform operator defines in a transparent manner access criteria to ensure the reliability of participants and takes the necessary steps to verify compliance with them. There are other means than access denial for ensuring sufficient trust in the Internet trading platform, such as rating systems. The rating systems may be of a positive nature - pointing to participants that proved to fulfil their obligations – or of a negative nature – referring to participants that have failed to do so. The advantage of rating systems is that each participant may decide what level of trust he/she requires from his trading partner.

As already stated, the trust issue varies depending on the trading functionality of the Internet platform. As confirmed by the discussions in the Expert Group, the lack of trust seems to be of perceived importance for online auctions. This problem may be of a psychological nature, as many SMEs feel obliged to participate in reverse auctions only to avoid exclusion from the list of potential trading partners. Thus, their perception of this specific form of B2B Internet trading platforms is negative from the outset. This is because reverse auctions are mainly seen as a tool to reduce prices, which does not result in a “win-win” situation. However, the lack of trust related to reverse auctions may also be based on real problems and observations, related to unfair practices, such as price manipulations resulting from fake bids from non-existing or non-qualified bidders or from the e-marketplace operator. For this reason, the Expert Group considers efficient complaint mechanisms, such as “hot lines”, to be very helpful to build trust, in particular as it is often unclear to participants if any legal obligations are violated by such unfair practices.

In order to reduce uncertainties it is essential that there be sufficient transparency on the way transactions are carried out in the Internet trading platform. In this respect, the question of transparency on the price setting mechanism is of particular importance. From a theoretical point of view, the price-setting mechanism is most efficient when all participants in the marketplace have equal access to information. However, often participants wish to take advantage of superior knowledge and may be unwilling to participate in Internet trading platforms where information is conveyed openly to all. A positive consequence of transparency is that the risk of

*“E-business, including B2B Internet trading platforms, offers important opportunities for the whole of society. However, to open up the full potential for all participants, guidelines are required to stimulate fair and sustainable trade. Self regulation by industry, with support and guidance from the relevant authorities, is the best way to achieve this.”*

Roger Loop, FPE - Flexible Packaging Europe

bribery, undue influence and other corruption is lower. On the contrary, the trustworthiness of the Internet trading platform may be damaged when information is not distributed equally and transparently.

Only when the price-setting mechanism is fully disclosed to all participants, they are able to assess supply and demand and thus take into account the present situation and evaluate the object for sale accordingly. To address this problem, the Expert Group strongly recommends the development of

voluntarily agreed Codes of Conduct, which define to what extent information should be provided about the identity of the bidders and the price levels of each bid.

The Expert Group notes that participants trying to influence the price-setting mechanisms by faked invitations and bids or by establishing auctions rings or other types of collusion must be judged according to existing criminal and competition law. Furthermore, it is important that false information that may influence price setting is not distributed to the Internet trading platform. Such manipulation of the price-setting mechanism is sometimes facilitated when the Internet trading platform provides information about the flow and variations in the supply and demand. Again, self-regulation seems best suited to address such problems. However, in cases of well-documented anti-competitive behaviour, public authorities may also have to play a role in order to ensure fair business practices in B2B Internet trading platforms. In this respect, it has to be acknowledged that fair trade is not only an issue for B2C electronic commerce but applies as well to electronic transactions between enterprises.

An example of potentially unfair behaviour is “puffing”, i.e. a bid submitted by the initiator of an auction or by the operator. From a contract negotiation point of view it may even be considered to be an act of bad faith if the initiator or operator submits bids that are not permitted under some national law. Only when the rules are sufficiently transparent, are the bidders aware of the potential risk that the initiator or operator is manipulating the price-setting mechanism. In this case they are able to develop their bidding strategies accordingly. Whether such practices should be dealt with by Codes of Conduct is debatable. This may constitute a criminal law issue, not a self-regulation issue. Clearly, self-regulation should not enter into the grey zones of criminal law.

This also applies to the question of “bid shielding” and how it could be prevented. Bid shielding occurs when two bidders agree to place one bid high enough to scare other bidders off and one bid lower than the expected market value. After that, the higher of the two bids is withdrawn at the last minute, thereby potentially defrauding the initiator of the value of the object as would have been determined by open, competitive bidding. Such “bid shielding” could be prevented by not accepting withdrawal of bids. Where this solution is not possible, the Internet trading platform may introduce automated systems identifying “bid shielding”. Codes of Conduct could address this issue, provided the borderlines with criminal behaviour are clearly drawn.

Concerning the risk of collusion, it has to be acknowledged that, in practice, it is often difficult to discover collusion. Sophisticated technological programs are available that detect unusual behaviour. Self-regulation is advised to encourage the use of such

*“Too much, too time consuming and too expensive.” That is the consensus in the business community about the resolution of conflicts in courts.*

*In comparison, ADR processes have a number of advantages. They are flexible, cost-efficient, time-effective, and give the parties more control over the process and the results. Parties who resolve their disputes through ADR are generally more satisfied because they may directly participate in working out the terms of their settlement*

Christine Marlet, Eurocommerce

technological help when transactions in Internet trading platform are exposed to a risk of collusion. To reinforce such technological tools of detecting price manipulations, the acceptance of external audits would be supportive. However, many service providers still seem to be reluctant to accept such external audits, not only for cost reasons but also in order of not exposing their business practices to neutral assessment.

The Expert Group takes the position that external audits would certainly strengthen trust and confidence in B2B Internet trading platforms. It is therefore suggested

that Codes of Conduct contain a specific clause to verify whether the Internet trading platform should have a policy about which actions to take against detected price-manipulations.

Related to confidentiality and security, the main concerns of enterprises are related to the need to protect the confidentiality of sensitive commercial data, such as contractual terms and conditions of concluded deals. Participants in the Internet platform are worried that sensitive data may be accessed by the Internet trading platform operator or by other participants. In addition, participants have reasons to be worried that technical breakdowns may result in leaking sensitive information. A clear information policy on the protection of security and data confidentiality, with credible commitments based on standardised processes, of the e-marketplace operators would certainly help to dismiss such concerns. In addition, third party accreditation systems to certify compliance of the e-marketplace with existing security standards would contribute to increasing security and trust in B2B Internet trading platforms.

The lesson to be learned from these examples is that conflicts may not only occur in B2C electronic trade but also resulting from transactions in B2B Internet trading platforms. Here as well, the uncertainties are related to the question of jurisdiction for cross border disputes and to the fact that court procedures are often long and costly. In

this context, alternative dispute resolution mechanisms (ADRs), such as arbitration and mediation, may be more effective in ensuring quick and effective dispute settlement, in particular for cross border disputes. To raise trust in e-marketplaces, the use of such mechanisms should be promoted and facilitated by proper information on the procedures to be followed. The Expert Group has, however, not discussed in great detail to which extent existing ADR mechanisms, as developed for consumer protection, are equally applicable for B2B e-commerce. This question requires further discussion.

*“Internet trading platforms introduce new and very specific rules about how transactions are to be made. It is essential that these rules are not hidden in boring legal texts, but also well reflected in the website's interface, in order to ensure that all participants easily understand the rules of the game.”*

Prof. C. Ramberg, University of Gothenberg

It has to be acknowledged that many trust-related issues are already covered by legislation. Many of the behaviours that trouble participants of e-auctions may be illegal under criminal law and should be handled in this way. In addition, the e-commerce Directive clearly defines the law of the “country of origin” as the applicable law for online transactions and imposes a number of transparency obligations for online service providers, in particular the obligation to disclose information related to their identification. Furthermore, the Directive imposes transparency obligations in relation to

prices and the terms and conditions of the contract.

On the other hand, competition law may impose limits to transparency in online auctions, such as on prices, participants etc, in particular for oligopolistic markets, as such transparency may facilitate collusion. Also Codes of Conduct may raise competition concerns in case they would impose that trade can only be made under the conditions specified by the Code of Conduct. However, the question of whether “proxy bidders” are allowed to participate in an auction is more related to fairness and fraud than to competition law. This has been explicitly confirmed by the Commission’s services in discussions with the Expert Group.

**The Experts Group invites the European Commission:**

- **To promote fair trade in B2B Internet trading platforms, through the adoption of a Commission Recommendation, based on the checklist in Annex II with the objective of encouraging the development of sectorial guidelines.**
- **To further disseminate existing Codes of Conduct related to B2B Internet trading platforms through EU wide networks and portals, e.g. the e-Business support network, the e-Business Legal portal, and a European portal on B2B Internet trading platforms, which should be established.**
- **To launch a study or an open consultation on unfair business practices in B2B Internet trading platforms, which results shall be further discussed at the “E-Business Legal Summit”, as announced by the eEurope 2005 Action Plan.**

### 3. Towards better self-regulation in B2B Internet trading platforms

To further promote trust in B2B Internet platforms is mainly the responsibility of the private sector. B2B Internet trading platform operators and industry associations are thus encouraged by the Expert Group to take up this challenge and to develop Codes of Conduct aiming at enhancing transparency in the Internet platform and stronger commitment to respect fair trade principles. Such Codes of Conduct and participation terms should, wherever possible, be elaborated with the involvement of all relevant stakeholders, e.g. operators, buyers and suppliers, to ensure that all interests are duly taken into account. This is particularly relevant for Internet trading platforms, where, for instance, auctions are initiated by a single buyer or seller and in situations where the bargaining power of the parties is unequal. Only under this condition can it be reasonably expected that Codes of Conduct are effectively followed and implemented.

Codes of Conduct or participation terms should be fair and well balanced for all parties involved. They should be properly brought to the attention of potential participants and should be easily accessible to them from the website of the Internet trading platforms. In particular, it is recommended that they address issues, such as better transparency on the technical e-procurement standards, the criteria for participation, the bidding procedure and the price setting mechanism, and the policies related to confidentiality, security and dispute settlement. To further encourage self-regulation on this basis, the Group of Experts has developed a checklist, which may help to verify whether all relevant aspects have sufficiently been taken into account (see Annex II).

Self-regulation depends on the willingness to respect the agreed rules and principles in reality. The credibility of voluntarily agreed Codes of Conduct would certainly benefit from further enhancement by certification services and trust seals for B2B

*“Codes of conduct that are well balanced and sector-oriented should be supported and respected by all parties in the business community. This will avoid the abuse of dominant position by any party in the Supply Chain and thus create trust.”*

Hans van der Spek, ORGALIME -  
European Mechanical, Electrical,  
Electronic and Metalworking Industries

Internet trading platforms. In this context, certification should preferably be based on a third party verification of compliance of the Internet trading platform both with the legal requirements and with the agreed Code of Conduct, taking into account the checklist of Annex II.

The Expert Group strongly recommends that Internet trading platform operators examine the opportunities to invest in such certification schemes in order to enhance

quality and trust. As a relatively new phenomenon, B2B Internet trading platforms still need to demonstrate their added value and their capability to create a “win-winsituation” for both buyers and sellers. Trust builds upon good experience, not just on good intentions. Effective self-regulation is the best way to establish B2B Internet trading platforms as a new way of doing business that is as trustworthy as more traditional forms of working together.

## Annex I

### Members of the Expert Group on B2B Internet trading platforms

<b>Name</b>	<b>Organisation</b>
ASSAF, Nadi	Gimelec
BETZ, Raymond	Chemical Industry Data eXchange (CIDX)
BROCHOT, Maud	Casino Group
CARDON, Jan	European Carton Makers Association (ECMA)
DE VOS, Freddy	European Confederation of Iron & Steel Industries (EUROFER)
DEHOUSSE, Marianne	European Brands Association (AIM)
GIANNELLA, Vito	European Business Register (EBR)
GLIMM, Stefan	European Aluminium Foil Association (EAFA)
LOOP, Roger	Flexible Packaging Europe (FPE)
LUNDBLAD, Nicklas	Eurochambers
MARLET, Christine	Eurocommerce
MOSCH, Thomas	German Association for Information Technology, Telecommunications and New Media (BITKOM e.V.)
RAMBERG, Christina	University of Gothenberg
SAUZET, Olivier	CPGmarket.com
SCHINAGL, Wolfgang	Austrian Chamber of Commerce
SIELLET, Marc	Covisint B.V.
THEVENOUX, Patrick	European Confederation of Associations of Manufacturers of Insulated Wires and Cable (Europacable)
TOWNLEY, Angus	Corus Construction & Industrial
VAN DER SPEK, Hans	European Mechanical, Electrical, Electronic and Metalworking Industries (Orgalime)
VORMUS, Christian	Compagnie des Acheteurs de France (CDAF)
WICHMANN, Thorsten	Berlecon Research, Berlin

## **Annex II**

The objective of the checklist is to provide a tool for the assessment of Codes of Conduct related to B2B Internet trading platforms. More specifically, it aims at providing a means to evaluate, whether and to what extent a planned or already established Code of Conduct responds sufficiently to the principles of fair trade, by accommodating sufficiently the needs of all relevant stakeholders (buyers, suppliers and operators). To fulfil this task, the checklist is focusing on a limited number of issues, which are deemed to be the most important.

For the purpose described above, the checklist is kept as simple as possible. In particular, it does not distinguish between different forms of B2B Internet trading platforms. While fully acknowledging the flexibility required in this respect, the checklist allows for a first test of the Code of Conduct in question.

### **The checklist:**

#### **1. The scope**

- a. Who has drafted the Code of Conduct (i.e. the operator, representatives of the buyers, representatives of the suppliers or all of these)?
- b. To which form of B2B Internet trading platforms does the Code of Conduct apply?

#### **2. General questions**

a. Does the Code of Conduct stipulate how to bring the participation terms to the participants' attention?	YES	NO
b. Does the Code of Conduct stipulate training opportunities for potential participants in order to make them familiar with how transactions are carried out?	YES	NO
c. Does the Code of Conduct refer to neutral third party auditing or certification of the Internet trading platform (e.g. regarding compliance with the Code of Conduct)?	YES	NO

#### **3. Information about the Internet trading platform**

Does the Code of Conduct require that information be provided about...

a. name, address, legal status and VAT-number of the Internet trading platform?	YES	NO
b. legal liability of the Internet trading platform in case undertakings from participants are not fulfilled (or the use of an escrow service)?	YES	NO
c. legal liability of the Internet trading platform in case the procedure of making transactions is hampered?	YES	NO
d. number of participants, transactions and business volume of transactions?	YES	NO
e. any connection between certain participants and the	YES	NO



Internet trading platform operator?		
f. the bargaining power of participants?	YES	NO
g. how to make a calculation of return for potential participants?	YES	NO

#### 4. Information about the participants

Does the Code of Conduct...

a. stipulate how participants should be scrutinised as to their qualifications and capacities before being allowed access to the Internet trading platform?	YES	NO
b. stipulate exclusion conditions?	YES	NO
c. make recommendations concerning rating systems of participants' trustworthiness?	YES	NO
d. stipulate to what extent the participants' identities of are disclosed or secret before, during and after the bidding procedure?	YES	NO
e. address the issue of liability in case of breach of contract (liability for the operator, for the counter party in breach or for insurance companies) and any use of escrow services?	YES	NO

#### 5. Transaction process model

Does the Code of Conduct...

a. describe how the process of making transactions at the Internet trading platform functions?	YES	NO
b. specify when in time the conditions for a transaction should be provided to the participants?	YES	NO
c. specify how and when a transaction is completed (e.g. whether hidden reserve price is allowed in auctions)?	YES	NO
d. specify to what extent it is possible to withdraw, retract or cancel invitations, bids or other transactions and what are the consequences?	YES	NO
e. specify who is allowed to make transactions (e.g. whether the auctioneer/invitor or operator is allowed to submit bids)?	YES	NO
f. stipulate whether transactions can be changed (e.g. whether a lot can be divided or by how much each bid is increased/decreased in an auction)?	YES	NO
g. stipulate what factors should be relevant for concluding a transaction (e.g. whether other factors than the price is relevant to determine the winning bid in an auction)?	YES	NO
h. stipulate who bears the risk for input errors and other mistakes?	YES	NO
i. stipulate which or whose general terms and conditions are applicable to the transaction?	YES	NO

j. specify to what extent the transactions can be tracked (e.g. when goods sold have been shipped)?	YES	NO
---	-----	----

## 6. Price setting mechanism in auctions and exchanges

Does the Code of Conduct stipulate...

a. to what extent information should be provided about the identity of bidders and the price levels of each bid?	YES	NO
b. whether bids from the initiator or from the operator (“puffing”) are allowed?	YES	NO
c. what information should be communicated to whom concerning the identity of the bid winner and the content of the winning bid?	YES	NO
d. how auction rings, bid shielding and other collusion is to be prevented?	YES	NO
e. any auditing procedures ensuring post-examination of the bidding transaction?	YES	NO
f. a policy about reporting criminal fraudulent behaviour to relevant authorities and/or the business community?	YES	NO

## 7. Technical security

Does the Code of Conduct...

a. include a reference to security standards with the purpose of limiting the risks for technical breakdowns, disruptions and manipulations?	YES	NO
b. provide how to solve acute technical problems (back up procedure)?	YES	NO
c. stipulate who bears the legal responsibility for technical breakdowns, disruptions or manipulations?	YES	NO
d. stipulate procedures for record keeping?	YES	NO
e. specify an insurance solution for technical security risks?	YES	NO

## 8. Confidentiality and data protection

Does the Code of Conduct...

a. stipulate how confidentiality is ensured?	YES	NO
b. stipulate who bears liability in case there is a breach of duty to keep information confidential?	YES	NO
c. prescribe the intellectual property rights for participants’ submitted information?	YES	NO
d. refer to a privacy policy?	YES	NO
e. If a privacy policy is referred to, does this policy contain provisions on:		NO
-when information is collected?	YES	NO

-what information is collected?	YES	NO
-for how long time the information is stored?	YES	NO
-how the information is processed (is it used to build up profiles of the participants?)	YES	NO
-to what extent information is disclosed to third parties?	YES	NO
-what rights there are to demand corrections or deletion of information?	YES	NO
-who has access to what type of information?	YES	NO

## **9. Applicable law**

Does the Code of Conduct...

a. require that the applicable law be specified (with respect to contract law, competition law, and public law)?	YES	NO
b. make reference to generally accepted principles of international commerce (e.g. UNIDROIT Principles of International Commercial Contracts)?	YES	NO

## **10. Dispute resolution**

Does the code of conduct...

a. give reference to a fair dispute resolution scheme?	YES	NO
b. stipulate the use of a permanent dispute resolution board?	YES	NO
c. stipulate how a claim should be submitted?	YES	NO
d. stipulate how to get access to information to relevant transaction data in case of a dispute?	YES	NO
e. stipulate the timeframe within which to handle a dispute?	YES	NO
f. stipulate who is to bear the costs for dispute resolution?	YES	NO
g. stipulate to what extent the decisions may be appealed?	YES	NO
h. describe how decisions can be enforced?	YES	NO