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COMMISSION STAFF WORKING PAPER

Consumer Empowerment in the EU

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INTRODUCTION

1. The 2007-2013 EU Consumer Strategy¹ set the aim of empowering EU consumers to help them maximise their welfare, as well as to drive competition and innovation. Consumers increasingly need to be empowered, in the light of products and markets becoming increasingly complex, an ageing population, the lessons from the economic crisis, increasing information overload and new demands on consumers in making the best choices in liberalised markets. Empowered consumers make optimal decisions by understanding their own preferences and the choices available to them. They know their rights, recognise when these have been breached and if so, complain and seek redress when necessary.
2. As well as being able to maximise their own welfare, empowered consumers are a significant driver of growth, as they intensify competition and innovation. Better decision making by consumers can have a significant impact on the competitiveness of the economy. This could also have a positive impact on growth, as final household consumption represents 56% of EU GDP. Empowered consumers can better identify the best prices and quality, rewarding the businesses which are most efficient and best at innovating to respond to consumer demand. Empowered consumers who complain and assert their rights are the most effective consultants in helping businesses to innovate and improve. Mature economies in which consumers are not empowered and where consumer detriment is high are more likely to remain on a low growth path. The focus of competition in these economies shifts from the fundamentals of quality and price to marketing strategies; competition weakens to the point where markets resemble monopolies² and consumer confidence evaporates.
3. Consumer empowerment is both a function of the skills, knowledge and assertiveness of consumers themselves, and the protection, rules and institutions designed to support them as they play their part. Consumer empowerment depends not only on good cognitive skills, but also on knowledge of consumer rights and information, well-known and effective non-governmental organisations and public authorities, an active media and simple and accessible means of redress.
4. The quality of consumer conditions in the Member States is monitored through the Consumer Conditions Scoreboard³. The purpose of the present report is to look at Europe's consumers to better understand their ability to maximise their welfare and to

¹ COM (2007) 99 final.

² Economic research, rewarded with the 2010 Nobel Prize (Diamond, Mortensen & Pissarides 'for their analysis of markets with search frictions'), reveals that: 'Even small search costs turned out to generate a radically different outcome compared to the classical competitive equilibrium. In fact, equilibrium prices are equal to the price which a monopolist would have set on a corresponding market without search costs.'

³ Consumer Conditions Scoreboard March 2011 SEC (2011).

drive competition. Understanding consumers' skills, knowledge and assertiveness is essential if consumer policy measures are to correspond to their actual daily behaviour, rather than to textbook models of what they do. There has been very little research on this issue. This report therefore provides the first detailed portrait of Europe's consumers: it will help EU and national policymakers to design smarter regulation, especially on labels, logos and other information requirements, better information campaigns and consumer education initiatives, and more easily accessible means of redress. Through socio-economic analysis, the report also identifies which groups in society are most vulnerable as consumers.

5. The report is based on a face-to-face survey carried out in March 2010. More than 55 000 consumers in the EU, Iceland and Norway were involved. The EU citizens (national and EU in Iceland and Norway) aged 15 or more were the target population of the survey. The aggregated results of the survey were computed adjusting ex-post each interview by a weighting factor which makes the sample representative of the target population, in terms of gender, age group, etc., following the standard methodology used for Eurobarometer surveys. The present report analyses the main findings⁴, including a summary indicator known as the Consumer Empowerment Index (CEI), developed by the Joint Research Centre.

CONSUMER DETRIMENT

6. The overall level of consumer detriment in the economy is one measure of mis-allocated resources, which, if corrected, could lead to significant savings for consumers⁵. Detriment arises both from missed gains from ex-ante sub-optimal decisions by consumers (for example, the Commission's recent study on the electricity market revealed that EU consumers could save about €100 per year each, €13 billion in total, if they switched to the cheapest offer⁶) and avoidable ex-post financial losses arising from problems. The report measures only ex-post losses (both psychological and financial), through asking consumers about the extent of problems they encountered recently and how much money they lost because of them.
7. More than a fifth of consumers reported experiencing a problem, and on average more than one problem (1.6). The financial losses were on the whole not significant, (33 % of the problems did not give rise to any financial loss, a further 40 % were under €200 euros and 8 % between €200 and €500). However, there was a small number of much bigger reported losses, so that the average loss was €375 and the total ex-post detriment European consumers incurred amounts to about 0.4 % of EU GDP. This estimate gives a clear idea of the potential welfare and efficiency gains that could be achieved through greater consumer empowerment.

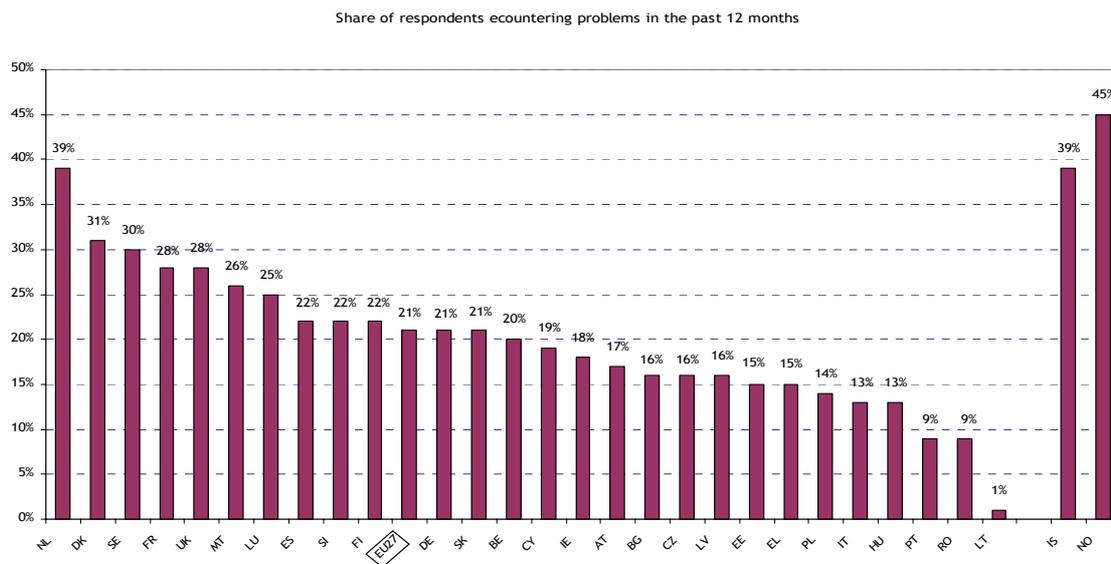
⁴ The full report on the survey (Eurobarometer 342) can be found at http://ec.europa.eu/consumers/consumer_empowerment/index_en.htm.

⁵ The Commission has carried out the study to develop the methodology for assessing and estimating the consumer detriment (http://ec.europa.eu/consumers/strategy/docs/study_consumer_detriment.pdf) and applied it, for example, to estimate the consumer detriment in area of dynamic packages (http://ec.europa.eu/consumers/rights/docs/study_consumer_detriment_dyna_packages_en.pdf).

⁶ http://ec.europa.eu/consumers/strategy/docs/SWD_function_of_retail_electricity_en.pdf.

8. Consumers find it difficult to recall and estimate losses accurately in such a survey, so this figure is probably an under-estimate, given that it does not include ex-ante detriment, or non-financial losses such as loss of time or psychological detriment. Consumers with a better knowledge of their rights (as tested in the survey) reported more problems, which also suggests under-recognition of problems. This is supported by the fact the consumers who felt more knowledgeable reported high losses, although, counter-intuitively, consumers who felt less confident or less protected also reported above-average losses.

Figure 1 — Share of consumers encountering problems in the past 12 months



COMPLAINTS AND REDRESS

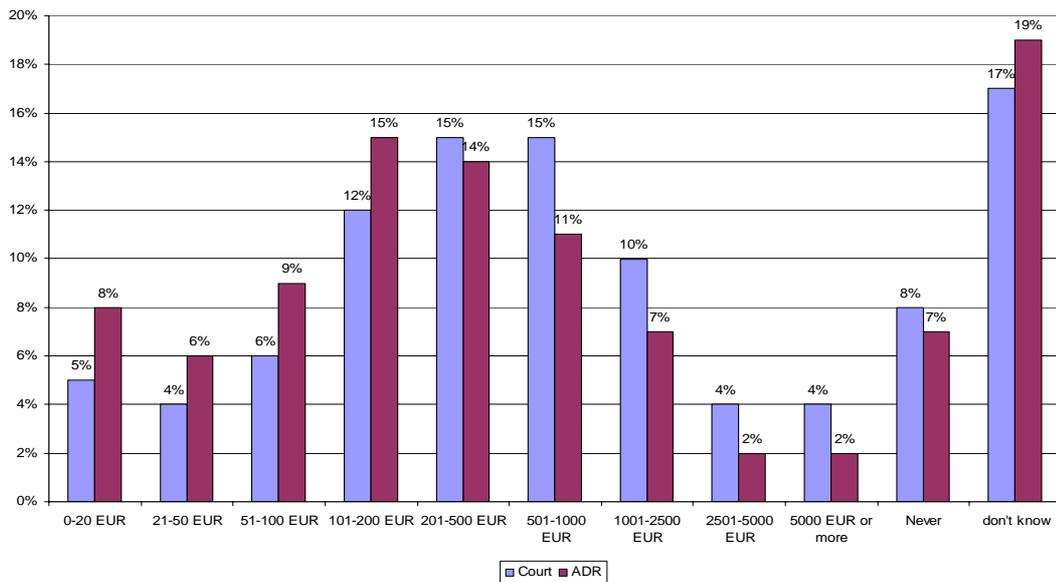
9. Most EU consumers appear to be willing to complain when necessary if problems arise: 65% of those who had a problem complained to the retailer/provider and 13% to the manufacturer, while 71% of those who did not report a problem said they would complain if they had a problem. However, this still leaves a significant share of consumers (23%) unwilling to act. In addition, only 16% turned to public authorities or consumer organisations and of these, only 50% were satisfied with the help they received.
10. Consumers tend not to seek further redress if complaints are not satisfactorily resolved (consumers were satisfied in only 40% of the cases). Only 5% of problems were submitted to an alternative means of dispute resolution⁷ (ADR) and 2% to the courts. About a third of consumers who decided not to go to court were put off because it would cost too much and/or take too long or would be too complicated, with

⁷ ADR schemes, also known as ‘out-of-court mechanisms’, have been developed across Europe to help citizens engaged in a consumer dispute who have been unable to reach an agreement directly with the trader. ADR schemes usually use a third party such as an arbitrator, mediator or an ombudsman to help the consumer and the trader to reach a solution. The advantage of ADR is that it offers more flexibility than going to court and can better meet the needs of both consumers and professionals. Compared to going to court these schemes are cheaper, quicker and more informal.

perceptions of the ADR process barely more positive. Collective forms of redress (ADR or courts) could help, given that about a quarter of consumers felt the sums of money involved were too small for either courts or ADR⁸. Better empowerment overall would seem to reduce the likelihood of consumers resorting to ADR or the courts: confident and knowledgeable consumers reported being significantly more likely to get a satisfactory result from the business when they complained.

11. Consumers appear unwilling to use ADR or the courts when experiencing problems with consumer transactions. 56% of consumers would not go to court for a loss of €200 or less (and 40% of losses fell in this category) and 41% would not pursue a loss of €500 or less⁹ (and a further 8% of losses were between €200 and €500). Although consumers are still deterred from using ADR (43% of consumers would not go to an ADR for a loss of €200 or less, 29% for €500 or less, both including 7% who would never do so), they are considerably more willing to resolve disputes through ADR. The less educated and elderly are significantly more reluctant to seek redress, though they are no less likely to experience problems. The threshold of losses for which the majority of consumers are willing to use an ADR body (€500) is lower than that for the courts (€1000), indicating a willingness to use ADR schemes where these are available.

Figure 2 — Threshold to go to court/ADR when having a problem¹⁰ (share of EU27 consumers)



⁸ A public consultation on a coherent European approach to collective redress is currently being carried out (more information can be found at: http://ec.europa.eu/dgs/health_consumer/dgs_consultations/ca/collective_redress_consultation_en.htm).

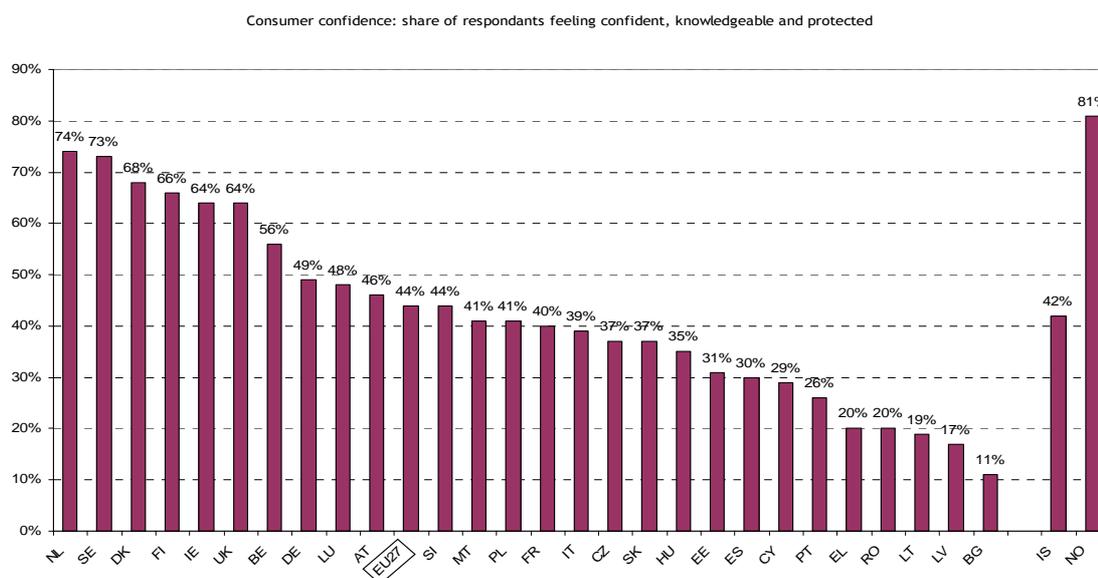
⁹ Both figures include 8% who would never go to court.

¹⁰ Interviewees were asked to answer to the following question: 'How much would you have to lose in financial terms, because of a problem with a good, a service, a retailer or a provider, to convince you to 1.) Take the business concerned to Court as an individual? 2.) Take the business concerned to an out-of-Court dispute settlement body as an individual?' The possible answers were those shown in the chart.

CONSUMER CONFIDENCE

12. Empowered consumers should be both confident and knowledgeable and feel protected. Although European consumers perceive themselves as relatively confident (73%) and knowledgeable (63%), they feel less protected (55%). Overall, only 44% of consumers and an absolute majority in only seven Member States (NL, SE, DK, FI, IE, UK, BE) feel all three, with considerable variations between Member States. The most disadvantaged in society, the elderly, the less-well educated and the poorer, all felt significantly less confident, knowledgeable and protected.

Figure 3 — Consumer confidence: share of respondents feeling confident, knowledgeable and protected



13. On the whole, consumer perceptions of their knowledge and skills turned out to be quite accurate when this was tested (see below). A similar result was also found in a recent study on consumer behaviour in retail investment decisions, where self-reported skills in mathematics and finance had a significant positive impact on optimal decision-making¹¹. This has important implications for future research and policy design, suggesting that consumers' self-declared level of knowledge can be trusted in designing appropriately tailored policy remedies and disclosures.

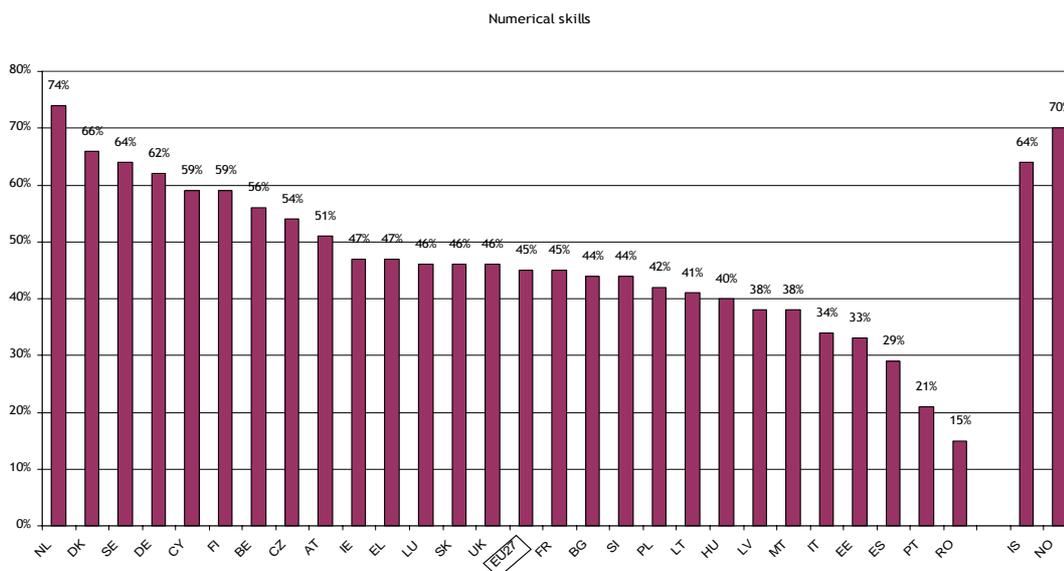
CONSUMER SKILLS

14. To make informed decisions, consumers need certain skills, such as the ability to perform simple calculations, to read a label, or to recognise relevant logos. Arithmetic skills were tested using three simple decisions consumers are likely to encounter frequently. In spite of the relative simplicity of the questions, only 45% of EU respondents answered correctly to all three questions¹².

¹¹ http://ec.europa.eu/consumers/strategy/docs/final_report_en.pdf.

¹² The questions asked were: 1) 'The same flat-screen TV is on sale in both shop A and B. Which one is cheaper?' 2) 'thinking now about savings or deposit accounts, which of the following would be the best

Figure 4 — Numerical skills



15. The ability to read and understand common labels was tested by asking consumers to identify the fat content and the best-before date on a box of cereal. Although 82 % of consumers could correctly identify the best-before date, this suggests that a small but significant proportion of the population has difficulty reading or identifying simple information. Failing eyesight may be a significant contributory factor as the elderly had more problems, as did the less well-educated. The information on fat content was presented in a smaller font and embedded within a list. Only 58% of consumers answered correctly, with less than a majority being able to answer correctly in seven Member States. Again, age and level of education were significant. The findings underline the importance of testing in advance on a representative sample of consumers the presentation of regulatory information to ensure that it can be easily identified and read.

16. Recognition and knowledge of the correct meaning of four common public information logos (see Figure 5) among European consumers is below expectations. Only 3 % of consumers recognised and understood all four (and 24% could not recognise any of them). Even the most recognised logo, on product safety, is still unfamiliar to 36% of consumers, and a similar number could not guess its meaning correctly. The logo on paper recycling is unfamiliar to nearly half of all consumers, and they could not guess its meaning. Of more concern is the fact that the logo on ecological products was familiar only to a very small proportion of consumers, and an even smaller one knew its meaning.

17. The evidence suggests that many important logos may be failing to inform consumers. As for labels, better advance testing of logos would help to deliver more self-evident logos. Information campaigns may help, but they need to be based on ex-ante research and evaluated afterwards. It remains to be seen if the current CE marking campaign¹³

interest rate? 1 %, 2 %, 3 %, 4 %'; 3) 'A family is charged interest at 6 % per year on a 50.000 euro home loan. How much is the interest for the first year? €300, €3000, €5000, €6000'.

¹³

See MEMO/07/54 relating to the Package on Internal Market for goods, IP/10/733 and MEMO/10/257.

will help to improve the fact that only a quarter of EU consumers knows its correct meaning. More worryingly, about a third wrongly believes that it means ‘made in the EU’. It is not known whether this misunderstanding has an impact on consumption patterns.

Figure 5 — Capacity to read logos

	Meaning of the logo	Share of European respondents familiar with the logo	Share of European respondents knowing the meaning of the logo
	The product conforms with EU legislation	66%	25%
	The product meets strict ecological standards	17%	12%
	The product is made of paper that can be recycled	55%	50%
	The product can be detrimental to your health if not used properly	64%	63%
All the logos		-	3%

KNOWLEDGE OF CONSUMER RIGHTS

18. Knowing your rights and being able to recognise frauds or scams is fundamental to consumer empowerment, not only to avoid detriment but to report the problem and, possibly, to obtain redress. However, 28% of consumers did not realise that a premium rate telephone scam would be illegal and 61% were not aware that they are not obliged to send back or pay for unsolicited products. 34% of consumers who had recently bought an airline ticket did not know that the advertisement must state the total amount to be paid (including fees, charges and taxes), potentially making them vulnerable to poor choices when purchasing tickets, given the findings of recent research of the powerful effect of such ‘drip pricing’ practices¹⁴.
19. Cooling-off periods are a fundamental pillar of consumer protection, providing time for consumers to re-consider online or home purchases, where they may not have fully appreciated what they were buying or felt pressured into making a purchase. They therefore provide an important opportunity for consumers to improve their decision if they change their mind or identify a better offer. However, a significant proportion of consumers remain ignorant of these fundamental rights. 38% of consumers did not know they could return a product bought online (and even 32% of internet users and 25% of internet purchasers did not know this). Wider knowledge of this important right could significantly boost confidence in e-commerce, since over half of those who had yet to shop on line did not know they could change their mind. Ignorance of the

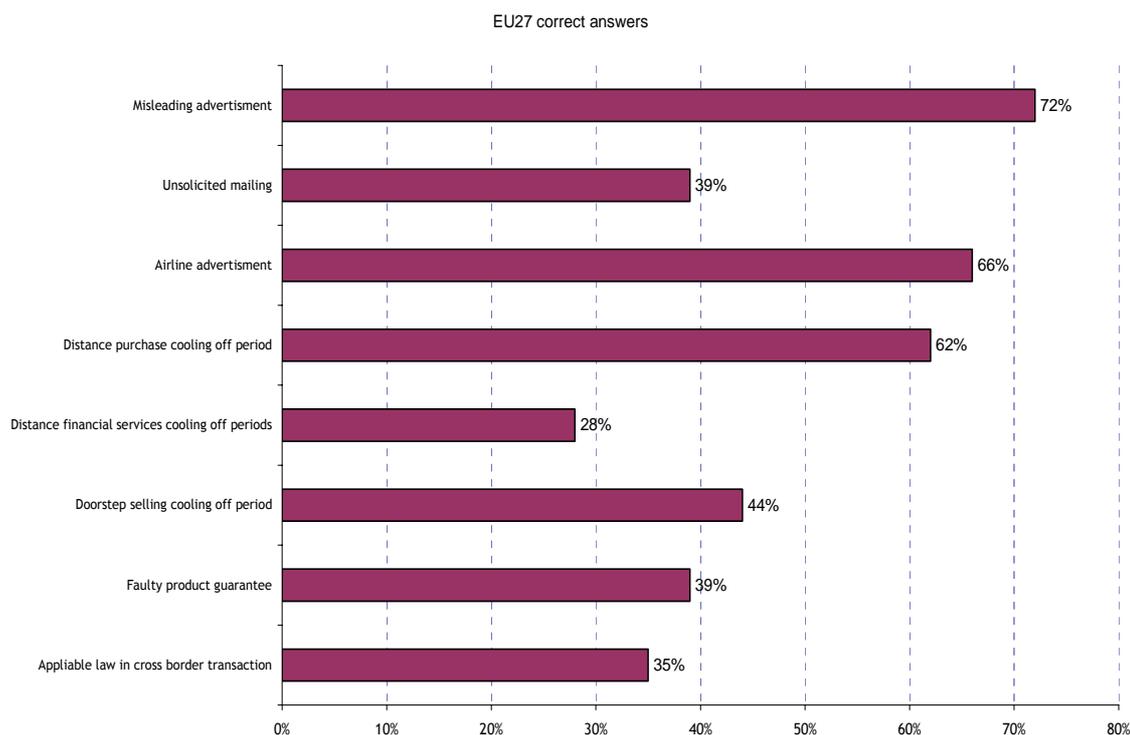
¹⁴ Office of Fair Trading ‘the impact of price frames on consumer decision-making’ May 2010.

equivalent right for financial services bought online, by phone or post, is even higher, with only 28 % being fully aware of the cooling-off period. Only 44 % of consumers are aware that they can return a product purchased at home from an uninvited salesman, leaving them vulnerable to pressure selling.

20. Knowing your rights regarding faulty goods is probably one of the most significant consumer right. 61 % of consumers do not know they have a right to a repair or a free replacement of a faulty fridge 18 months after purchase. Given that faulty consumer products are relatively common, this fact is a potentially significant source of detriment to consumers. They may be persuaded either to pay for repairs or replacements themselves, or to take out extended commercial guarantees to cover a period over which they are already covered by law. Wider knowledge and understanding of this consumer right would significantly reduce consumer detriment, given the breadth of its application and the frequency of product faults. It is encouraging to note that knowledge of this right is above average in five EU-12 Member States (CZ, SK, MT, EE, LV) that have had the benefit of an EU information campaign on consumer rights.
21. Consumers appear not to know what law applies in a cross-border transaction. Only 35 % of consumers who used the internet thought that their own country's consumer protection law applied, which is essentially the case when a trader aims to sell cross-border. Slightly more thought that the law of the country from which they were buying applied.
22. Overall, the results demonstrate the low level of knowledge regarding consumer rights with potentially significant implications for consumer detriment and decision-making. A significant number of consumers are potentially vulnerable to frauds, scams, pressure selling. They are not aware of their right to re-consider their choices and avoid unnecessary purchases. There appears to be some evidence that information campaigns can improve knowledge of these rights. It is also worth noting that consumers' ignorance of their rights is often matched by traders' ignorance of their obligations, as recorded in similar tests of consumer rights undertaken on businesses¹⁵. Better consumer and trader information campaigns would appear to be desirable.

¹⁵ 5th Consumer Conditions Scoreboard, available at http://ec.europa.eu/consumers/consumer_research/cms_en.htm.

Figure 6: Knowledge of consumer rights



CONSUMER ENGAGEMENT

23. Consumer empowerment depends not only on confidence and knowledge, but also on willingness and time to play an active consumer role. Consumers are however pressed for time and spend on average only 3.2 hours a week on all consumer tasks. To ensure that consumers remain empowered in the face of the growing information overload and increasing lack of time for shopping, new shortcuts and comparison tools need to be found. The ability to compare the unit prices of products, enshrined in EU law, is one crucial shortcut to optimal decision-making: 69% of consumers make use of this right at least sometimes, with consumers on tight budgets using it even more. The internet is increasingly important to enable consumers to compare products (used by consumers in 38% of cases) and even more important than consulting friends and family (31%), though it has not replaced visiting different shops (58%).
24. Information overload is particularly striking in relation to the ‘small print’ of contract terms and conditions. Only 31% of consumers read their most recent service contract (e.g. electricity, bank, telephone) carefully and completely, and only 42% of internet shoppers did so. Reasons for not reading them entirely include: they take too long to read (57%); the print size is too small (35%); or contracts are too difficult to understand (25%), with similar figures for internet contracts (47%, 15%, 14% respectively)¹⁶. Consumers with less knowledge of consumer rights were more likely to read terms than those with a good knowledge of consumer rights, but less confident

¹⁶ Multiple answers were possible.

consumers were more likely to be deterred because it would take too long or because the text was hard to understand.

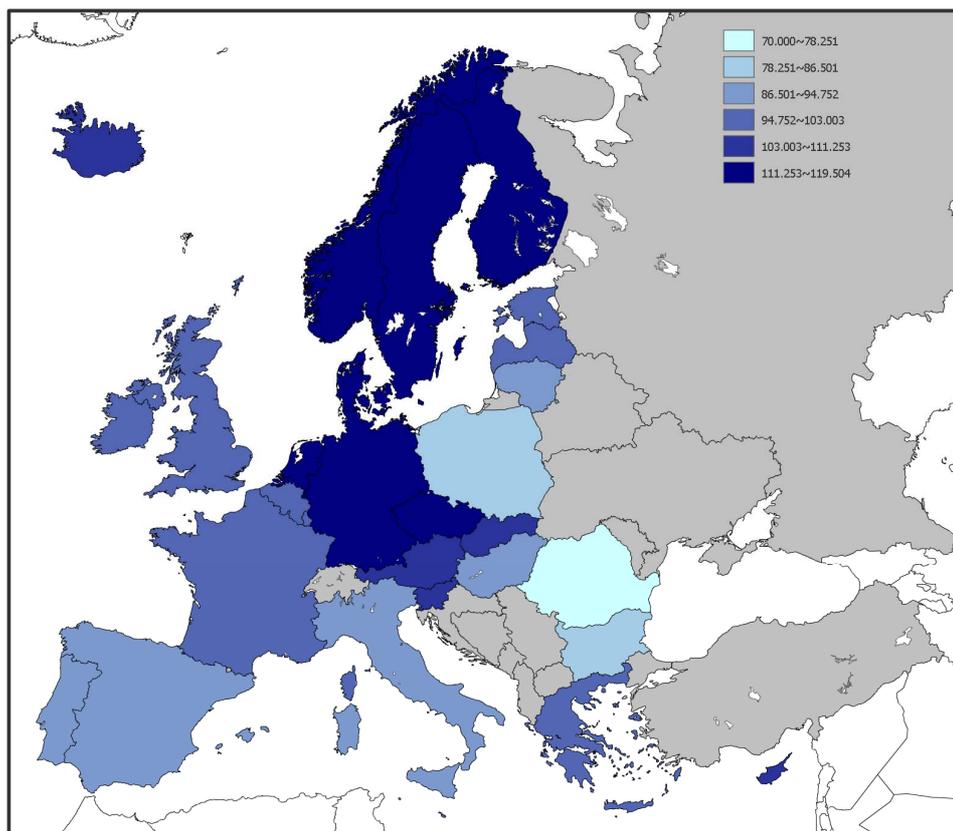
25. Empowered consumers know who to turn to when they have a problem, whether it is a public authority responsible for consumer issues or a non-governmental consumer organisation. On average only 49% of consumers could correctly name a consumer organisation and only 25% a public authority, which suggests some of these organisations could do more to reach out to consumers. As an example, 90% of those polled in the Netherlands could name a consumer organisation, and 89% of Norwegians could name the relevant public authority.
26. A key part of the solution to improving consumer empowerment rests with consumer media and journalism, whether print, radio and television broadcasting or the internet. Through consumer broadcasting and advice columns, consumers can learn how to apply their rights effectively from the experience of other consumers. It is therefore encouraging that 38% of consumers watch or listen to such programming once a month and only 36% never watch such programmes. Given that only 12% of consumers had actively looked for information on their rights in the previous year (although consumers who reported problems were much more likely to seek information), consumer media look like an effective channel for informing and educating consumers.
27. Finally, consumers are only as empowered as the personal networks of which they are part. 'Word of mouth' experience is vital to empowered consumers. On the whole, consumers have quite a high tendency to talk about their purchase experiences, both positive and negative. On average, they pass on positive experiences to 3.8 people and their negative experiences to 3.5 people, though the pattern varies across the EU.

CEI: THE CONSUMER EMPOWERMENT INDEX

28. Given that consumer empowerment is a multifaceted compound measure of empowerment, the Consumer Empowerment Index¹⁷ (CEI) has been constructed by the Joint Research Centre. The CEI is constructed from data on consumer skills, knowledge of consumer rights and consumer engagement, using a participatory approach, which involved the members of the relevant Member State expert group to define the relative weights of the data inputs through their vote.

¹⁷ Full details on the construction of the index and a thorough socio-economic analysis of it can be found at http://ec.europa.eu/consumers/consumer_empowerment/index_en.htm.

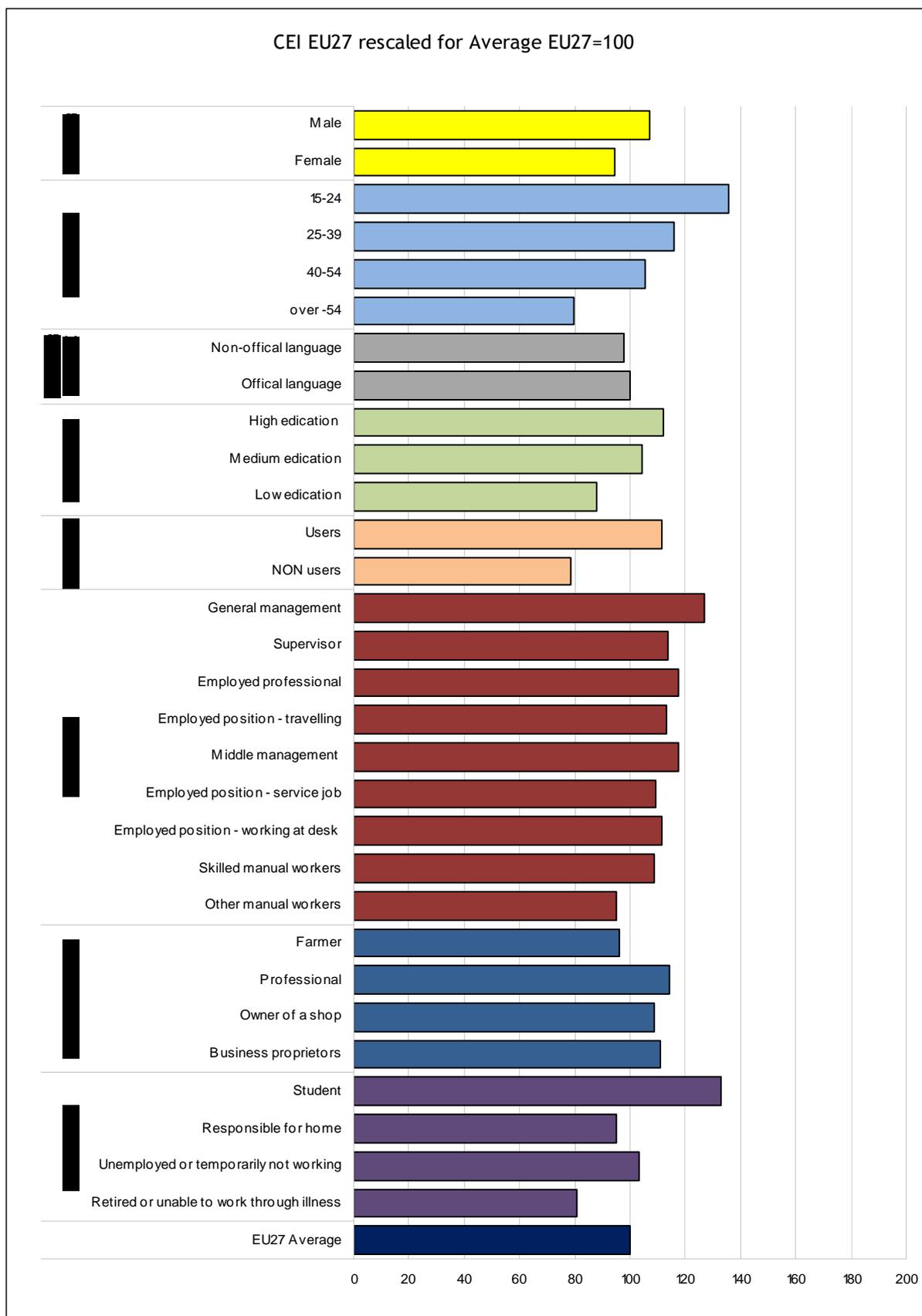
Figure 7 — Consumer Empowerment Index



The map shows that the most empowered group of countries includes NO (scoring highest), FI, NL, DE, DK, SE, CZ, AT and IS. The middle of the ranking is dominated by Western European countries, such as FR, BE, UK, LU, IE, together with CY, SK, SI and MT. At the bottom of the index are EL, PT, ES, IT, EE, LV, LT, HU, RO, PL, BG. The CEI is positively correlated to GDP: a €10 000-difference in per capita GDP explains more than a 6 % difference in the CEI index.

29. The index shows that consumer empowerment appears to be strongly linked to age, profession, education level and internet use. Non-native speakers do not, however, appear to be less empowered than native speakers.

Figure 8 — socio-economic empowerment portrait



CONCLUSIONS AND NEXT STEPS

30. This innovative survey shows that many European consumers are far from able to play the role of active, informed and assertive market participants of the kind the economy needs to drive competition and innovation. Indeed, a majority of European consumers do not feel confident, knowledgeable and protected. However, as the results for some Member States show, there is considerable potential to improve the situation and thereby to reap significant welfare gains and reductions in consumer detriment, as well as improving competitiveness, one of the sources of long-term growth in mature economies.
31. Consumers suffer from considerable detriment, both through sub-optimal choices resulting from a lack of transparency and comparability in consumer markets¹⁸ and from problems arising from transactions. Reducing or eliminating this detriment would significantly improve the allocative efficiency for consumers and free up new resources for additional consumption. Given that those who are more disadvantaged are more vulnerable, improving consumer empowerment would also bring significant social benefit.
32. The survey identifies significant ways in which consumers could be empowered. Consumers feel that they lack adequate formal and informal means to remedy the problems they face, which prevents them from enforcing their rights. This both gives rise to significant welfare losses and reduces competitive pressure on companies to improve the quality of products and customer service. Improving access to out-of-court and court redress mechanisms, in particular including small losses in such mechanisms, could have significant benefits for consumers, as well as making business more efficient and responsive to consumer needs.
33. Consumers have reasonably good self-knowledge of their skills and abilities, and this could help design smarter policies and regulation, tailored more to self-declared abilities. Overall skill levels in arithmetic and reading labels indicate that a significant proportion of consumers struggle with simple tasks. These insights should inform policies on public information or regulatory information disclosure, helping to design smarter policies that provide consumers with the information they need and can actually use and abolishing burdens on business, requiring them to disclose information in ways that actually hinder them in achieving their intended effect¹⁹. Simplification and standardisation of information could help considerably, as shown in the recent study on investment products and in current work to standardise bank fees. The results show the importance of good design for information disclosure. This is as important as content. The need for more advance testing of remedies is also demonstrated. The findings on logos reinforce the case for better design and testing, as

¹⁸ The 4th Consumer Market Scoreboard ranks the 50 most important consumer markets according to, inter alia, ease of comparison.

¹⁹ With respect to the legibility of food labels, in 2008 the Commission adopted a Proposal for a Regulation concerning the provision of food information to consumers (COM 2008 (40) final) aiming to simplify, modernise and clarify the food labelling rules, in line with the Commission's goal of better regulation. This proposal, inter alia, provides for new requirements to improve the legibility of food labels and in particular a minimum font size for the mandatory information. This proposal is still under discussion within the institutions

well as awareness-raising²⁰. The poor results for the CE mark suggest the need for an evaluation in the light of the current campaign.

34. Widespread ignorance of the most fundamental consumer protection measures appears to confirm how vulnerable consumers are to fraud, or inadequate compliance with consumer protection law on the part of businesses. Better awareness of these rights and the confidence to apply them daily would yield significant welfare gains to consumers, improve market competitiveness and encourage responsible businesses. Information campaigns may be partially effective in addressing this issue, given that consumers tend not to pro-actively seek information on their rights. However, consumer media, which are popular with consumers, offer the best way forward.
35. In the face of an increasing information overload, shortcuts could help consumers to make better decisions and to avoid problems. Comparison tools, such as unit price indication rules and accurate and transparent internet price comparison websites, appear to offer the most effective solutions (and the latter have been recognised by energy regulators as key to improving transparency in the electricity market). Information overload in relation to contract terms and conditions seems likely to grow with the presentation of contracts on the internet. The survey shows that developing shorter, simpler contract terms would considerably improve consumer decision-making and enhance competition. Consumer organisations and public authorities have a vital role to play as intermediaries, helping consumers to make better decisions and reinforcing their confidence by tackling rogue traders. In general, consumers are relatively unaware of the existence of organisations intended to support them.
36. These results provide important background information for policymakers and stakeholders at both EU and national level, to help them design smarter policies and regulations that improve consumer decision-making and reduce administrative burdens. They can be applied in relation to interventions in any policy seeking to shape or influence consumer decision-making where what is done needs to fit the cognitive skills of consumers. It can also be used to help design and target information campaigns, consumer education initiatives, information about the work of public authorities and consumer NGOs, and the role of consumer media.
37. These results will form part of the April 2011 Consumer Summit, which will discuss many of these empowerment issues. They will also be made available in detail via a public access database to enable policymakers, stakeholders and researchers to deepen analysis of the findings, especially at national level (where the sample size permits further socio-economic analysis). The Commission will use feedback from these results and the discussions at the Consumer Summit to prepare a consultation of stakeholders on policy options in the second half of 2011. The results of this consultation and the present report will then be used to prepare a communication on consumer empowerment in 2012.

²⁰

In the area of foods the issue of proliferation and consumers' understanding of various logos is addressed in the Commission "Food Quality Package" (COM(2010) 733 final) and in particular in the new Guidelines of best practices on voluntary certification schemes and on the labelling of products using PDO-PGI ingredients.