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Impact Assessment

Accompanying the document

**Proposal for a Regulation of the European Parliament and of the Council on a Common
European Sales Law**

on a Common European Sales Law

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Disclaimer

This impact assessment report commits only the Commission's services involved in its preparation and the text is prepared as a basis for comment and does not prejudice the final form of any decision to be taken by the Commission.

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1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

1.1. Policy Background

The European Commission (Commission) has been working on European contract law since 2001 (see Annex I). With its 2001 Communication on European contract law,¹ the Commission launched a process of extensive public consultation on the problems arising from differences between Member States' contract laws and on potential actions in this field. As a follow-up, the Commission issued an Action Plan in 2003,² with a proposal among others to establish a Common Frame of Reference containing common principles, terminology and model rules to be used by the Union legislator when making or amending legislation. Via a grant under the 6th Framework Programme for Research, the Commission financed the work of an international academic network which carried out the preparatory legal research. This research work was finalised at the end of 2008 and led to the publication of the Draft Common Frame of Reference³ as an academic text.⁴ In parallel to this, analytical work was also carried out by the Association Henri Capitant des Amis de la Culture Juridique Française and the Société de Legislation Comparée drafting the *Principes Contractuels Communs*.⁵

In July 2010 the Commission launched a 'Green Paper on policy options on progress towards a European contract law for consumers and businesses' (Green Paper)⁶. The Commission's Work Programme for 2011⁷ provides for a legal instrument of European contract law as a strategic initiative to be proposed in the last quarter of 2011.

1.2. Organisation and timing

The Commission adopted a Decision⁸ on 26 April 2010 to establish an Expert Group (EG) to conduct a feasibility study on a draft European contract law instrument covering the life-cycle of a contract. The EG was composed of European legal scholars, legal practitioners and representatives of consumer and business organisations (acting in their personal capacity). The backgrounds of the EG members also reflected the main legal systems and traditions within the EU. The EG study (completed in April 2011) served as a starting point for developing the Commission proposal on a possible legal instrument of European contract law.

An Impact Assessment Steering Group (IASG) was set up in May 2010 and was composed of the SG, the SJ, DG COMP, DG COMM, DG ECFIN, DG MARKT, DG ENTR, DG SANCO, DG INFSO, DG MOVE and DG TRADE. The IASG met 5 times and was consulted on the draft Green Paper, on the impact assessment (IA) report as well as on the EG study.

1 Communication from the Commission to the Council and the European Parliament on European Contract Law, COM(2001) 398, 11.7.2001.

2 Communication from the Commission to the European Parliament and the Council, A more coherent European Contract Law: an Action Plan, COM(2003) 68, 12.2.2003.

3 Von Bar, C., Clive, E. and Schulte Nölke, H. (eds.), Principles, Definitions and Model Rules of European Private Law. Draft Common Frame of Reference (DCFR), Munich, Sellier, 2009.

4 Although financed by the Commission, the text is not an official Commission document.

5 Bénédicte Fauvarque-Cosson and Denis Mazeaud (eds.), European Contract Law, Materials for a Common Frame of Reference: Terminology, Guiding Principles, Model Rules.

6 Green Paper from the Commission on policy options for progress towards a European Contract Law for consumers and businesses, COM(2010) 348 final, 1.7.2010.

7 Commission's Work Programme for 2011, COM(2010) 623 final of 27.10.2010.

8 Commission Decision 2010/233/EU, OJ 105 of 27.4.2010.

1.3. Consultation and expertise

1.3.1. Public consultation

The Commission organised the following public consultations throughout the IA process:

- **General consultations**

- The **Green Paper** opened an EU wide public consultation on 7 policy options which closed on 31 January 2011 and resulted in 320 responses from all categories of stakeholders from across the EU, demonstrating the high interest in the topic.⁹

Many respondents saw value in option 1 (the publication of the work of the EG) and supported option 2 (a 'toolbox' for the EU legislator). There was little support for options 3 (a Commission Recommendation), 5 (a minimum harmonisation Directive) and 7 (a Regulation establishing a European civil code). On option 4 (an optional instrument of European contract law) the responses were more varied. Several Member States (MS) and a number of other respondents (business representatives, legal practitioners and academics) said they could support an optional instrument, provided that it fulfilled certain conditions (e.g. a high level of consumer protection, user-friendly nature, clear link with the proposed Consumer Rights Directive (CRD) and other EU-legislation). Many MS and business representatives did not want to take a position at that time, because they did not know the details of the option and the work of the Expert Group. The European Economic and Social Committee adopted an opinion in which it favoured a hybrid option by means of a 'toolbox' and an optional regulatory regime.¹⁰ In a Resolution adopted on 8 June 2011 the European Parliament (EP) also took a position on the Green Paper options. The EP supported an optional instrument, which would make the internal market more efficient without affecting MS' national systems of contract law. This optional instrument could be complemented by a toolbox endorsed by means of an inter-institutional agreement.¹¹ Some respondents expressed a preference for option 6 (a Regulation establishing a European contract law that would replace MS' national contract laws).

Of those respondents who commented on the scope of a potential European contract law instrument most only expressed opinions on a toolbox (option 2) and an optional instrument (option 4). The majority of those who explicitly commented on the toolbox scope (option 2) believed that it should be broad and comprehensive (i.e. not restricted to certain types of contract). The majority of those who commented explicitly on the scope of option 4 seemed in favour of an instrument which focused on cross-border B2C sales contracts. The EP favoured an optional instrument for both B2C and B2B contracts, for cross-border situations in the first instance.¹²

Based on the responses of critical stakeholders several specific and general concerns relating to the creation of a European contract law, in particular in the form of an optional instrument could be identified. A number of MS were concerned about businesses taking advantage of the weaker position of the consumer/SME, the reduction of the consumer protection level and legal uncertainty. On one hand, a number of business representatives were concerned about the increased legal uncertainty, safeguarding the freedom of contract and an unbalanced high level of consumer protection. On the other hand, consumer representatives feared a reduction of consumer protection

⁹ An overview of the responses can be found in Annex I on Procedural Issues and Consultation (Annex I).

¹⁰ Opinion of the European Economic and Social Committee on the Green Paper from the Commission on policy options for progress towards a European contract law for consumers and businesses of 19 January 2011, OJ C 84/1, 17.3.2011.

¹¹ European Parliament Resolution of 8 June 2011 on policy options for progress towards a European Contract Law for consumers and businesses (2011/2013 (INI)).

¹² European Parliament Resolution of 8 June 2011 on policy options for progress towards a European Contract Law for consumers and businesses (2011/2013 (INI)).

levels in their MS and insisted that any new instrument in the field of consumer policy should have a clear added value for consumers. They also expressed a specific concern relating to the optional instrument which they thought would lead to uncertainty and confusion for consumers. Some associations of legal practitioners were concerned about an increase of legal complexity and uncertainty, largely due to the lack of accessible case law.

In order to meet as much as possible the abovementioned concerns, the Commission created a special sub-group within the EG focusing on ensuring a high level of consumer protection. In order to discuss the balance of the level of consumer protection with the needs of business this parameter was given particular attention in the discussion with both consumer and business representatives as part of the key stakeholder experts group (see below). In addition, the Commission made clear that they intended to minimise the legal uncertainty by establishing a European database of relevant case-law accessible by legal practitioners from all MS.

- A **key stakeholder experts group** was set up in July 2010 which represented businesses, consumers and legal practitioners. The first role of the stakeholder group (which met 10 times) was to provide a practitioner's perspective on the work of the EG, thereby ensuring the instrument developed was user-friendly. In addition to this, the stakeholder group discussed IA related matters at half of its meetings, once the formal IA work began.

- The Commission published the **feasibility study of the Expert Group** on its web-site and invited stakeholders to provide feedback between 3 May and 1 July 2011.¹³ The Commission consulted stakeholders on the text in order to decide if and to what extent it could serve as a starting point for the preparation of a political follow-up initiative. Most contributions concerned precise questions of legal drafting. However, business stakeholders in particular also expressed concerns about the negative effects of a level of consumer protection, which according to them was too high.¹⁴ Reacting to these concerns, the Commission ensured that the level of consumer protection would be balanced.

- **Specific consultations targeting main stakeholder groups**

- Workshops and meetings: A workshop on contract law with business stakeholders was organised in November 2010. Commission officials also met representatives of BEUC and attended two meetings of the European Consumer Consultative Group (ECCG).

- Surveys: Several surveys consulted businesses on their experiences with contract law related problems and the impacts of a European contract law instrument. They included two Flash Eurobarometers (EB 320/2011 and 321/2011),¹⁵ the SME Panel¹⁶ and the European Business Test Panel¹⁷ surveys of 2010. A consumer survey (Flash Eurobarometer 299a) enquired about consumer experiences with cross-border shopping and problems related to contract law.

1.3.2. Outside expertise

In November 2010 the Commission awarded a public tender to IBF International Consulting for a study supporting the IA preparation. The draft report was submitted in spring 2011.

13 The Feasibility Study of the Expert Group is available at: http://ec.europa.eu/justice/contract/files/feasibility-study_en.pdf.

14 Responses to the public consultation on the Expert Group feasibility study by business stakeholders, such as: Business Europe, p.2-3; Eurochambres, p. 1; UEAPME, p.2, and legal practitioners stakeholders, such as: Council of Bars and Law Societies of Europe (CCBE), p.3.

15 Eurobarometers 320 on European contract law in business-to-business transactions (EB 320) and Eurobarometer 321 on European contract law in consumer transactions (EB 321) of 2011.

16 The SME Panel survey was conducted within the Enterprise Europe Network and gathered responses from 1,047 micro, small and medium sized businesses.

17 The European Business Test panel Survey (EBTP) attracted responses from 378 companies of all sizes.

1.3.3. Consultation of the Impact Assessment Board

The IA report was examined by the Commission's Impact Assessment Board (IAB) on 19th July 2011. The IAB evaluated the IA report positively, considered its structure adequate and recommended several aspects to be improved, in particular by including more detailed explanations from the annexes into the main report. All these recommendations have been addressed: For instance, the existing legal framework was presented in more detail in this report and Annex II and the technical assumptions of economic impacts were explained in the main text of the report, in addition to Annexes III and IV.

2. PROBLEM DEFINITION

2.1. Introduction

Differences in contract law between MS create a barrier to trade within the internal market. This discourages some companies from trading cross-border and limits consumer choice. Analysis carried out in this IA suggests that each year those companies that do export into new MS markets face unnecessary entry (transaction) costs of about €1 billion (bn). The value of the trade foregone each year between MS due to differences in contract law amounts to some tens of billions of euros.

2.2. Current EU legal framework in the area of contract law

The current legal framework in the EU does not contain a single set of uniform and comprehensive contract law rules which could be used by consumers and businesses in cross-border trade. Historically laws have been created each time to meet the specific needs at the time. This has led to the current patchwork of European legislation. There are only a limited number of uniform rules in only a few areas of contract law. As a result, substantial differences between MS contract laws remain. These differences are seen as a barrier to cross-border trade¹⁸ by business with a slightly higher impact on B2C transactions than in B2B transactions.¹⁹

Conflict of law rules: In order to improve legal certainty, the Union put in place *uniform conflict of law* rules. The Rome I Regulation²⁰ allows contracting parties to choose which law applies to their contract and to determine which law applies in the absence of choice.²¹ For B2C contracts where a business directs its activity to the consumer's country of residence the business may either apply the consumer's national law in its entirety or choose another law, in practice mostly the trader's law. However, in the latter case it needs to make sure it complies with the mandatory consumer protection provisions stemming from the consumer's national law, whenever they provide a higher protection. Nevertheless, uniform conflict of law rules do not remove the differences between substantive contract law. They only lead to the application of a given substantive national law in cross-border transactions when otherwise several different national laws could potentially apply.

18 See, for example, EB 320 and EB 321 of 2011, 32% in B2B (p. 16) and 36% in B2C, (p. 20) of exporting businesses said that contract law difficulties were a barrier to cross border trade and were almost equally cited as other practical barriers such as language and delivery. More data available in SME Panel and EBTP surveys.

19 EB 320, p. 16: 32% of companies engaged in cross-border B2B transactions considered contract law as a barrier; and EB 321, p. 20: 36% of companies engaged in cross-border B2C transactions considered contract law as a barrier.

20 Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations.

21 Regulations (EC) of the European Parliament and of the Council No 593/2008 of 17 June 2008 on the law applicable to contractual obligations (Rome I) and 864/2007 on law applicable in non-contractual obligations (Rome II).

This means that no matter what law has been chosen – for one of the parties to a contract the applicable law is always a foreign law. This party is therefore disadvantaged by the need to familiarise itself with a different legal system. This situation particularly disadvantages consumers who are confronted with different laws when pro-actively shopping cross-border. Furthermore, businesses are disadvantaged by additional costs they incur when they have to ensure compliance with the consumers' mandatory rules in B2C cross-border transactions. Businesses which agree to apply a foreign law in B2B contracts also incur additional costs.

Substantive rules: The EU has partially reduced the differences between the MS' substantive laws by setting *substantive rules* through harmonisation measures. Table 1 below illustrates key areas of contract law which cover the life-cycle of a contract.²² It shows that the existing *acquis* and international rules are limited in scope: out of the 13 key contract law areas they only cover six areas (one only partially) for B2C and eight areas for B2B contracts (one only partially). Thus, a comprehensive set of uniform rules is neither available in B2C nor B2B cross-border sales.

Table 1: EU Legal Framework in the area of contract law

Business-to consumer contracts				Business-to-business contracts		
Contract law area	Consumer rights Directive ²³	Other relevant EU consumer legislation	Directive on electronic commerce	Directive on electronic commerce	Directive on combating late payments	Vienna Convention on the international sale of goods
<i>Pre-contractual information and negotiation</i>	YES	YES	YES	YES	NO	NO with a few exceptions
<i>Conclusion of contract</i>	NO	NO	YES (partially)	NO	NO	YES
<i>Rights to withdraw</i>	YES	YES	NO	NO	NO	NO
<i>Defects in consent</i>	NO	NO	NO	NO	NO	NO
<i>Interpretation</i>	NO	NO (with one exception)	NO	NO	NO	YES
<i>Contents and effects</i>	NO	NO	NO	NO	NO	NO with a few exceptions
<i>Unfair contract terms</i>	NO	YES	NO	NO	YES (partially)	NO
<i>Obligations and remedies of the parties to a sales contract</i>	NO	YES	NO	NO	NO	YES
<i>Delivery and Passing of Risk</i>	YES	NO	NO	NO	NO	YES
<i>Obligations and remedies of the parties to a related service contract</i>	NO	NO	NO	NO	NO	NO
<i>Damages, Stipulated payments for non-performance and interest</i>	NO	NO	NO	NO	YES (partially)	YES
<i>Restitution</i>	NO	NO	NO	NO	NO	YES
<i>Prescription</i>	NO	NO	NO	NO	NO	NO

For B2C related transactions, the EU legal framework contains mainly minimum harmonisation rules in selected areas of consumer contract law. These have been introduced among others by the

²² The Expert Group created by the Commission identified these areas as key areas of contract law for cross-border contracts.

²³ The table reflects the scope of the CRD based on the text, which was adopted at first reading. The scope is limited to distance and off-premises B2C contracts.

Directives relating to doorstep selling,²⁴ unfair contract terms,²⁵ distance selling²⁶ and sales remedies.²⁷ Even though these Directives have substantially improved the level of consumer protection in the EU, they have not removed the differences between MS laws. While they establish minimum standards for certain core consumer rights, such as unfair contract terms control and sales remedies, MS can build upon these to various degrees and adopt legislation which goes beyond the standards of these Directives. Furthermore, MS can legislate freely in areas where no harmonisation had taken place. As MS legislate in an un-coordinated manner the consumer contract laws across the EU have developed into a patchwork of 27 sets of different rules. Although this legal framework ensures an adequate level of protection for consumers who shop in their own country, it creates increased complexity and confusion for pro-active consumers who shop cross-border. It also creates increased complexity and costs for businesses interested in selling to consumers across border.

The Commission addressed the differences in the MS consumer contract laws by its 2008 proposal for a CRD. The aim was to facilitate cross-border shopping and sales. This would have been achieved by establishing a single set of rules through full harmonisation of key regulatory aspects for consumer contracts. The 2008 proposal originally set out to merge the four consumer contract law Directives on doorstep selling, unfair contract terms, distance selling and sales remedies.

However, the CRD did not achieve the objective of the initial proposal, as its scope was substantially reduced in the negotiations during the legislative process. Two modules which were essential in practical terms, the rules on unfair contract terms and sales remedies, were excluded. Thus, key issues which posed serious concerns to consumers in cross-border shopping, such as their rights and obligations with respect to defective products, remained regulated at different levels across MS. Although successful, the outcome of the negotiations on the CRD showed therefore that the full harmonisation approach in those areas of consumer contract law had limits. The CRD succeeded in creating fully harmonised substantive rules, but only for distance and off-premises contracts and even then these were limited to the areas of pre-contractual information, withdrawal and delivery/passing of risk. Placing this in context, these are only 3 out of 13 key areas of contract law mentioned in Table 1. Thus, the rules for B2C contracts in the remaining 10 areas are harmonised either at a minimal level or not harmonised at all.

For B2B contracts the existing EU rules are even more limited: The Directive on Electronic Commerce²⁸ introduced some rules on pre-contractual information for electronic contracts. The Directive on combating late payments²⁹ harmonises the rules on the default interest rate which apply in cases of late payment, but allows MS to go beyond the standards of the Directive in favour of the creditor. Thus, the EU *acquis* exists only in 2 out of the 13 key contract law areas, mentioned in Table 1 and also contains rules partially harmonised only at a minimum level.

A set of rules of a broader scope was introduced at an international level by the 1980 UN Convention on the International Sales of Goods (The Vienna Convention). However, the Vienna Convention was not ratified by all MS. It is not applicable in the UK, Ireland, Portugal and Malta. In addition, it does not cover the whole life cycle of a contract comprehensively. For example, it hardly covers any general contract law, while in practice legal disputes about remedies for defective products are often intrinsically linked to general contract law (e.g. interpretation of contracts in order

24 Council Directive 85/577/EEC of 20 December 1985 aims to protect the consumer in respect of contracts negotiated away from business premises.

25 Council Directive 1993/13/EEC of 5 April 1993 on unfair terms in consumer contracts.

26 Directive 97/7/EC of the European Parliament and of the Council of 20 May 1997 on the protection of consumers in respect of distance contracts.

27 Directive 1999/44/EC of the European Parliament and of the Council of 25 May 1999 on certain aspects of the sale of consumer goods and associated guarantees.

28 Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce').

29 The Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions (recast).

to determine conformity or the question whether a contract is validly concluded despite defects in consent). Finally, there is no mechanism ensuring its uniform application as different national courts may interpret it differently. All these difficulties may contribute to the result that only a relatively small number of companies intentionally use the Vienna Convention.³⁰

Table 1 shows the contract law areas where minimally harmonised or uniform rules exist, but also where gaps lead to differences of national contract law regimes. It demonstrates the lack of a uniform and comprehensive set of rules covering the whole life cycle of a contract both for B2C and B2B cross-border transactions. The remaining differences in contract laws continue to generate obstacles to the smooth functioning of the internal market affecting both consumers and businesses, as described further in sections 2.3 and 2.4.

The European contract law as such addresses all the problems that differences in contract laws pose to cross-border trade in the EU. As goods account for the major share of intra-EU trade,³¹ the focus of this initiative is on the sale of goods. The economic sectors involved in the sale of goods considered in this report are according to the categorisation of Eurostat mining, manufacturing, wholesale, retail and agriculture. These sectors also include trade in digital products, a sector of growing economic importance.

In addition, some services are intrinsically linked to the cross-border sales of goods because they are provided in close connection to a contract of sale and are agreed with the seller of goods, simultaneously with the sales transaction. These services (e.g. installation, repair or maintenance) are therefore also covered by this initiative.

2.3. Problem 1: Differences in contract law hinder businesses from cross border trade and limit their cross-border operations

Currently on average only 9.3% of the EU companies involved in the sales of goods export inside of the EU.³² The majority of them (62% in B2B and 57% in B2C) export to no more than 3 other MS.³³ One of the reasons for this relatively low level of cross-border trade – besides a lack of interest in export – is that some companies are hindered by regulatory (e.g. differences in tax regulations, contract law, administrative requirements and company law) and practical barriers (e.g. language, transportation and after-sales maintenance). Recent business surveys show that the regulatory barriers are a greater hindrance to the expansion of cross-border trade than the practical ones.³⁴ The Commission is tackling the regulatory barriers to cross-border trade with several initiatives.³⁵ This IA deals exclusively with contract law related barriers.³⁶

2.3.1. Negative impact of contract law differences on cross-border trade

30 EB 320, p.57: Only 9% of respondents said they frequently applied international instruments, including the CISG and the UNIDROIT principles.

31 According to Eurostat Statistics in Focus 37/2010 and the Eurostat External and Intra-EU Trade Yearbook of 2009, the intra-EU trade volume in goods was 4 times the volume of trade in services in 2008.

32 See Annex on calculations of transaction and opportunity costs (Annex III).

33 EB 320, p. 55 and 321, p. 56.

34 EB 320 and EB 321, the SME Panel and EBTP surveys. Similarly, a survey by Eurochambres in 2010 found that the differences in legislation were the main difficulty in cross-border trade for 36% of the respondents. It was conducted among 1,330 companies in 12 EU MS and Croatia. 83% of the respondents were involved in B2C transactions while 57% were delivering products cross-border.

35 For instance, a measure on tax barriers aims at improved coordination of the national tax policies by means of a Directive on a common consolidated corporate tax base.

Administrative barriers are tackled by the application of the Services Directive, the Small Business Act and the review of accounting Directives. Measures in the area of company law include a legislative proposal on linking of company registers.

36 This report acknowledges the importance of all existing barriers to cross-border shopping.

According to survey data³⁷ contract law related barriers rank amongst the top regulatory barriers, which influence the companies' decision to trade cross-border: In B2B transactions 35% of companies involved or interested in cross-border trade and 51% of companies with no cross-border experience were affected by contract law differences. In B2C transactions at least 40% of retailers interested or involved in sales to consumers in other EU countries were affected.

Contract law related barriers hinder cross-border trade in two ways: Firstly, they dissuade some companies from trading cross-border. 61% of companies involved in B2B and 55% in B2C transactions and affected by contract law differences were often or at least occasionally deterred by contract law related barriers. Additionally 3% of companies involved in B2B and 2% in B2C always gave up exports for this reason.³⁸ Secondly, contract law related barriers lead companies to limit their cross-border operations. Above 80% (both in B2B and B2C transactions) of companies active or interested in cross-border trade and affected by contract law barriers suggested that they exported to fewer EU countries for this reason.

This has impacts at a macroeconomic level, although they are difficult to quantify precisely.³⁹ Nevertheless, the value of failed intra-EU trade as the result of companies giving up cross-border trade due to contract law only, can be estimated⁴⁰ at a range between €26 bn (equivalent to Lithuania's GDP) and €184 bn (slightly more than Portugal's GDP).⁴¹

These opportunity costs only relate to the lost value of cross-border trade for companies which were dissuaded from cross-border trade due to contract law. While part of these costs will be reduced due to the domestic transactions which may take place instead of the failed cross-border ones,⁴² it is hardly possible to quantify the value of the compensatory domestic transactions. However, the domestic trade would most likely take place at a higher price and would therefore disadvantage consumers.

Companies which limit their cross-border activities due to differences in contract law also miss the opportunities of cross-border demand by refusing orders from consumers. At least 23% of exporting European retailers⁴³ refused orders by consumers from other MS due to differences in contract law.⁴⁴ Out of these, 5% refused sales to consumers in other MS systematically and 18% did so occasionally. The overall percentage of EU retailers refusing sales is likely to be much higher, as the majority of them do not export and are thus even more likely to refuse cross-border sales (discussed further in section 2.4.2).

37 Unless otherwise stated, the data in this section comes from EB 320, p. 15 and 321, p.19.

38 These experiences were confirmed by the participants in the SME and EBTP surveys where 47% and 67% of the respondents respectively said that barriers relating to contract law have dissuaded them from cross-border transactions to various degrees. See Annex III.

39 For example, determining the impact of differences in contract law on trade flows requires knowledge about the number of companies that are discouraged from trading cross-border due to these differences, the number of countries with which they would trade, and the amount they would trade. This data is not available.

40 The estimate is based on the answers to Eurobarometer surveys, Eurostat data on intra-EU trade and a number of assumptions. More details are in Annex III.

41 Eurostat Statistical Books, External and Intra-EU trade – a statistical yearbook, 2009 edition, p. 82. The value of forgone intra-EU trade is calculated as a percentage of the actual trade that failed as companies were deterred from cross-border transactions. It is based on the value of total intra-EU trade estimated by Eurostat at €2704 billion in 2008 (see Annex III for details).

42 The estimate does not reflect cross-border trade which failed for other reasons than contract law. It also does not take into account the domestic transactions which could compensate the failed cross-border trade.

43The figure of 23% of retailers who refused cross-border sales only covers the companies which are currently trading cross-border or interested in doing so.

44 EB 321, p. 29.

Econometric research has shown that when two countries have legal systems based on a common origin, there is a positive effect on their bilateral trade.⁴⁵ Assuming conservatively that the removal of differences in contract law would contribute 1 percentage point to this positive effect⁴⁶, the increase in intra-EU trade could be in the order of magnitude of €30 bn.⁴⁷

2.3.2. Driver 1: Additional transaction costs stemming from differences in contract law hinder cross-border trade

The need to apply different foreign contract laws is likely to generate additional transaction costs⁴⁸ compared to domestic trade. Moreover, these costs usually grow proportionately to the number of EU countries a company trades with and thereby hinder trade expansion within the internal market. Indeed, businesses exporting to more MS than average assign a greater importance to differences in contract laws. For instance, whereas about 41% of companies trading with businesses in only one country considered contract law differences a barrier, this figure went up to 55% for those trading with more than 4 countries.⁴⁹ Companies' own estimates of their transaction costs for entering one MS range between less than €1000⁵⁰ to above €30,000.⁵¹ These are mostly one-off costs that vary depending on the company's business activity, its place of business, distribution channels and type of transaction (B2C or B2B). The cumulative costs for all exporting EU companies are between €6 and €13 bn as explained in the section on cumulative transaction costs for the EU economy below.

Other types of costs in addition to the one-off costs are not taken into account, as comprehensive data on their scale is not available. These other types could include for instance ongoing compliance costs for periodical adaptations to changes in the respective national laws. Business stakeholders have pointed out that these costs could be of a considerable scale and occur annually.⁵² Furthermore, additional costs specific to litigation occur when courts have to apply a foreign contract law. These costs stem from the need for translation and expert legal opinions on foreign contract laws in litigation cases.⁵³

45 A. Turrini and T. Van Ypersele, Traders, courts and the border effect puzzle, *Regional Science and Urban Economics*, 40, 2010, p. 82: "Analysing international trade across OECD countries we show that controlling for countries specific factors, distance, the presence of common border and common language [...], similar legal systems have a significant impact on trade [...]. If two countries share common origins for their legal system, on average they exhibit trade flows 40% larger."

46 Based on the results of EB 320, p. 33, this effect is assumed to range between 0.76% and 1.53%, 1% being an average example that takes into account both extremes. This range is computed as a weighted average of the responses of the traders interviewed. They were asked about the impact of a single European contract law on their cross-border operations. Available replies ranged between a possible decrease to a possible significant increase, and on each of these categories assumptions have been made on the attribution of a weight. For example, "increase a lot" may mean 5% more trade to have a low estimate, or 10% to have a medium one; "increase a little" may mean 1% more trade as a low estimate or 2% as a medium one etc. See details in Annex IV.

47 Intra-EU trade amounts to approximately € 2700 bn in 2008 (Eurostat external and intra-EU trade – a statistical yearbook, 2009 edition), an increase in trade of 0.76%-1.53% would be by consequence equal to € 20.5 – 41.3 bn (€ 30 bn, based on 1%, on average).

48 The references to 'transaction costs' in this report are limited only to the transaction costs for cross-border trade which stem from differences in contract law i.e. for identifying the applicable law, becoming familiar, complying with it and adapting contracts accordingly.

49 EB 320, p. 19.

50 7% of the respondents to the EBTP survey expected costs savings of less than €1,000 per MS entry if a single European contract law was introduced; the majority of 20% expected cost savings between €1,000 and €5 000 and 17% - between €5,000 and €10,000.

51 12% of the respondents to the EBTP survey and 3% of the SME Panel survey respondents expected costs savings of more than €30,000 per MS entry if a single European contract law was introduced.

52 Deutscher Industrie-und Handelskammertag (DIHK), Position Paper on the Feasibility Study carried out by the Expert Group on European contract law, p.2: the annual ongoing costs for compliance could amount to € 25 000.

53 Dr. jur. Thomas U. Klink, LL.M. Judge at Regional Court of Stuttgart, speaker at an EP workshop on European contract law, October 2010, 'EU contract law as a tool for facilitating cross-border transactions: a point of view from national courts', note, 2010: the litigation costs may result from the need to translate foreign documents in order to introduce them into the legal proceedings and to determine the rules of a foreign law, amongst others by expert opinions.

The additional transaction costs occur for companies when they have to deal with a foreign contract law. To what extent this is the case in practice differs in B2C and B2B transactions as described below.

- **Costs in B2C transactions**

As part of the transaction costs, in B2C transactions businesses need to bear specific costs to ensure compliance with the mandatory consumer protection rules of the consumer's country of residence. In B2C transactions it is in practice mostly the business which determines the applicable law and can therefore choose a law it is familiar with. Nevertheless, in cross-border B2C transactions which target consumers in other countries, businesses have, at the very least, to ensure compliance with the mandatory consumer protection rules of the consumer's country of residence. The costs may vary in the below described two scenarios. Both these scenarios are derived from Article 6 of the Rome I Regulation.

In the first scenario when a business may choose to apply the consumer's national law in its entirety, the business would bear the whole range of transaction costs stemming from legal advice and adapting standard terms and conditions to a different contract law. In the second scenario, when a business chooses to apply its preferred law, the transaction costs are likely to be slightly lower compared to the first scenario,⁵⁴ (as the preferred law is in all likelihood a law the business is familiar with). However a business will have, at least, to research whether the level of the mandatory consumer protection rules in the consumer's law is higher and adapt its terms and conditions if this is the case. While there is no data on the preference of choice between these two scenarios, it is more likely that in practice businesses would prefer to operate under their own law, as this would in general be less costly.

38% of companies with experience or an interest in cross-border trade considered the need to adapt and comply with different consumer protection rules in foreign contract laws as a barrier.⁵⁵ Businesses with no experience in cross-border trade see these costs as an even greater barrier. While 50% of retailers engaged in cross-border trade considered the extra costs for compliance with consumer protection regulations, including contract law,⁵⁶ as important or very important, for those who did not sell cross-border this percentage went up to 66%.⁵⁷

The costs for B2C transactions are estimated as an average for the two above-mentioned scenarios. The average transaction costs per company per MS range between €8,695 and €9,565. These costs are estimated based on companies' responses to a business survey and the range is verified by other sources.⁵⁸

Assuming that all exporting companies carefully examine the applicable foreign law in advance, the cumulative sunk contract law-related costs that must already have been incurred by companies

54 A business would need less legal support, when it applies its own law with possible adjustments.

55 EB 321, p. 62: respectively for 7%, 13% and 18% of the respondents this barrier had a large, some or minimal impact on their decision to trade cross-border.

56 The area of consumer protection and contract law partially overlap, but differ in scope. They overlap to the extent that contract law regulates a number of consumer rights which are key for ensuring consumer protection. However, consumer protection rules also cover other regulatory areas beyond the scope of contract law, such as product safety. Contract law goes beyond the scope of consumer protection, as it contains rules of general contract law and also regulates B2B relations.

57 EB 224 on Business attitudes to cross-border sales and consumer protection, 2008, p. 22-23.

58 The average transaction costs per company per MS are calculated based on the SME Panel survey: See Annex III. The estimate based on the SME Panel is confirmed by other sources. The EBTP survey gives an interval between €11,132 and €14,704 of average transaction costs for both B2C and B2B. According to the calculations of small business representatives (Federation of Small Businesses (FSB) in the UK, Response to the Green Paper on policy options for progress towards a possible European contract law for consumers and businesses; see for detailed explanation Federation of Small Businesses Position Paper on Rome I, p. 3) for an SME engaged in cross-border B2C e-commerce the transaction costs amount to €9,120 of legal and translation costs per MS.

currently active in cross-border B2C trade are between approximately €4 and €9 bn.⁵⁹ However, surveys among exporting businesses suggest that in practice not all of them consult a lawyer on foreign law and thus do not incur all transaction costs. Therefore, the cumulative costs are more likely to be lower. They are estimated at between €3.6 and €7.4 bn.⁶⁰

Furthermore, specific contract-law related IT costs may occur for businesses selling online to consumers in other EU countries. These costs are on average €2,916⁶¹ and stem from the need to adapt the business' website to the legal requirements of each MS it directs its activity to.⁶² This raises the cumulative contract-law related costs by a range between €0.4 and €0.8 bn.⁶³

Therefore, the cumulative contract-law related costs that have been incurred by companies currently active in cross-border B2C trade (legal, IT and translation costs) and on which data is available range between approximately ~~€4~~ and ~~€8~~ bn. These are sunk costs that cannot be recovered by the retailers who have begun exporting which could alternatively be invested in productive activities.

- **Costs in B2B transactions**

In B2B transactions companies also bear specific costs of negotiations on applicable law. They are seen as a barrier on average by 30% of companies engaged or interested in cross-border trade.⁶⁴ In addition, 44% of companies who are interested, but not yet actively exporting, are concerned about the difficulties relating to negotiations on applicable law.⁶⁵

Example: Difficulties in negotiating applicable law

Mr. Kowalski, the owner of a small Polish company in Radom, develops a uniquely designed organic wooden bed for children. He takes part in a furniture fair in Cracow with a €2,500 participation fee. There his beds attract the attention of two well known German and Italian retailers. Mr. Kowalski's company has the capacity to sell to both retailers and he starts negotiations with both of them.

A few days later, Mr Kowalski contacts Ms Janowska, his company's local lawyer. He sends her both sales contracts in English for legal advice for the agreed price of €750. When examining the contracts, Ms Janowska discovers that they are governed by German and Italian laws respectively. As she is not familiar with either of the two legal systems, she recommends to Mr. Kowalski to use his own standard contract which is governed by Polish law. However, both the German and Italian retailers explain that they are not familiar with Polish law and therefore prefer the contract to be covered by their national law. Ms Janowska advises Mr Kowalski to hire an international law firm to assist him with these contracts. In view of their ongoing business relationship she considerably does not bill him for this advice.

Mr Kowalski contacts an international law firm in Warsaw and learns that they would bill him €5,000 for checking each contract and helping negotiate the terms. This is a significant amount for Mr Kowalski. He has so far invested €2,500 for the participation in the fair and at least two days of his time in contacts with lawyers and his potential clients. He definitely does not want to lose these two deals, but he is frustrated that in order to be aware of his legal rights and obligations he needs to check, for every potential client from another MS another contract law regime. He now has a dilemma: spend an additional €10,000 to be sure of his legal rights and obligations under the contracts or take the risk,

59 The aggregate general one off-costs for B2C transactions can be estimated based on the formula: number of exporting retailers who are likely to consult a lawyer * transaction costs of entering one additional MS * average number of EU countries a business exports to. See Annex III.

60 EB 321, p. 58 found that 18% of retailers currently involved in cross-border trade are not at all informed about the consumer protection provisions in the contract laws of the EU countries where they target consumers. It is reasonable to assume that these exporters have not consulted a lawyer on foreign law at all.; the range of costs is therefore reduced accordingly.

61 Estimates based on the SME Panel survey show that the transaction costs are higher for businesses selling online, compared to face-to-face. While the average transaction costs in B2C are estimated between €8,695 and €9,565, for companies selling online the average costs are €11,875- €13,541. Therefore, both in the high and low estimate the additional costs for e-commerce amount to approximately €2,900. The costs are estimated based on the formula: additional contract law related IT costs * % of retailers exporting through e-commerce * average number of EU countries exported to. See Annex III for detailed methodology of calculations.

62 The costs include adapting the web-site so that it can recognise the consumer's country of residence and retrieve the correct set of pages. See FSB, Response to the Green Paper on policy options for progress towards a possible European contract law for consumers and businesses , p. 3; see FSB Position Paper on Rome I, p. 3.

63 See also Annex III.

64 According to EB 320, p. 61: respectively 5%, 10% and 15% of the respondents considered this was a barrier which impacts their decision to sell cross-border.

65 EB 320, p. 61.

sign the contracts as they stand and hope that no legal problems will arise in future.

For B2B transactions the average transaction costs per company per MS range from €9,000 to €10,658.⁶⁶ These costs are estimated based on companies' responses to a business survey and the range is verified by another source.⁶⁷

These transactions costs occur when a business agrees to apply a foreign law to the contract. This usually affects the party with the weaker negotiating power,⁶⁸ which is often an SME. In their relations with companies with more bargaining power SMEs may have to agree to apply the law of their business partner. Thus, they bear the transaction costs of finding out about the content and consequences of the foreign law applicable to the contract. In contracts between SMEs of comparable bargaining power the need to negotiate the applicable law may be a significant obstacle for both parties, as none of them may be familiar and willing to accept the law of the other partner.⁶⁹ Practically, the most frequently chosen foreign laws are the law of the business partner (14.6%), international legal instruments, including the Vienna Convention (9%), or the law of a third country (0.6%).⁷⁰ According to a conservative estimate of B2B transaction costs on the basis of only the 14.6% of companies which most frequently apply the law of their business partner,⁷¹ the cumulative sunk contract-law related costs incurred for B2B trade range between approximately **€2 and €5 bn.**⁷² These estimates are used throughout this report. However, if one would also consider the costs of the 9.6% of companies applying the laws of a third country or international instruments the cumulative B2B costs would increase to about €3 to €6 bn.⁷³

- ***Cumulative transaction costs for the EU economy (B2C and B2B costs combined)***

The estimate of overall cumulative transaction costs for currently exporting companies in B2C and B2B stemming from fragmentation in national contract law is therefore in the range of **€6-€13 bn.**⁷⁴ This estimate is conservative, for the following reasons: Firstly, it is based on the assumption that some companies do not investigate foreign law in advance of exports.⁷⁵ For instance, assuming that all B2C exporters would consult a lawyer on the applicable foreign law, the costs would be even higher in the range of about €7 bn and €15 bn. Secondly, the estimate only considers the sunk one-off costs (incurred by the 9.3% of EU businesses which are currently involved in EU cross-border trade in goods) whose scale can be estimated with reasonable certainty and does not include ongoing compliance costs and litigation costs.

66 See Annex III for detailed explanations.

67 The estimate is based on the aggregated data from the SME Panel survey. It is verified by the results of the EBTP panel survey, which give the range of €11,132 – €14,704.

68 EB 320, p. 27: While 24% of respondents said they frequently applied another than their national law, this percentage is likely to be higher as 17% of the respondents were not able to (or did not want to) answer the question: "Which contract law most often governs your business-to-business cross-border transactions in the EU?"

69 See response to the Green Paper by the Scottish Law Commission, p. 5.

70 EB 320, p. 27.

71 It is assumed that the companies which frequently apply the law of their business partner would bear additional transaction costs for each MS they enter

72 The costs are estimated based on the formula: number of exporting businesses * % of companies usually applying the law of their business partner in cross-border transactions * transaction costs of entering one additional MS * average number of EU countries a business exports to. See also Annex III.

73 These 9.6% of companies are likely to pay the transaction costs once, while trading with multiple MS based on the same law, e.g. Common law or Swiss law or the Vienna Convention.

74 See Annex III for detailed explanations on transaction costs.

75 EB 320, p. 57, suggests that 15% of exporting businesses do not know what law applies to their contract and EB 321, p. 58, found that 18% of exporting retailers are not informed at all about consumer protection provisions in the contract laws of the EU countries where they sell to final consumers.

However, more transaction costs for the EU economy occur annually, as new EU exporters (14.6%⁷⁶ yearly)⁷⁷ pay transaction costs for entering cross-border trade. Thus, the annual transaction costs amount to approximately **€0.9-€1.9 bn**, considering that not all exporters consult a lawyer.⁷⁸ In the absence of action, by the year 2020 they would accumulate to **€9-€19 bn** if the same level of export entry persists. The annual costs would be substantially higher if the ongoing annual compliance costs were indeed significant, as some business representatives pointed out.⁷⁹ However, they are not included in this estimate, due to lack of more representative data.

The impact of transaction costs is likely to vary depending on the size of the company and would affect mostly micro and small enterprises. The smaller a company turnover the greater the share of the transaction costs, as shown by Table 2. Notably, the impact on micro-enterprises is disproportionately high: for a micro enterprise exporting to 3 MS the transaction costs could amount to 1/5th of the annual turnover. Moreover, the costs for a micro retailer wishing to export to the whole of the EU, for instance through e-commerce, could exceed its annual turnover. This situation is detrimental to intra-EU trade on the whole, as micro enterprises account for more than 90% of all EU companies.⁸⁰

Indeed, survey data indicates that the overwhelming majority of companies interested, but not involved in cross-border trade are micro enterprises.⁸¹ This could be an indication that the costs may dissuade many micro companies with no cross-border experience from even starting cross-border activities. This situation is contrary to the Europe 2020 objective to achieve an inclusive growth in the internal market, reiterated in the Single Market Act, which highlights the importance of facilitating the development of small and micro enterprises.⁸²

Table 2: Transaction costs as a percentage of annual turnover

	Manufacturing						Wholesale and retail trade					
	Average annual turnover per firm ¹	Number of MS entered (with transaction costs per MS = €9 000)					Average annual turnover per firm ¹	Number of MS entered (with transaction costs per MS = €9,000)				
		1 MS	2 MS	3 MS	4 MS	26 (whole EU)		1 MS	2 MS	3 MS	4 MS	26 (whole EU)
Micro	214 791	4.19%	8.38%	12.57%	16.76%	108.94%	138,110	6.52%	13.03%	19.55%	26.07%	169.43%
Small	2 703 212	0.33%	0.67%	1.00%	1.33%	8.66%	3,658,098	0.25%	0.49%	0.74%	0.98%	6.40%
Medium	18 344 866	0.05%	0.10%	0.15%	0.20%	1.28%	10,524,563	0.09%	0.17%	0.26%	0.34%	2.22%
Large	237 342 066	0.00%	0.01%	0.01%	0.02%	0.10%	397,210,535	0.00%	0.00%	0.01%	0.01%	0.06%

1. Source: Eurostat structural business statistics

Example: A small business limits its cross-border trade because of high transaction costs

A British company of 6 people producing designer hats becomes famous after a celebrity wears one of its hats on Ladies' Day at Royal Ascot. Now that its products are popular, the company receives enquiries from all over Europe. It decides to set up an online shop which would be accessible by clients in the whole of the EU. For this purpose, the company contacts a lawyer and a software developer.

76 Eurostat database DS-056329-1: Trade by activity and enterprise size class.

77 The estimate of 14.6% does not reflect that some of the new exporters may have already exported in the past and incurred the transaction costs. However, this is partly balanced, as this estimate does not include companies which already export and want to expand their operations to more EU countries. See Annex III for explanations.

78 Simplified estimate: approximately 6 bn*14.6%= €0.88 bns; 13 bn*14.6%= €1.90 bn. For more precise explanations, see Annex III.

79 Deutscher Industrie-und Handelskammertag (DIHK), Position Paper on the Feasibility Study carried out by the Expert Group on European contract law, p.2.

80 According to the figures underlying the Small Business Act, micro enterprises account for 91.8% of all EU enterprises.

81 The sample of respondents to the EB 320 and EB 321 show that 86% of the surveyed companies that were interested, but not involved in cross-border trade were micro enterprises.

82 Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, Single Market Act, Twelve levers to boost growth and strengthen confidence, Working together to create new growth, COM(2011) 206 final of 13.4.2011, p.5.

The lawyer advises to hire an expert in contract law from each relevant country as it would be necessary to check the relevant national consumer contract laws and possibly draft an amended set of country specific terms and conditions. This could cost around €8,850 per country (5 days work billed at €295 per hour). The market entry cost for all the other 26 MS would therefore be €230,100. *The software developer* explains that the current website needs to be adapted to reflect the legal requirements for each country they sell to: it needs to determine the consumer's country of residence, locate and retrieve the correct set of pages and display them in a correct language. This adaptation would take between 2-6 weeks at a cost €1,550 per week. Thus, the cost per country would be at least €3,100 and upon entering the other 26 MS this would rise to €80,600.

The transaction costs for offering products in the whole of the EU would be about €310,000. This would be 50% more than the company's complete turnover of the previous year. Upon seeing the amounts, the company decides that the maximum it can afford would be €25,000 - the approximate costs of entering two additional MS. It decides to offer products only in the larger markets of Germany and France instead of selling it to all the other countries.

2.3.3. Driver 2: Perceived increased legal complexity hinders cross-border trade

The perception of legal complexity is an additional factor affecting the decision to start cross-border trade. Out of 11 obstacles to cross-border trade the difficulty in finding out about the foreign contract law affected the highest percentage of export oriented businesses (40% of respondents experienced an impact) for B2C⁸³ and a slightly lower percentage (35% of respondents) for B2B transactions⁸⁴ (see Annex IX). Out of the companies with an interest, but no cross-border experience 44% involved in B2C and 51% in B2B transactions regarded this as a barrier.⁸⁵

In B2B transactions the complexity results from the frequent need to adapt to the national laws of business partners, as is the case for at least 14.6% of companies involved in cross-border trade.⁸⁶ In B2C transactions the companies need to be aware of applicable mandatory provisions of the national law of the consumers towards whom they direct their activities. 61% of businesses with no cross-border experience are not at all or not well informed about such provisions.⁸⁷ Thus, a legal environment characterised by complexity and high costs for overcoming is likely to dissuade companies from commencing cross-border trade.

2.4. Problem 2: Consumers are hindered from cross-border purchases and miss opportunities

The level of cross-border shopping in the EU remains relatively low with 26% of consumers purchasing from another EU country when they travel⁸⁸ and 9% from a distance.⁸⁹ Barriers on the supply and demand side appear to hinder its growth. On the supply side, businesses limit their cross-border operations and may refuse sales to consumers in other MS (e.g. because of costs related to the mandatory provisions of the consumer's national law). On the demand side, most consumers are still reluctant to shop cross-border, as the low level of cross-border e-commerce illustrates: while 33% of consumers purchased products online in their own country, only 7% made purchases cross-border.⁹⁰ The barriers reinforcing this reluctance are regulatory barriers (mostly related to contract law provisions protecting the consumer e.g. remedies for faulty goods, delivery⁹¹ and availability of redress)⁹² and practical barriers (e.g. language, geographical location, access to the internet).

83 EB 321, p. 19.

84 EB 320, p. 15.

85 EB 320, p. 63; EB 321, p. 64.

86 EB 320, p. 57: 14.6% of respondents said they frequently applied the law of their business partner in their cross-border B2B transactions.

87 EB 321, p. 58, on awareness of consumer protection provisions in the contract law of other MS by respondents who are interested, but not yet trading cross-border.

88 EB 299 Cross-border trade and consumer protection, 2010, p. 23.

89 EB 299, p. 23.

90 EB 299, p. 13.

91 Problems of delivery may be of a regulatory (different contractual rights, availability of redress to enforce these rights) or practical (transport and logistics) nature.

92 This report acknowledges the importance of all existing barriers to cross-border shopping.

While the impact of practical barriers is gradually decreasing,⁹³ the importance of the regulatory ones remains high. They are key factors for consumer confidence in cross-border shopping.⁹⁴ The Commission is tackling the regulatory barriers with several initiatives.⁹⁵ This IA addresses the contract law related barriers.

2.4.1. Driver: Contract law differences impact negatively upon cross-border shopping

Contract law includes rules protecting consumers entering into economic transactions. The certainty about the content of these rules is a major factor determining consumer confidence in cross-border shopping. Certainty decreases when consumers are confronted with the complexity of different foreign laws and the subsequent uncertainty about their rights in a cross-border context. As a result, many consumers are dissuaded from purchasing cross-border: 44% of European consumers say that uncertainty about their consumer rights in general discouraged them from purchasing from other EU countries.⁹⁶ When asked about specific problems, a significant percentage of EU consumers expressed concerns related to rights regulated in contract law in particular. For instance, 57% were dissuaded by the uncertainty about their rights in case of faulty products and 47% in case of non-delivery.⁹⁷ For instance, in a study on online shopping 26% out of the participants who had problems in online cross-border shopping said that delivery took too long; 20% were not delivered the product at all and for 18% the delivered product did not match the description on the web-site.⁹⁸

When such problems arise consumers have to rely on their contractual rights. Based on these rights consumers can use remedies for non-performance. However, in a cross-border context they may need to deal with increased legal complexity. Depending on the law which applies to the contract, the level of consumer rights the seller is obliged to respect may differ.

Moreover, the conflict of law rules which determine which law applies in cross-border transactions do not protect the pro-active consumers who shop cross-border. The Rome I Regulation only grants the consumer the protection of the mandatory rules of his own national law in case the trader directs its activities⁹⁹ to the MS where the consumer is domiciled. If the trader does not envisage doing business with consumers from another MS, but agrees to contract with them at the consumers' own initiative, the consumers do not benefit from the protection rules of their national law. In the latter situation, consumers who are used to certain rights in their own country may not have the same level of protection if they contract with a foreign trader. For instance, as regards remedies for faulty goods, when consumers shop cross-border, under the laws of some countries they have to notify the trader if the goods they bought are defective. If they do not do this they will lose their rights to a remedy. In other countries this notification duty is not required. This can lead to a situation where the consumer does not notify the business because he does not know about this duty from his own law and therefore inadvertently loses his right to a remedy. Furthermore there may be differences in the way consumers can exercise a given right. For instance, in the case of faulty products, only in a handful of the 27 MS can consumers choose between the remedies of repair, replacement, reduction

93 EB 299, p. 6: A higher number of consumers (39%) are prepared to purchase products using another EU language (compared to 33% in 2006) and fewer consumers (25%) are not interested in cross-border shopping because of lack of internet access (compared to 39% in 2006).

94 EB 299: While 47% - 57% of EU consumers did not shop cross-border due to various regulatory barriers, only 25% did not do it due to lack of internet access.

95 The Commission is also preparing a legislative initiative on ODR aimed at giving consumers the possibility to have easier access to online dispute resolution. If it is necessary to resort to court procedure the EU has adopted the small claims procedure. The Commission will adopt guidelines for the effective application of provisions of the Services Directive to combat the discrimination against recipients of services.

96 EB 299a, p. 5.

97 EB 299, p. 30: Problems of delivery may be of a regulatory (different contractual rights and redress to enforce them) or a practical (transport and logistics) nature.

98 Preliminary data, forthcoming Consumer Market Study on the functioning of the e-commerce in goods, Civic Consulting: 16% out of the respondents who had problems in online cross-border shopping were delivered a damaged product, 13% received the wrong product, 5% could not return a product they did not like and get reimbursed and 4% were refused replacements or repair of a faulty product by the business.

99 This concept has been clarified by the ECJ in the Pammer and Alpenhof Judgments (C-585/08 and C-144/09).

in price or reimbursement. However, in most MS they would initially be entitled only to repair and replacement.

Example: a consumer uncertain about his rights is dissuaded from cross-border shopping

Manuel is Portuguese and he lives in Lisbon. His partner Joana is a student, who received an Erasmus scholarship and is spending a semester in Berlin. On her birthday she will have to study in Berlin for an exam. Manuel wants to surprise her with a present. He decides to give Joana a watch and finds a beautiful watch for €150 in a French online shop. Luckily they deliver to Germany. However, Manuel has doubts: What if the watch gets damaged on the way and does not work? Would Joana have the right to return the watch, like they do in Portugal? Would she herself have to pay the additional delivery costs for returning the watch? Or if she really wanted to keep the watch, could she replace it? If so, who would bear the costs for the replacement? With all those questions in mind, Manuel thinks it is better to be safe than sorry. He decides to buy Joana a present in Lisbon and to give it to her in person when they see each other in two months.

Furthermore, at least a third of consumers have wrongful expectations about the applicable law in a cross-border context.¹⁰⁰ While it is usually indicated in the terms of the contract, the majority of consumers do not always check this clause.¹⁰¹ Moreover, most consumers either do not read the terms and conditions (27%) or do not read them carefully and completely (30%).¹⁰² Thus, the majority of consumers may not be fully aware of their rights.

With a relatively high uncertainty about their rights, most consumers do not feel as confident to shop cross-border, as they do domestically. Almost half of EU consumers (48%) are more confident when ordering products online from traders based in their own country than from those in other parts of the EU.¹⁰³ Moreover, a clear majority (56%) of Europeans thought that suppliers from other EU countries are less likely to respect consumer protection laws than those from their home country.¹⁰⁴ Notably, concerns relating to contract law have a greater impact upon consumers with no cross-border shopping experience - currently the majority.¹⁰⁵ These concerns will not entirely be removed even after the adoption of the CRD, which will not regulate some of the key problematic areas, such as remedies for faulty goods. Therefore, pro-active consumers interested in cross-border shopping to a large extent will still have to deal with a highly complex legal environment, which discourages many from taking advantage of the internal market.

2.4.2. Consumers miss out opportunities of the single market

Consumers who are deterred from cross-border shopping may be disadvantaged within their domestic market. Due to substantial differences in price and choice across the EU, the best offers can often be found in another EU country.

- **Higher prices and restricted choice:** The average differences in price for consumer goods across MS, as shown in table 3, amount to approximately 24%.¹⁰⁶ The high price differences in the EU are particularly visible online: A basket of 124 consumer goods could be bought online much cheaper in the UK, followed by Germany and Italy, while Denmark and the Netherlands had the

100 EB 342 Consumer empowerment survey, p. 122-125.

101 Allen and Overy, Online consumer research, 2011: 54% of consumers in the 6 largest EU MS never or only occasionally check which country's laws govern the sellers terms and conditions.

102 EB 342, p. 122-125; Allen and Overy, Online consumer research, 2011: 52% of the consumers in the 6 largest EU MS never (5%) or only occasionally (47%) read the terms and conditions when purchasing online.

103 EB 299, p. 25.

104 EB 252, Consumer protection in the internal market, 2006, p. 55.

105 EB 299a, p. 10: uncertainty about their contractual rights which 45% of consumer with no cross-border experience perceived, dissuaded from purchasing cross-border. Out of the consumers who had cross-border shopping experience, 26% were uncertain about their rights.

106 Eurostat, Statistics in focus 50/2009.

highest average prices.¹⁰⁷ Further evidence suggests that consumers in smaller MS, notably Malta, Cyprus, the Czech Republic, Slovakia and Slovenia,¹⁰⁸ are particularly disadvantaged by higher prices.

Table 3: Price differences of consumer goods across the EU

	Clothing (prices vis-a vis EU 27 average= 100)	Footwear (prices vis-a vis EU 27 average = 100)	Consumer electronics (prices vis-a vis EU 27 average= 100)	Household appliances (prices vis-a vis EU 27 average=100)
Most costly country	Finland = 123	Finland=121	Cyprus=120	Malta=141
Cheapest country	UK= 83	Bulgaria=80	UK=86	UK/ Bulgaria=84
Difference in %	48%	51%	39%	68%

Source: Eurostat 2009, Statistics in focus 50/2009

A recent mystery shopper study¹⁰⁹ testing the availability of online offers also demonstrated the price discrepancies across EU countries. In 50% or more of the cases consumers in 13 MS could have bought products at least 10% cheaper abroad than in the domestic market.¹¹⁰ Likewise, there were discrepancies in choice: in over 50% of the product searches for 100 popular consumer product, products were not available domestically online in 13 MS. Indeed, a better price is the decisive factor for purchasing cross-border for 65% of consumers shopping online, while the unavailability of a product in the consumer's country is decisive for 56%.¹¹¹

Nevertheless, a substantial number of consumers prefer to shop domestically, due to uncertainty about their rights in cross-border shopping. They do not even try to access better offers elsewhere in the EU and are often disadvantaged by the limited choice and higher prices in their domestic markets. If the 44% who are uncertain about their rights in cross-border shopping¹¹² out of the group of consumers who shop online only domestically would make at least one online cross-border purchase, these consumers could save €380 million.¹¹³

Example: a consumer who does not shop cross-border faces higher prices at home

Mrs Korhonen lives in Turku, Finland. Her daughter Taru works in Paris. When returning to Finland, Taru is always shocked by the prices she has to pay for the same products in Turku compared to Paris. For example, clothing and footwear are about 30% more expensive in Finland than in France. Taru tries to encourage her mother to start shopping online and buy products like shoes of her favourite brand from France online. She could pay €110 (including the delivery costs) compared to €150 she pays in Turku. Her mother, however, is sceptical and asks "what if the delivered shoes are of a different size than I ordered? Can I send them back? What if the sole wears out only after a week – can I ask for a replacement?" Mrs Korhonen is uncertain whether she would have the same rights she enjoys in Finland and is confident about than, if she shops cross-border, and decides that it is safer to buy the shoes at a much higher price from the high street shop she goes to in Turku.

107 Kelkoo European Online Price Index , conducted among 10 European countries and the USA, March 2011. The study is based on an average price index comparing over a thousand prices for a basket of consumer goods.

108 Eurostat report (Borchert 2009), comparison of price levels of 2,500 consumer goods.

109 YouGov Psychonomics, Mystery Shopping Evaluation of Cross-border E-commerce in the EU, October 2009, p. 38 (YouGov Psychonomics).

110 Portugal (70%), Italy (54%), Slovenia (72%), Spain (52%), Denmark (53%), Romania (54%), Latvia (50%), Greece (63%), Estonia (59%), Finland (55%), Hungary (50%), Cyprus (50%) and Malta (50%).

111 Civic Consulting, Consumer Market Study on the functioning of the e-commerce in goods, expected date of publication: September 2011.

112 EB 299a, p. 5.

113 Currently 33% of consumers above 15 years of age (this age group represents 84% of 500 million of EU citizens) shop online, but only domestically. Assuming that 44% out of this group would make at least one cross-border purchase on average of €52 (i.e. the average amount per credit card transaction, ECB, Value of credit card transactions divided by volume of credit card transactions, <http://www.ecb.int/stats/payments/paym/html/index.en.html>), and that at least half of these consumers would find the product on average 24% cheaper than in their own country (Eurostat 2009, Statistics in focus 50/2009), these consumers would save around €380 million. Formula: $44\% \times 50\% \times 33\% \times 84\% \times 500\,000 \times 52 \times 24\% = \text{€}380\,540\,160$; Data sources: Eurostat Population database, ECB, Value of credit card transactions divided by volume of credit card transactions: <http://www.ecb.int/stats/payments/paym/html/index.en.html> (last visited: June 2011).

- **Refusal to sell due to contract law related barriers hinders consumers from purchasing cross-border**

Survey data shows that almost a quarter of export-oriented European retailers refused sales due to contract law.¹¹⁴ Scaling up the data to EU level implies that 9,000 companies refused often or always, while 33,000 did so occasionally.¹¹⁵ It is difficult to identify though how many consumers were affected by the refused sales due to contract law. One company may refuse orders of multiple consumers and contract law may be only one reason.¹¹⁶ However, the number of consumers who were affected by the refusal of sales for whatever reason is established. Survey data suggest that at least 3 million consumers¹¹⁷ said that they experienced the refusal of a sale or delivery from another EU country within one year.¹¹⁸ This percentage ranged widely between 4% of consumers affected in Belgium to 22% in Ireland and 28% in Malta.¹¹⁹ A person who engages in multiple transactions may experience the refusal of sale many times. A study where mystery shoppers tried to perform 10,964 cross-border test transactions showed that 61% of the attempts to purchase cross-border products would have failed.¹²⁰ In 50% of the cases¹²¹ traders refused to serve the consumer's country. Contract law accounts for a proportion of these cases; however for the reasons mentioned above, the exact proportion is difficult to identify.

The refusal of sales may dissuade proactive consumers from shopping cross-border and may disadvantage them economically. European consumers spend €42.3 bn annually on cross-border purchases. Assuming that within a year the 3 million consumers who experienced a refusal to sell¹²² were refused an order of a product of an average value of €52,¹²³ the value of failed transactions would be €157 million.¹²⁴

Example: a Cypriot consumer is refused a better cross-border offer

Eleni is a 20 year old Cypriot. She loves photography and would love to buy a new camera with an advanced zoom lens to take pictures of butterflies. The price of such a camera in Nicosia is around €1,540. Eleni works the whole summer as a lifeguard at a hotel swimming pool to save this money. There she meets Ben, a young Briton, who is spending his summer holidays in Cyprus. Ben mentions that the average prices for cameras he has seen in the UK were considerably lower. Eleni starts searching online and indeed finds offers for the same camera sold in the UK about €500 cheaper than in Cyprus. She thinks that the delivery costs to Cyprus could not be more than €50. This means that she would need to spend only €1,100 instead of €1,540 to buy the camera of her dreams. She contacts the shop, but they reply that they do not accept international orders. Eleni finds another shop the website of which is available in French and German. There, the camera cost €1,110, a bit more than in the first shop but it is still a good deal. She contacts the shop and gets the similar answer "we deliver only to France, Belgium, Luxembourg and Germany". After a third unsuccessful attempt,

114 EB 321, p.29: 1% of export-oriented retailers said that they always refused sales due to differences in consumer contract laws; 4% did so often and 18% did not very often. The overall number of retailers which refused cross-border orders is likely to be significantly higher, as the survey data does not cover businesses which do not export. This is the overwhelming majority of retailers (4,420,563 out of 4,605,233 according to data from Eurostat's Structural Business Statistics, 2007).

115 EB 321, p. 29: 5% of retailers with experience or an interest in exports refused sales to consumers in other MS often or always and 18% occasionally. Considering that the number of exporting retailers is 184,670 the number of them which refused sales equals 5%*184,670 – always or often and 18%*184,670 – occasionally.

116 Matrix Insight Business practices applying different condition of access based on the nationality or the place of residence of the service recipients, 2009, p. 35: the study found that companies may refuse sales for a range of reasons, including legal and regulatory considerations, as well as supply and demand related drivers.

117 EB 299a, p. 6: 8% of the consumers who had made cross-border distance purchases over the internet, postal service or by phone (9% of consumers above the age of 15 years) were refused cross-border offers. Formula: 8%*9%*84%*500,000,000= 3,024,000.

118 EB 299a, p. 9.

119 EB 299a, p. 9.

120 YouGov Psychonomics, p. 24.

121 YouGov Psychonomics, p. 24.

122 EB 298, p. 16.

123 The average amount per credit card transaction (ECB, Value of credit card transactions divided by volume of credit card transactions, <http://www.ecb.int/stats/payments/paym/html/index.en.html>).

124 8%*9%*84%*500,000,000= 3,024,000 * €52 =157,248,000.

Eleni gives up and buys a camera in a shop in Nicosia paying €1,540. She still cannot understand why the UK shops refused to sell the camera to her. She could have saved €500 and bought with that money an extra zoom lens to take even better pictures of butterflies.

2.5. Need for action at EU level and subsidiarity

- **Right to act**

The Union's right to act in this field is set out in Article 114 TFEU, which provides that the Union shall adopt the measures for the approximation of the provisions laid down by law, regulation or administrative action in MS which have as their object the establishment and functioning of the internal market.¹²⁵

- **Subsidiarity**

This initiative complies with the principle of subsidiarity for a number of reasons. The objectives of facilitating the expansion of cross-border trade for business and purchases by consumers in the internal market cannot be fully achieved as long as businesses and consumers cannot use a uniform set of contract law rules for their cross-border transactions. The current legal framework is not sufficient, as it lacks single set of uniform substantive rules which cover comprehensively the lifecycle of a cross-border contract. Furthermore, as market trends evolve and prompt MS to take action independently (e.g. in regulating digital content products) regulatory divergences grow. They lead to increased transaction costs and legal complexity for business, as well as uncertainty, affecting businesses and consumers involved in cross-border transactions.

A number of stakeholders acknowledge that the existence of differences in contract laws have led to legal fragmentation which can affect the functioning of the internal market; this may entail additional transaction costs and legal uncertainty for business and a lack of consumer confidence.¹²⁶ The Union is best placed to address obstacles to the functioning of the internal market as these obstacles have a clear cross-border dimension. More specifically, it is best placed to address contract law related obstacles by developing a single set of uniform substantive contract law rules. It will add value to the existing legal framework by creating such rules for consumers and businesses that engage in cross-border transactions.

3. POLICY OBJECTIVES

The overall objective is to support the economic activity in the internal market by improving the conditions for cross-border trade for the benefit of businesses and consumers. The improvement should be achieved by reducing the barriers caused by differences in contract law between MS.

General objective 1 – Businesses	General Objective 2 – Consumers
Facilitate the expansion of cross-border trade in the internal market	Facilitate cross-border purchases by consumers in the internal market
Specific objectives <ul style="list-style-type: none"> • Increase number of companies starting cross-border activities • Increase number of companies expanding their activities to more MS 	Specific objectives <ul style="list-style-type: none"> • Increase in consumer confidence in shopping cross-border • Decrease number of consumers who experience refusal to sell • Improve access to offers from across

¹²⁵ Furthermore, according to Article 114(3) TFEU, when submitting proposals, the Commission must take as a base a high level of consumer protection.

¹²⁶ Response to the Green Paper by Member States, such as the Government of Luxembourg, p.2-3, or the Netherlands, p. 1; business stakeholders, such as BusinessEurope, p.2, British Retail Consortium, p.2, Federation of Small Businesses in the UK, p.3, Association des Banques et Banquiers, Luxembourg, p. 1-2, CEA, Insurers of Europe, p. 1, LVMH, p. 2, or Nokia Corporation, p.2; or others like the Scottish Law Commission, p.4 and the CEP, Centrum für Europäische Politik, p. 3.

	the EU
<p>Operational objectives</p> <ul style="list-style-type: none"> • Reduce additional transaction costs when trading with more than 1 MS • Reduce legal complexity in cross-border trade 	<p>Operational objectives</p> <ul style="list-style-type: none"> • Ensure high level of consumer protection • Reduce uncertainty about consumer rights in cross-border shopping

Compliance with horizontal EU policies

The above objectives are in compliance with the horizontal policies of the EU. The need to tackle barriers posed by differences in contract law is recognised in a number of strategic documents for the EU, such as the Commission's *Europe 2020 Strategy*,¹²⁷ the *Digital Agenda for Europe*,¹²⁸ the *Review of the Small Business Act*,¹²⁹ the *Single Market Act*¹³⁰ and the *Action Plan for Implementing the Stockholm Programme*.¹³¹

Moreover, the objectives of this initiative contribute to the achievement of the strategic objectives for the development of the Single Market, highlighted in the Europe 2020 strategy. Europe 2020 states that often, businesses and citizens still need to deal with 27 different legal systems for the same transaction in the context of the bottlenecks to the Single Market. It is noted that the access for SMEs to the Single Market must be improved and that citizens must be empowered to play a full part in it. This requires strengthening their ability and confidence to buy goods and services cross-border, in particular on-line. Making it easier and less costly for businesses and consumers to conclude contracts with partners in other EU countries is foreseen as one of the actions the Commission will propose in order to tackle the remaining bottlenecks in the Single Market.

4. POLICY OPTIONS

This initiative focuses on the obstacles that differences in contract law pose to cross-border trade in goods as demonstrated in Section 2 on the Problem Definition. The policy options examined focus on the areas of contract law that are most relevant for addressing the problems identified, i.e. sales of goods and digital content.¹³² These contract law areas will be referred to as a **Common European Sales Law**. The notion of a Common European Sales Law is introduced for the purpose of accuracy, as the concept of *European contract law* is very broad and it also includes a number of other contract law areas that were not addressed by this initiative.

4.1. Options for type of intervention

- Option 1: Baseline scenario (No policy change)

¹²⁷ Communication from the Commission, Europe 2020, A strategy for smart, sustainable and inclusive growth, COM(2010) 2020 final, p. 21, 3.3.2010; See also Annual Growth Survey, Annex 1, progress report on Europe 2020 (COM(2011) 11 - A1/2) p. 5.

¹²⁸ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A Digital Agenda for Europe, COM(2010) 245 final, 26.8.2010, p. 13 and p. 37.

¹²⁹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Review of the "Small Business Act" for Europe, COM(2011) 78 final, 23.2.2011, p. 11 and p. 13.

¹³⁰ Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, Single Market Act, Twelve levers to boost growth and strengthen confidence, Working together to create new growth, COM(2011) 206 final, 13.4.2011, p. 14 and p. 19.

¹³¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Delivering an area of freedom, security and justice for Europe's citizens, Action Plan Implementing the Stockholm Programme, COM(2010) 171 final, p. 5 and p. 24, 20.4.2010.

¹³² These are discussed in detail in section 4.2.3 on the Substantive Content and illustrated in Table 2 in Annex II.

The current legal framework¹³³ (including the CRD) could be maintained without further EU action. This option would also take into account the text developed by the EG.¹³⁴ Although not politically endorsed, it could be used by European and national legislators as a source of inspiration when drafting legislation. In addition, contractual parties could agree to integrate the rules developed by the EG in their contracts.

- Option 2: A toolbox for the EU legislator

The toolbox could set out definitions, principles and model rules on topics related to contract law that are likely to be subject to EU legislation. Two toolbox forms could be envisaged:

a) Toolbox as a Commission document: The Commission could adopt for instance a communication on a toolbox and commit itself to use the concepts set out in the toolbox when preparing relevant legislative proposals. However the Council and EP would not be bound to do so.

b) Inter-institutional agreement on a toolbox: An inter-institutional agreement between the Commission, EP and Council would bind the three institutions to use the toolbox concepts when drafting and negotiating legislative proposals related, except when overriding sector-specific reasons would lead to another result.

- Option 3: Recommendation on a Common European Sales Law

A Common European Sales Law instrument could be attached to a Recommendation addressed to MS encouraging them to incorporate it into their national laws voluntarily, allowing them discretion on time, method and extent of implementation. Two possibilities can be envisaged for the Recommendation, which could encourage MS to:

a) Replace their respective national contract law rules with a Common European Sales Law instrument. A similar approach has been implemented in USA: the Uniform Commercial Code (UCC) was agreed by experts in commercial law and endorsed by neutral, quasi-public organisations. The UCC has been adopted in the United States, even though with changes in some states.

b) Incorporate a Common European Sales Law instrument as an optional regime, which contractual parties from different MS could choose as an alternative to national law.

- Option 4: Regulation/Directive setting up an optional Common European Sales Law

An optional Common European Sales Law could be set up and used as a 'second regime', co-existing in the national legal regimes with the relevant specific national laws as an alternative particularly suitable for cross-border trade. It would be a comprehensive, self-standing set of contract law rules with a high level of consumer protection, which could be chosen by the parties as the law applicable to their cross-border contracts. This self-standing legal regime would allow businesses to use one set of rules irrespective of where in the EU they wish to sell their products. In B2C transactions, business would have the choice of proposing to apply the optional Common European Sales Law, while the consumer will be free to reject this offer and purchase the product from another provider under its domestic law.

- Option 5: Directive on a mandatory Common European Sales Law

A mandatory Directive on Common European Sales Law could harmonise the national contract laws of the 27 MS. It would complement the consumer *acquis* and would be based on a high level of consumer protection, as required by the Treaty. It could take one of two forms:

133 See section 2.2 and Annex II for further explanations.

134 The publication of the work of the EG was foreseen as option 1 in the Green Paper. As it was published on 3 May 2011 on the website of the Commission, at the time of the submission of this report this option is part of the baseline scenario.

- a) Full harmonisation Directive: This would ensure that the same EU contract law concepts apply in all MS and, for B2C contracts, would allow businesses to apply the same consumer contractual rules in all countries towards which they direct their activities.
- b) Minimum harmonisation Directive: MS would be able to maintain or introduce more protective rules for B2C contracts, subject to compliance with the Treaty. They would also have the freedom to choose the means necessary to implement the provisions of the Directive. However, businesses would still need to ensure compliance with the different consumer contract law rules where they have gone beyond the Directive in all those countries towards which they direct their activities.

- Option 6: Regulation establishing a mandatory Common European Sales Law

A mandatory Regulation establishing a Common European Sales Law could replace all EU national contract laws with a uniform set of rules. This solution would remove legal differences in contract laws and lead to a uniform application and interpretation of the provisions of the Regulation. As regards the intended result, the outcome of this option is close to a full harmonisation Directive. Thus, the two options will be analysed jointly.

- Option 7: Regulation establishing a European Civil Code

A Regulation establishing a European Civil Code would create a uniform set of European civil law rules which would replace national laws. It would go a step further than the Regulation establishing a Common European Sales Law, as it would regulate additional matters, for example tort law. Due to its broad scope such an instrument would minimise the need to fall back on national provisions in related areas of law.

- Discarded options

- Option 3a: Recommendation encouraging MS to replace national laws
- Option 7: Regulation establishing a European Civil Code

Option 3a received hardly any support from the MS who responded to the Green Paper.¹³⁵ Thus, it is practically not plausible, since MS would have to implement the recommendation voluntarily. Similarly, the European Civil Code received hardly any support from MS at this stage. Moreover, it would go beyond what is necessary and would be disproportionate. It also raises serious issues of subsidiarity.

4.2. Options for scope and content

4.2.1. Sub-option 1 for scope: B2C / B2B contracts

- **An instrument applicable to B2C contracts:** It would contain provisions typical for consumer contracts, such as mandatory provisions ensuring a high level of consumer protection, but also rules of general contract law which would apply by default.
- **An instrument applicable to B2C and B2B contracts:** In this sub-option, a distinction between provisions specific to consumer and business contracts would be necessary. Contrary to these B2C rules with specific consumer protection contents, almost all B2B rules would be default provisions which apply when parties have not agreed on different terms.

4.2.2. Sub-option 2 for scope: Cross-border / domestic contracts

- **An instrument applicable to cross-border transactions:** The instrument could be chosen only in a contractual relationship between parties across borders. In B2C contracts (in addition to their

¹³⁵ Only the Czech government said that it could accept option 3a in its response to the Green Paper, due to its voluntary nature. The Finnish, Hungarian and French governments also considered option 3 acceptable, without specifying explicitly a preference for option 3a. However, considering that these governments particularly liked the voluntary nature of this option and rejected the binding options which require replacing their national laws, it would seem unlikely that they would be willing to implement option 3a at this stage.

national law which would apply to domestic transactions with consumers) businesses would be able to sell to 26 other MS on the basis of a single Common European Sales Law.

- **An instrument applicable to cross-border and domestic transactions:** It would further simplify the regulatory environment, as business could operate domestically and in all other EU MS based on the same single Common European Sales Law for both B2B and B2C contracts.

4.2.3. Sub-option 3 for substantive content: areas of law covered

The Green Paper consulted on a narrow and a broad interpretation of the substantive content.

- **A narrow substantive content:** An instrument with a narrow content would be limited to rules on: definition of contract, pre-contractual duties, formation, right of withdrawal, representation, grounds of invalidity, interpretation, contents and effects of contracts, performance, remedies for non-performance, plurality of debtors and creditors, change of parties, set-off and merger, and prescription.

- **A broad substantive content:** An instrument with a broad content would cover all the areas of contract law mentioned above. In addition, it would cover areas, such as restitution, non-contractual liability, acquisition and loss of ownership of goods and proprietary security in movable assets. Moreover, it could contain rules on specific services contracts.

For the purpose of the current IA a **combination of the narrow and broad content possibilities** will be analysed. This combination has been chosen, as it covers the vast majority of usual practical problems within a life cycle of cross-border contractual relationships.

The contract law areas included are those where most problems occur, namely pre-contractual duties, right of withdrawal, performance and non-performance, which are currently largely regulated on a minimum level in the existing acquis. As repeated in many responses to the Green Paper, the instrument should in any case cover mandatory consumer contract law rules, taking the Union acquis as a starting point. However, as these areas are intrinsically linked to several areas considered in the narrow content (i.e. contract formation, grounds of invalidity, interpretation, contents and effects of contracts, and prescription), it is reasonable to include them too. Furthermore, the area of restitution (mentioned in the broad content) should also be included, as it deals with the consequences of withdrawal from, termination or avoidance of the contract.

Including *digital products*¹³⁶ is justified to ensure consistency with the CRD which includes rules on digital products in its scope and contains rules on pre-contractual information and right of withdrawal for them. The Common European Sales Law instrument will take over the respective rules from CRD. As the Common European Sales Law instrument would also include the added value of complementing them by uniform rules on remedies, these rules would also (with appropriate adaptations) apply to digital products. A uniform and comprehensive set of contract law rules applicable to digital products would facilitate the cross-border trade in this sector, by reducing transaction costs and increasing legal certainty.

Other contract law areas were excluded. They include representation, plurality of debtors and creditors, change of parties, set-off and merger (under sub-option 3.1). Discussions in the EG and the stakeholders expert group led to the conclusion that they do not generate many problems in cross-border contractual relationships. Furthermore, *services contracts* in general were excluded from the scope for two main reasons: services are very heterogeneous (e.g. they include many different categories like contracts for transport and hairdressers) and therefore are complicated to regulate. Furthermore, there was minimal support for their inclusion by the respondents to the Green Paper. While financial services received some support, it was considered that they are totally unrelated to sales. It is therefore practically impossible to deal with them in the same instrument. On the other hand, specific services contracts (e.g. maintenance and repair) which are directly related to sales,

¹³⁶ Digital product are currently not regulated under EU law: they are excluded from the scope of the Sale of Consumer Goods Directive. The Directive only applies to tangible goods. They were also not included in the scope of the Proposal on Consumer Rights Directive, but negotiations have changed this.

provided by the seller and concluded at the same time as the sales contract are intrinsically linked to sales contracts. Therefore, they could not be left out.

Other areas of law excluded were non-contractual liability, acquisition and loss of ownership of goods and proprietary security in movable assets. A study conducted during at an earlier stage of the work on European contract law found that no serious problems existed in these areas in a cross-border context.¹³⁷ In the field of property law the only problems concerned the issue of retention of title clauses, but this is dealt with to a large extent in the Late Payments Directive. Other areas of property law are not envisaged for regulation at EU level, considering also that Article 345 TFEU states that the EU shall not prejudice the rules in the MS governing the system of property ownership.

This scope has largely been determined based on the advice of the EG and the stakeholders expert group. The feasibility study of the EG reflects this approach and contains a self-standing set of rules, developed within 19 chapters (see Annex on Legal Framework for details). In determining the appropriate substantive content the Commission took into account the stakeholder concerns that the instrument should be user-friendly, practical and that it should have a balanced level of consumer protection.

- **Key substantive provisions (See Annex VIII on Substantive provisions for details)**

The key provisions analysed in detail in Annex VIII would produce significant impacts upon stakeholders. They include consumer protection provisions (e.g. pre-contractual information, remedies for non-performance, burden of proof, damages) and SMEs protection provisions (pre-contractual information, surprise clauses, unfair terms, penalty clauses control). While there may be numerous variants for each individual provision what matters most is that the instrument as a whole strikes a reasonable balance, so that it suits the interests of business and gains the trust of consumers in line with the objectives in section 3. While most of the provisions lead to an increase in the level of protection compared to the existing *acquis* and the national laws of a representative selection of MS, the analysis found that they strike a reasonable balance.

5. ANALYSIS OF IMPACTS¹³⁸

For further description of the assumptions underlying the analysis, see Annex IV¹³⁹ of this IA; for detailed description of the policy options' (POs) impacts, see Annex V.

5.1. MAIN IMPACTS OF POLICY OPTION 1: BASELINE SCENARIO

Economic impacts

Transaction costs: The current legal framework in the EU does not contain a single set of uniform and comprehensive contract law rules which could be used by consumers and businesses in cross-

137 C. von Bar, U. Drobnig, *The Interaction of Contract Law and Tort and Property Law in Europe, A Comparative Study*, European Law Publishers, May 2004.

138 Unless otherwise stated the analysis in this section applies to both B2B and B2C transactions in a cross border only context. In addition, unless otherwise stated, all data in this section comes from EB 320 and 321. (EB surveys 320 and 321 provide data on the attitudes of export oriented companies, in particular, on their willingness to use the European contract law and the impacts it could have on the level of their cross-border trade. More specifically, the respondents indicated to what extent they would use European contract law if it was made available and whether they would expand their trade to more Member States. The impacts on all considered macro-economic variables are computed based on the companies' expectations for cross-border expansion of their trade if European contract law existed).

139 The economic impacts in this section have been calculated using the Global Trade Analysis Project (GTAP) model. (See www.gtap.agecon.purdue.edu and Hertel et al. (1997), *Global trade analysis; Modelling and applications*, Cambridge University Press.) GTAP is a static general equilibrium model analysing changes in production, trade and consumption as a consequence of changes in such exogenous variables as costs. The model has an Input-Output structure for all the economies included. Trade is identified at the bilateral level. The model includes all countries in the EU27 and 57 products among which 24 are manufactured goods. GTAP is able to calculate the impact of a new policy on GDP, trade, employment, intra-EU trade, consumer prices, expenditure and consumer welfare.

border trade. The existing patchwork of European and international legislation has led to a limited number of uniform rules only in a few areas of contract law. As a result, substantial differences between MS contract laws remain. The baseline scenario (BS) transaction costs¹⁴⁰ (one off) for trading with one other MS amount to on average: in B2C transactions €9,100 (€8,695- €9,565, plus €2,900 for e-commerce oriented enterprises selling to consumers that face additional contract law related IT costs) and in B2B transactions €9,800 (€9,000-€10,658).

For a micro trader the cost of trading in one additional MS amounts to 6.5% of its average annual turnover and for trading in the whole of the EU exceeds its average annual turnover by almost twice. For a small enterprise in the same sector the cost of trading in one additional MS would amount to 0.25% of its annual turnover. For trading in the whole of the EU this would be 6.4% of its annual turnover, for a medium enterprise this cost would be 2.22% of its annual turnover for a large enterprise it would cost 0.06% of its annual turnover. There is an annual aggregate transaction cost for the EU economy as new traders enter the market which is approximately €1-2 billion. If these costs continued by the year 2020, exporting firms would face transaction costs of €9-19 billion due to the differences in contract laws.

Administrative costs (included in the overall figure of transaction costs): With no EU action, the average administrative costs¹⁴¹ per company per MS with which it trades would amount to: in B2C €2,500, in B2B €1,500. These are mostly one-off costs but accumulate as the number of MS a company trades with increases.¹⁴² For example, for trade with 5 MS these figures would be €7,500 for B2B and €12,500 for B2C.

Competition in internal market and impact on consumer prices: With no EU action, competition in the internal market would remain limited. Due to the remaining legal differences and related costs, many businesses would not be encouraged to trade cross-border and therefore create a competitive environment which would drive down prices.¹⁴³ Without an increase in competition in the market place, consumers would continue to face a restricted choice of products at a higher price.

Impact on consumer protection: This option includes the adoption of the CRD which, due to its nature as a full harmonisation Directive ensures that within its scope, consumers have the same rights which are harmonised across the EU. Therefore differences between the consumer protection rules of different MS remain. Many Green Paper respondents stated that action should only be taken if a previously adopted instrument has proven to be inefficient.¹⁴⁴ However the text adopted does not harmonise important areas of consumer contract law. For instance, sales remedies and unfair contract terms would remain fragmented across the EU. In addition, the CRD does not cover the full life cycle of a B2C contract or B2B contract.

Impact on SMEs:¹⁴⁵ For those performing B2B contracts, where parties are of a similar size, negotiating the applicable law is a time consuming factor which causes opportunity costs. In the SME Panel Survey, 55% of SMEs responded that the negotiation of applicable law was an important obstacle to cross border trade.¹⁴⁶ In addition, it is normally the stronger (usually larger) party which

140 See problem definition and Annex III.

141 See Annex VII on administrative costs.

142 See Annex VII.

143 Thereby not contributing towards the Commission policy towards increasing competitiveness 'An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage', COM (2010) 614.

144 E.g. BEUC's response to the Green Paper consultation, p. 4; UEAPME's position on the EC Green Paper, p. 2; EuroCommerce's response to the EC consultation, p.1-2.

145 Both Eurochambres and the European Association of crafts, small and medium-sized enterprises (UEAPME) felt the publication of the Expert group's work would be more beneficial from an academic perspective.

146 According to EB 320, p. 15: respectively 5%, 10% and 15% of the respondents, also representing large companies, considered this was a barrier which impacts their decision to sell cross-border.

imposes their country's law on the smaller party¹⁴⁷ as the law applicable to the contract. The smaller party then has to bear the transaction costs of finding out about the foreign contract law which applies to their contract. If the SMEs concerned in both scenarios are micro or small enterprises, then these costs would weigh, in relative terms, more heavily upon them.

Impact on law firms: No impact.

Public authorities: MS:¹⁴⁸ No impact.

Judiciary: Litigation costs which result from the need for courts to investigate and apply different national laws than their own which are relevant for cross-border contracts would remain. Judges would either need to investigate the foreign applicable law themselves or obtain the necessary knowledge through the advice of legal experts or the evidence submitted by lawyers. In these instances, time of the judges and experts/lawyers would be taken to research the foreign applicable law. The cost of this time and research would be borne by either the courts or parties involved.

Analysis of provisions of instrument:¹⁴⁹ No impact.

Social impacts: No impact.

Environmental impacts: No impact.

Online environment: With no EU action, the trend of domestic sales being far greater than cross border ones would continue.

Overall assessment: This option would not remove the additional transaction costs for cross-border trade identified in the problem definition. The subsequent opportunity costs would continue; the level of legal complexity for businesses wishing to trade cross border would not be reduced. This option would also mean that the complexity consumers experience regarding their rights in a cross-border context would remain and the practice of refusal to sell across border would not decrease.

Even though this option takes account of full harmonisation of some consumer protection rules due to the adoption of the CRD, this harmonisation is restricted to only a few selected areas of consumer contract law. Most aspects of this law such as sales remedies and unfair contract terms would remain fragmented across the EU. This fragmentation would not give consumers the full confidence on all their consumer rights for when they purchase across border.

5.2. MAIN IMPACTS OF POLICY OPTION 2

5.2.1. 2a: Toolbox as a Commission Document

The toolbox itself would only have an indirect impact upon businesses and consumers because concepts from the toolbox would be used for the development of future contract law legislation or the revision of existing EU legislation. The legislation itself would have the direct impact. As such a Commission instrument would not be agreed by the Council and EP, the EU legislator could always deviate from the parts on Commission proposals implementing the toolbox. Because of the uncertainty of its implementation, the impact of this option would not only be indirect but also very

¹⁴⁷ It is recognised that SMEs are not always in a weaker bargaining position; this example only applies to those who are.

¹⁴⁸ In their Green Paper responses, most Member States endorsed the publication of the work of the Expert Group.

¹⁴⁹ This analysis is only applicable to those options which describe the impacts of a legal instrument.

limited.¹⁵⁰ For this reason it is difficult to quantify what this impact would be. In addition, there would not be any immediate impact of this option upon businesses as negotiations for new legislation or an amendment to existing legislation would take time to achieve.

Economic impacts

Transaction costs: In the longer term this option could lead to a small reduction in the transaction costs, but the extent of this is unknown as one cannot predict when and how the toolbox concepts would be used.

Administrative costs (included in the overall figure of transaction costs): This option could create indirect administrative costs associated with future contract law requirements. For example if a future law based upon the toolbox obliged a trader to provide information not previously required, it could mean that the trader would have to bear the associated administrative costs.

Competition in internal market and impact on consumer prices: There would be little changed from the BS.

Impact on consumer protection: Where rules from the toolbox (which are not in the current acquis or domestic legislation) are adopted in EU legislation, they could raise the level of consumer protection in the laws of some MS.

Impact on SMEs: Very little change compared to the BS.

Impact on law firms: No change from the BS.

Public authorities: MS: Very little change compared to the BS.

Judiciary: Very little change compared to the BS. A limited indirect impact could be felt by the judiciary who, depending on the extent of the change would need to train for new concepts in future legislation.

Analysis of provisions of instrument:¹⁵¹ No impact.

Social impacts: No change from the BS.

Environmental impacts: No change from the BS.

Simplification potential: This option could create some convergence of the relevant contract law legislation and result in a small level of simplification as national laws would in time begin to develop similarities to each other.

Online environment: No change from the BS.

Overall assessment: Compared to the BS this option may to a very small extent help to facilitate the expansion of cross-border trade in the internal market. It may also to a small extent indirectly lead to an increased level of consumer protection in national contract laws.

¹⁵⁰ European Small Business Alliance response to the Green Paper, p2 also supports that the Toolbox does not have the substance 'to deliver real benefits to businesses engaged in transactions across the wider European market.'

¹⁵¹ This analysis is only applicable to those options which describe the impacts of a legal instrument.

However, since the contract law related transaction costs would largely remain unchanged, the positive impacts of this option on businesses and consumers would be minimal and in turn so would any subsequent impacts upon trade, competition and the internal market. Moreover, any impacts of this option would not be felt immediately as negotiations for new legislation or amendments to existing legislation would take time to achieve. Overall, as there is no way of knowing whether and how widely this option would be used and accepted by the Council and EP, the impacts of this option would not differ greatly compared to the BS and any impacts felt would be very small and would take place in the longer term.

5.2.2. Main Impacts of Policy Option 2b: Toolbox as an Inter-Institutional Agreement

As per policy option (PO) 2a, the toolbox itself would not have a direct impact upon businesses and consumers. As an inter-institutional agreement would bind the three EU institutions to make use of the toolbox concepts when drafting and negotiating legislative proposals related to contract law (except when overriding sector-specific reasons would lead to another result) there would be less deviation from the use of the toolbox concepts compared to PO2a and more certainty in its implementation.

However, despite this increased certainty, the impacts of this option would remain indirect. For this reason it is difficult to quantify what these impacts would be. In addition, there would not be any immediate impacts of this option upon businesses as negotiations for agreeing new legislation or an amendment to existing legislation would take time to achieve.

Economic impacts

Transaction costs: In the longer term this option could lead to a limited reduction in transaction costs due to the convergence of certain contract law concepts. There is a greater likelihood of this taking place as all three EU Institutions would agree on application of the toolbox concepts rather than just the Commission as would be the case in PO2a.

Administrative costs (included in the overall figure of transaction costs): This option could create indirect administrative costs associated with future contract law requirements as set out under PO2a.

Competition in internal market and impact on consumer prices: There would be little changed from the BS.

Impact on consumer protection: Where rules from the toolbox are adopted in EU legislation, they could raise the level of consumer protection in the laws of some MS. The impact would be the same as set out under PO2a with one difference. As under this option there the toolbox concepts would be accepted by the Council and EP, the impacts would be felt to a greater extent than those felt under PO2a.

Impact on SMEs: Very little change compared to the BS.

Impact on law firms: No change from the BS.

Public authorities: MS: Very little change compared to the BS.

Judiciary: Very little change compared to the BS. A limited indirect impact could be felt by the judiciary who, depending on the extent of the change would need to train for new concepts in future legislation.

Analysis of provisions:¹⁵² No impact.

Social impacts: No change from the BS.

Environmental impacts: No change from the BS.

Simplification potential: This policy option could create a greater convergence of the relevant contract law legislation than PO2a and result in a small level of simplification as national laws would in time begin to develop similarities to each other.

Online environment: No change from the BS.

Overall assessment: As this option involves all three Institutions agreeing to make use of the toolbox, this option would, to a somewhat greater extent compared to PO2a, reduce the differences between national contract laws which would help to facilitate the expansion of cross-border trade in the internal market. This option could to a limited, but greater extent than PO2a indirectly lead to a higher level of consumer protection and legal certainty about consumer rights.

However, since the toolbox would only be used for the amendment of existing or preparation of future sectoral legislation, contract law related costs stemming from differences of national contract laws would largely remain and in turn so would any subsequent impacts upon trade, competition and the internal market. Moreover, there would not be any immediate impacts of this option upon businesses and consumers as negotiations for new legislation or an amendment to existing legislation would take considerable time to achieve. As this option would only concern national contract law rules which are modified following revised or new EU legislation and would only have an impact at the earliest at a medium term, the overall positive impacts of this option would be, albeit greater than PO2a, still rather limited.

5.3. MAIN IMPACTS OF POLICY OPTION 3: RECOMMENDATION OF A COMMON EUROPEAN SALES LAW¹⁵³

This option would encourage MS to incorporate voluntarily into their domestic law a Common European Sales Law instrument as a 'second regime'. This second regime would not replace existing legal traditions, but sit alongside a relevant specific national regime. The rules of the Common European Sales Law could be voluntarily chosen by the parties as the law applicable to their cross-border contracts. Therefore businesses would have the choice to continue to use their national law in their cross border transactions or to use the Common European Sales Law.

This option would only be effective if the Common European Sales Law was incorporated by a number of MS entirely and without amendment to the original version attached to the Recommendation. If this occurred,¹⁵⁴ the transaction costs for cross border trade would be reduced, there would be more trade and competitiveness in the internal market and consumers would benefit by having an increase in choice of products at a lower price as well as an increased level of consumer protection when they buy abroad using the Common European Sales Law.

¹⁵² This analysis is only applicable to those options which describe the impacts of a legal instrument.

¹⁵³ The analysis takes account of several suggestions put forward by the majority of the respondents to the Green Paper concerning the scope of application and the material scope of an instrument, as well as other suggestions on scope including an instrument applicable in an online environment only and in a domestic and cross border setting.

¹⁵⁴ In order to estimate the impacts of PO3 assumptions on the number of exporting companies taking up the optional Common European Sales Law have been made. EB 320 and 321 show that 70% of businesses would be likely to use a new European contract law instrument. Businesses would however need to agree this choice with their business partners. Therefore the more conservative assumptions i.e. 25% and 50% of companies using the European contract law are applied throughout in the report. This allows demonstrating a range of possible economic impacts.

However, it is highly unlikely that this option would be incorporated entirely or without amendment. This would not greatly affect traders performing a B2B contract (as they would have the freedom to decide on the law applicable to their contract) and therefore, these traders would have the opportunity to reduce their transaction costs by using the Common European Sales Law of one MS which has best implemented it. The same would not be the case for traders performing B2C contracts, as they would have to research whether and where MS have changed the drafting of the Common European Sales Law with regards to mandatory consumer protection rules.

This means that businesses would not be able to sell across borders to consumers on the basis of one single law and would therefore incur transaction costs of the type indicated in the BS. Consequently this option would only to a limited extent remove the hindrances to cross-border trade identified in the problem definition. The voluntary nature of the incorporation would mean that the instrument would not be legally binding and there would be no jurisprudence mechanism to ensure its coherence.

Overall, because of the piecemeal way in which the Common European Sales Law could be incorporated, if at all, this option would further complicate the regulatory environment for both consumers and businesses as both parties in B2C contracts would be subject to differing degrees of the Common European Sales Law in different MS and the divergences in national contract laws would remain. Many respondents to the Green Paper consultation (business groups, consumer organisations and legal practitioners rejected this option). Because this option would add to the issues set out in the problem definition it is highly unlikely to be suitable as a solution, and therefore is only summarised here. The full text of the analysis of this option can be found in Annex V.

5.4. MAIN IMPACTS OF POLICY OPTION 4: REGULATION/DIRECTIVE SETTING UP AN OPTIONAL COMMON EUROPEAN SALES LAW¹⁵⁵

An optional Common European Sales Law would insert a set of clear and practical rules into each of the different national laws of a MS as a 'second regime'. This second regime would not replace existing legal traditions, but sit alongside a relevant specific national regime. These rules could be voluntarily chosen by the parties as the law applicable to their cross-border contracts. Therefore businesses would have the choice to continue to use their national law in their cross-border transactions or to use the optional Common European Sales Law.

Economic impacts

Transaction costs: This option would greatly reduce transaction costs because it would allow businesses to use one set of rules for cross border trade irrespective of the number of countries they trade with. In practice, this means that businesses using the optional Common European Sales Law may only have to pay one transaction cost for trade with multiple MS. For example, a business exporting to between 1 and 26 MS may only have to pay on average €9,800 for B2B and €9,100 for B2C (plus €2,900 for e-commerce oriented enterprises selling to consumers that face additional contract law related IT costs) (see BS).

For businesses that already export and decide to expand their sales but decide not to use the optional Common European Sales Law, the transaction costs for exporting to 5 MS could amount to €49,100 for B2B and €45,600 for B2C if the business applied the law of the country traded to in each case. A company applying the optional Common European Sales Law to the same contracts with all 5 MS would save €39,300 and €36,500 respectively. Transaction costs for exports to 10 MS using the law of the country traded to could amount to €98,300 for B2B and €91,100 for B2C. If the trader used

¹⁵⁵ The analysis takes account of several suggestions put forward by the majority of the respondents to the Green Paper concerning the scope of application and the material scope of an instrument, as well as other suggestions on scope including an instrument applicable in an online environment only and in a domestic and cross border setting.

the optional Common European Sales Law the costs saved would be €88,500 and €82,000 respectively.

Assuming that initially only 25%¹⁵⁶ of current exporters decide to use the optional Common European Sales Law, the instant one-off implementation costs would amount to €1.89 billion.¹⁵⁷ However a business stakeholder noted, the initial cost of the optional Common European Sales Law would be acceptable when compared to continuing potentially high transaction costs.¹⁵⁸ The estimate of transaction costs does not include the potential higher compliance costs for companies in some Member States where the level of consumer protection would increase (see section on analysis of provisions of instrument).

These costs would however be outweighed on the one hand by costs savings for new exporters and on the other by potential savings for current exporters who would expand their cross-border sales to new countries. Using an assumption of 25% of new exporters using the optional Common European Sales Law and the current average level of exports, the annual savings¹⁵⁹ for new exporters would be €150-400 million.¹⁶⁰ In addition, for the current exporters which declared an interest in expanding their activity cross-border and deciding to use the optional Common European Sales Law to start trading with additional EU countries, the potential saving would be between €3.7bn and €4.3 bn.¹⁶¹

These cost savings would have the biggest impact upon SMEs (in particular on micro and small companies) and this is where the optional Common European Sales Law would add the most value for such traders. However the optional Common European Sales Law would also save costs (albeit on a relatively lesser scale)¹⁶² for big businesses who want to use the optional Common European Sales Law to trade with other big businesses.

The reduction in transaction costs would also facilitate intra EU trade by removing obstacles for those companies which currently experience difficulties in either conducting cross-border trade or transferring, for example, property by way of cross border sales and would therefore facilitate the exercise of these rights in line with Articles 16 (Freedom to conduct a business) and 17 (Right to property) of the Charter on Fundamental Rights of the EU, respectively.¹⁶³

Administrative costs (included in the transaction costs): This option would require traders to provide consumers with information about the choice of using the optional Common European Sales Law. This would cost a business approximately €500.¹⁶⁴ The application of the optional Common European Sales Law would be voluntary and need only be used by contractual parties if it offered them a commercial advantage compared to the BS. This is one of the instances where the optional

156 EB 320 and 321 show that 70% of businesses would be likely to use a European contract law for cross border sales. 38% of all the companies surveyed would prefer to use a single European contract law as an alternative to their national law. To use the European contract law, businesses would need to agree its choice as the applicable law with their business partners. Assuming that some business partners would not wish to use the European contract law, a more conservative assumption i.e. 25% of companies using the European contract law is applied throughout the report.

157 25% of current exporters in B2B and B2C multiplied by the respective costs-see Annex III.

158 ESBA response to the Green Paper consultation, p. 2.

159 Number of new exporters annually multiplied by the average saving – see Annex III.

160 In a longer term, these annual savings could be discounted to €3.9-€10 bn and the net benefit for the EU economy would be €2-€8.11bn (€3.9-€10 bn minus €1.89bn), See Annex III.

161 Number of current exporters that decide to use the optional Common European Sales Law (25%) multiplied by the saving depending on the number of additional countries they would make cross-border sales to i.e. costs if they were to expand their sales to new countries under the BS €5.6- €6.2 minus the one-off cost of €1.89 bn. See Annex III.

162 The amount a big business spends to trade to the whole of the EU is 0.06% of their average annual turnover (see problem definition).

163 See Annex VI.

164 Explained further in Annex VII.

Common European Sales Law safeguards the principle of 'freedom of contract', which was a concern raised by business representatives in response to the Green Paper.

Exporters could achieve cost savings if trading with more than 1 MS as they would be able to use one set of information, available in all EU languages, If a business used the optional Common European Sales Law the administrative costs would amount to (on average) for B2C contracts €3,000 and for B2B contracts €1,500. Compared to the BS, if a company traded with 2 MS the cost saving per company would amount to €1,500 in B2B and €2,000 in B2C transactions.¹⁶⁵

Competition in internal market and impact on consumer prices: This option would increase competition in the internal market and lead to a decrease in prices. For competition to increase businesses would need to trade more (both export and import). For B2C contracts 40%¹⁶⁶ of the businesses surveyed said that if they were able to choose a single European contract law they would increase their cross border trade in the internal market. For those performing B2B contracts, this figure was 34%.¹⁶⁷ These surveys have also indicated that 14% of those performing B2B contracts would trade with 6 or more additional countries if they were able to choose a single European contract law, 34% said they would trade with 3-5 new countries and 35% said they would trade with 1– 2 new countries. For those performing B2C contracts these figures were: 18%, 32% and 32% respectively.

An increase in cross border trade would therefore lead to a rise in imports, which would be likely to increase the competition in the importing MS. To be able to compete in the market, businesses would be encouraged to either by improve the quality of their products or reduce prices. This would contribute towards the Commission policy on increasing competitiveness¹⁶⁸ and would be of particular relevance in B2B transactions which include the manufacturing industry. Consumers would benefit from an increased choice of product at a lower price. Prices are expected to decrease around 0.04-0.07% if 25% of EU companies used the optional Common European Sales Law.¹⁶⁹

If non EU businesses could choose to use the optional Common European Sales Law, they would have easier access to the internal market. Consumers would again benefit from an increased choice of product at a lower price and competition for businesses would be stronger as they would be competing against non EU businesses as well as those in the internal market.

Impact on GDP: Overall EU GDP is expected to increase by €5- €10 billion (0.04-0.08%) (see Annex IV).

Impact on third countries: if third countries could choose the optional Common European Sales Law, they would benefit from an easier access at lower transaction costs to the whole EU market and may be able to expand exports to more EU countries. If they could not use the optional Common European Sales Law, some negative impact could be felt as trade would grow more between EU countries at the expense of potential partners from third countries.

Impact on consumer protection: This option would provide a high level of consumer protection (in line with Article 38 of the Charter of Fundamental Rights of the EU)¹⁷⁰ by increasing consumer protection in certain areas which are currently harmonised at minimum level, by creating a high level of consumer protection in areas in which the Union has not previously acted by integrating the fully

¹⁶⁵ See Annex VII for more details on how these costs are calculated.

¹⁶⁶ EB 321, p. 36.

¹⁶⁷ EB 320, p. 33.

¹⁶⁸ 'An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage,' COM (2010) 614.

¹⁶⁹ See Annex IV.

¹⁷⁰ See Annex VI.

harmonised provisions of the CRD and by taking the other minimum harmonisation provisions of the *acquis* as a benchmark.

The optional Common European Sales Law would strengthen rights on some points of particular concern to consumers compared to the existing or to be transposed *acquis*. For instance, the consumer could choose the type of remedy if the goods did not conform to the contract; these remedies would also be available to consumers who bought digital content products which also did not conform to the contract. These and other consumer protection provisions would give consumers confidence that they would have a very high level of consumer protection whenever they used the optional Common European Sales Law.

To strengthen certainty about their rights and thereby consumer confidence, businesses would provide consumers with a standardised information notice whenever the optional Common European Sales Law was chosen for use. This information notice would explain that a Common European Sales Law applied and would set out information about the key rights consumers would enjoy under the optional Common European Sales Law. The provision of this information responds to some concerns (i.e. increase of the legal complexity, inability for the consumer to make an informed choice for the application of the optional Common European Sales Law) raised by consumer and legal practitioner representatives in their responses to the Green Paper. Within this setting the optional Common European Sales Law could encourage more consumers to shop across-border, as they would have the same rights at a high level of protection everywhere in the EU, whenever the optional Common European Sales Law would apply. Moreover, the information notice would be beneficial for the large percentage of consumers who do not always read terms and conditions, as it would present their key rights in a concise and prominent way before they agree to the contract.¹⁷¹ If this information is not provided to the consumer, then the consumer would have the right to terminate the contract without bearing any costs. In addition, the agreement would only be valid if the consumer consented - in a separate statement - to using the optional Common European Sales Law. A business would therefore not be allowed to include the choice of the optional Common European Sales Law as only a term in its standard terms and conditions.

The optional Common European Sales Law could become a 'trust mark' for consumers: once they have become familiar with their rights under the optional Common European Sales Law, they would become more certain and therefore confident in purchasing products across the EU under the optional Common European Sales Law's uniform rules. Additionally, the optional Common European Sales Law could be of an advantage to the economic interests of consumers, as they could gain access to more and better offers at a cheaper price, which would not have been made available by foreign businesses if the optional Common European Sales Law had not existed.

Thus, the information notice and the explicit separate statement of consent the consumer will have to provide would also eliminate the fears of several MS and consumer associations who have some concerns about the optional Common European Sales Law, as they think businesses could take advantage of the weaker position of the consumers, as the latter would not be fully able to understand the consequences of choosing an optional Common European Sales Law.

Impact on SMEs: There would be a positive impact upon SMEs trading with more than 1 MS. Micro and small companies would benefit in particular as the cost savings of using the optional Common European Sales Law would be disproportionately high compared to the BS.

¹⁷¹ According to data from EB 342, p. 122-125, most consumers either do not read the terms and conditions (27%) or do not read them carefully and completely (30%). According to Allen and Overy, Online consumer research, 2011: 52% of the consumers in the 6 largest EU MS never (5%) or only occasionally (47%) read the terms and conditions when purchasing online.

For B2C contracts, if the optional Common European Sales Law were chosen, it would be the only applicable law in the area covered by its scope. Therefore, the trader would have to consider only one set of rules – those of the optional Common European Sales Law. It would no longer be necessary to consider other national mandatory provisions as they would normally have to when concluding a contract with a consumer from another MS. Businesses would also not be required to provide individual explanations of the consequences of the use of the optional Common European Sales Law to the consumer, as the information notice would fulfil this purpose. Businesses could also use optional Common European Sales Law as a mark of quality, ensuring the high level of protection consumers would enjoy under its rules. As consumers increasingly use the optional Common European Sales Law and become more certain about their rights and more confident in cross border purchases, they could seek to contract with it more and more, thereby increasing a businesses customer base.

There would be some administrative costs where provision of information would be required.¹⁷² However these costs would be unlikely to outweigh the cost savings, especially for those companies trading in multiple MS. For SMEs performing B2B contracts, the negotiation of an applicable law between similar sized companies are likely to become easier.¹⁷³

Impact on law firms: There would be a new demand for legal advice from new exporters, as well as from existing exporters who would need to become familiar with the optional Common European Sales Law. This would create an opportunity for law firms to tap into the new market and expand their business on giving advice on contract law.

In their responses to the Green Paper several practitioner representatives mentioned that there would be a cost for law firms to train and familiarise themselves with the optional Common European Sales Law, as with all new legislation. However unlike the BS, some of these costs would be relieved given that the optional Common European Sales Law would be user-friendly, clear and available in all official languages in the EU, and would therefore be more accessible. Moreover there would be public funding available for training on new EU legislation.¹⁷⁴

In time, there could be a chance that law firms could advise less, which would mean less billable hours for them. However this would be mitigated by the increased flow of new businesses entering the 'cross-border-trade' market and the expansion of existing client advice to a wider range of cross-border transactions covering all MS.

The simultaneous application of the optional Common European Sales Law by national courts would allow case law to build up quickly. The uniform application would be ensured firstly by the ultimate interpretation of the optional Common European Sales Law through the ECJ. A database, accessible to judges and legal practitioners and containing translated summaries of national rulings applying optional Common European Sales Law provisions would ensure transparency and de-facto convergence of relevant case-law. This would alleviate concerns related to legal certainty raised by some Green Paper respondents.

¹⁷² See Annex VIII.

¹⁷³ In the SME Panel Survey, 55% of SMEs responded that the negotiation of applicable law was an important obstacle to cross border trade. In response to a similar question in the EB 320 (p.16) 25% of respondents said that difficulties on agreeing on the foreign applicable contract law had an impact on their decision to trade cross-border. However, as the sample in the EB also included large companies, the results of the SME Panel survey are more relevant for the SME test.

¹⁷⁴ In 2010 the European Commission made available €12 million of funding for judges and prosecutors (and lawyers to a lesser extent) to train on EU new legislation. The cost per trainee was about €1,400. The Commission will continue to finance training and will publish a Communication on this topic by the end of 2011 in which the training on a Common European Sales Law instrument will be mentioned as a priority.

Legal stakeholders were mostly positive towards this option. Some stakeholders from the UK expressed views¹⁷⁵ that this option would make the UK, and in particular London, a less attractive place for, in particular, large companies (who are advised to use common law as their preferred choice of law for international transactions) to obtain legal advice from English law firms. These stakeholders maintain that as a result, the expenses for legal advice¹⁷⁶ made by these businesses would be lost to the UK as companies would obtain legal advice in the US. While these submissions are relevant for PO5/6, they do not really apply to PO4.

An optional Common European Sales Law would not replace national laws. It would become a second regime existing alongside domestic legislation, which could be chosen as an alternative to the national law, only when businesses see fit. Since English law is chosen by companies because of its specificities, compared to other legal systems it is unlikely that companies which already choose it for these reasons would cease to do so.

Thus companies could continue to use common law and the services of English law firms if they choose to do so. In this context it is important to note that the number of EU exporting companies using the law of a 3rd country (for instance English law or Swiss law) is at any rate only 0.6% of EU exporters.¹⁷⁷ SME from non Common law practising countries would not be likely to apply Common law to their contracts (e.g. a Swedish SME trading with an Italian SME would be more likely to use Swedish or Italian law). However a UK based SME trading with a non-Common law country would still have the choice to use common law.

Public authorities: There would be a cost concerning a data-base which would be created and maintained by the Commission. This database would contain summaries of rulings of the application of the optional Common European Sales Law provisions (as submitted by national courts). This cost would fall upon the Commission and would be broken down as follows:

- one-off approximately €100,000¹⁷⁸ for creating the website and database;
- annually approximately €100,000¹⁷⁹ for maintaining the website and database;
- €160.56 for summarising a ruling submitted by a MS' court (assuming that it will take 4 hours to read and summarise one ruling and a documentalist is paid €321.12¹⁸⁰ a day), and
- €117 for the translation of a summary into English, French and German (assuming that each summary will be one page and the translation cost will be €39¹⁸¹ per page).

MS: The national laws of MS would not be affected. However, MS would bear the costs which would accompany the implementation of EU legislation (such as consultation of stakeholders,

175 Law Society of England and Wales Response to the Green Paper, p.17 – 20; Bar Council of England and Wales response to the Green Paper p.20 and p.21; COMBAR response to the Green Paper p.3; City of London Law Society response to the Green Paper on contract law p. 2.

176 According to the Bar Council of England and Wales Response to Green Paper p.20 and p.21 "Currently the annual fee income of the 100 largest law firms is approaching £15bn, with over half of that revenue being generated by London – based law firms." According to the Law Society of England and Wales Response to the Green Paper p.18. "The City Business series Report on Legal Services in 2007 valued the contribution of legal services to the UK economy at £14.9bn in 2004". However it would need to be noted that the income mentioned above seems to refer to the contributions of all legal services, not just on contract law. Therefore income solely due to the areas of contract law as defined under section 4.2.3. of the IA report in a cross border scenario would be a relatively small percentage of this overall income.

177 EB 320, p. 57.

178 In 2002 a database (JURE data-base) was created for summaries of judgements concerning the Brussels I Regulation no 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters, the Brussels II Regulation no 1347/2000 of 29 May 2000 on jurisdiction and the recognition and enforcement of judgements in matrimonial matters and in matters of parental responsibility for children of both spouses, the new Brussels II Regulation no 2201/2003 of 27 November 2003 on jurisdiction and the recognition and enforcement of judgements in matrimonial matters and in matters of parental responsibility for children of both spouses, repealing Regulation no 1347/2000 and the Convention of 16 September 1988 on jurisdiction and the enforcement of judgements in civil and commercial matters (Lugano Convention). The creation of this database cost at that time less than €80,000.

179 In the past four years the maintenance of the JURE data-base has cost on average €117,500. As the new data-base will likely be linked with the system of an existing data-base – e.g. the data-bases on the e-justice portal – the cost will assumable be lower.

180 Annex 1 of amendment №4 to Framework contract no JLS/2008/A5/01/lot 21 "Websites, web content management systems and other computer services".

181 Price list in the Framework contract no JLS/2008/A5/01/lot 21 "Websites, web content management systems and other computer services".

printing of new legislation, educating the public about the new law, time and cost of legislative process, etc.)

Judiciary: As raised in the Green Paper consultation, there would be a need for some initial training for judiciaries to familiarise themselves with a new system. However this cost would be mitigated by public funding available for training on the new EU legislation.¹⁸² All legal practitioners across the EU would have access to a database containing summaries of rulings on the application of the optional Common European Sales Law. This would allow them to view the application of the optional Common European Sales Law and ensure the consistency of its application. The use of this option, i.e. a single body of rules, would remove the necessity for judges to investigate foreign law and compare several laws decreasing litigation costs compared to the BS. In the longer term, this would alleviate the administrative load on a MS judicial system. Moreover, the database would also reduce the risk of a different application and interpretation of the optional Common European Sales Law mentioned by several respondents to the Green Paper.

European Court of Justice (ECJ): In the first instance national courts would rule upon cases and submit summaries which would be entered into the Commission created database. These summaries are likely to lead to a *de facto* convergence of rulings by national courts which national judges would be able to access when needing to refer to how provisions of the optional Common European Sales Law have been ruled upon. There may be a limited number of cases which may need to be referred to the ECJ,¹⁸³ which would increase the caseload. There would be a financial cost of referral of a case which would need to be borne by the parties to the trial.

Analysis of provisions of instrument:

The tables below present some key proposed consumer and SME protection provisions¹⁸⁴. They analyse their impact on the level of protection in a representative sample of MS. They also reflect the related potential additional compliance costs for businesses as well as their likely impact on the take-up of the optional Common European Sales Law.

CONSUMER PROTECTION PROVISIONS			
Provision	Impact on consumer protection	Compliance costs for businesses	Impact on take-up of optional Common European Sales Law
Remedies for breach of information duty in doorstep/off-premises and distance contracts	+ BE,NL,LU, HU, UK = DE, EE, FI, ES, FR, IT, PL, PT, RO	No direct compliance costs. Any additional costs would relate to any potential claims for damages for traders who do not fulfil their obligations in NL, BE, HU, LU, UK	= In most MS, the general provisions regarding the rights to damages currently already apply. The Common European Sales Law would confirm or further clarify these obligations but not create any additional obligations that could impact on the take-up of the optional Common European Sales Law.
Duty to ensure information supplied is correct	++ PL, FI + BE,ES, IT, LU, PT, UK (mostly for remedies) = EE	Businesses might face some additional costs to ensure that the information supplied is correct and not misleading; these costs are considered as minor as the required standard would correspond to normal business practices.	= Ensuring that the information supplied is correct is normal business practice and does therefore not create any burden that could impact on the take-up of the optional Common European Sales Law.
Mistake	++ FI, IT, RO, UK +	Some businesses might face a minor increase of costs as the result of strengthened rules concerning the	= Any potential costs would impact on the small number of traders who act in

182 In 2010 the European Commission made available €12 million of funding for judges and prosecutors (and lawyers to a lesser extent) to train on EU new legislation. The cost per trainee was about €1,400. The Commission will continue to finance training and will publish a Communication on this topic by the end of 2011 in which the training on an European contract law instrument will be mentioned as a priority.

183 This increase of caseload would form a minor part of the ongoing overall institutional and budgetary discussion of the of the resources and responsibilities of the ECJ.

184 See more detailed analysis in Annex VIII.

	FR, PL, PT = AT, EE, ES, HU, LU, NL - DE	situations in which a contract might be avoided in UK, PT, IT, PL, FR, FI, RO. These costs are considered as minor as pointing out a mistake is fair business practice.	contrary to fair trading principles and conclude a contract not pointing out a mistake.
Fraud	+ NL, PL, UK = AT, BE, EE, ES, FR, HU, IT, LU, PT, RO - DE	No additional costs for businesses as in most MS the current rules provide for avoidance of a contract for fraud. Any potential costs would only arise for rogue businesses which use fraudulent practises possibly in countries where the present rules are not so clear (e.g. UK, NL, PL).	= The provision does not introduce any new obligations but rather clarifies the existing law.
Unfair exploitation	+ BE, ES, UK = AT, DE, EE, FI, FR, HU, IT, LU, NL, PL, PT, RO	No additional costs for businesses as in most MS the current rules provide for the same level of consumer protection. Any increase of costs would affect only rogue traders.	= The provision does not introduce any new obligations. Any costs would affect only rogue traders.
Interpretation in favour of consumers	++ DE, EE, ES, FI, NL, PL, PT, RO, UK + AT = FR, HU, IT, LU, MT	Some additional costs for companies in case of doubts about the meaning of a contractual term which has not been individually negotiated.	- The interpretation most favourable to the consumer is likely to be more costly for businesses. Businesses would however be able to avoid potential costs by making sure that the contractual terms do not raise any doubts.
Terms unfair as not sufficiently drawn to the consumer's attention	+ ES, IT, HU, PL, UK = BE,EE, LU, PT	Some additional costs for traders as when supplying the terms to a contract they would be obliged to take reasonable steps to draw consumers' attention to them, before or when the contract was concluded in ES, IT, HU, PL, UK.	- The additional costs are considered as minor as the reasonable steps to inform the other party about inserted terms would in practice be relatively easy to implement.
Merger clauses	+ BE, DE, ES, FI, FR, HU, NL, PL, PT, RO, UK = AT, IT, LU	Some additional costs for businesses to adjust their contracts in order to eliminate merger clauses in BE, DE, ES, FI, FR, HU, NL, PL, PT, RO, UK	- Any potential costs are likely to be one-off and only affect companies which use merger clauses in their contracts.
Method of payment	++ DE, ES, FI, FR, HU, IT, NL, PL, PT + UK = EE	Any potential additional compliance costs would only affect traders which do not provide information on the accepted method of payments to consumers. In this case, they would be obliged to accept the usual and appropriate payment methods.	= Businesses would be able to avoid any additional compliance costs as they would have the possibility to indicate the accepted method payments to consumers.
Place of delivery	+ BE, EE, ES, HU, IT, LU, PL, PT, UK	Additional costs for distance and off-premises traders to deliver the goods to consumers' place of residence in most MS.	= These additional costs would depend on the delivery distance and would occur only where the place of delivery was not agreed between the parties.
Right to damages for non-performance	= BE, DE, EE, ES, FR, HU, IT, MT, NL, PL, RO, UK	No additional compliance costs for businesses.	= No additional costs as in most MS the current rules provide for the same level of consumer protection.
Length of prescription period	= BE, DE, EE, ES, HU, NL, LU, IT, PL, RO - FR, UK	No additional costs for businesses as in practice the current 2-years substantive period which applies in most MS at present and the proposed 2-year prescription period provide for a similar level of consumer protection.	= No additional compliance costs for companies as in most MS the current rules provide for the same or even higher level of consumer protection.
Period for notifying the seller of non-conformity	++ EE, FI, HU, IT, MT, NL, PL, PT +	The compliance costs for businesses could increase as the number of consumers now legitimately relying on the lack of conformity claims for	- The compliance costs in those MS where a 2 month deadline for notification exists are likely to increase only marginally as the

	ES = FR, LU, RO, UK	remedies made later than 2 months after the consumers discovered the lack of conformity could slightly increase.	risk of consumers discovering faults and claiming redress after the previous deadline of 2 months is not high, considering that most faults are likely to occur once the consumer starts operating the product after buying it.
Remedies in case of lack of conformity	++ AT, BE, BG, CY, CZ, DE, DK, EE, ES, FI, HU, IT, MT, NL, PL, RO, SK, SE + IE, LV, SI, UK = EL, FR, LU, LT, PT	The compliance costs for businesses would increase due to increased requests from consumers to rescind the contract and refund the price. In the case of refund after termination of the contract, the loss is the sale price (plus returns handling) minus the remaining value of the goods returned. The loss in the case of replacement is considered to be the production cost of the replacement good concerned (plus returns management) minus the remaining value of the goods returned.	-- SMEs which currently rely on (multiple) repair can be more disadvantaged and may be more cautious to sell abroad using the optional Common European Sales Law, as distance consumers might be more likely to ask for a termination of the contract resulting in a refund (not accepting the inconvenience of lengthy repairs or waiting for a replacement).

DIGITAL CONTENT PRODUCTS			
'Cost-free' products	+ DE,FR, HU,IT, NL, PL	Businesses providing 'cost-free' products would have additional costs as at present there are cases of defective cost-free products.	- Providers of 'cost-free' products might be unwilling to use the optional Common European Sales Law due to increased compliance costs. On the other hand they could benefit as more consumers would be more confident to download 'cost-free' products and as a result they would increase their profits (e.g. advertisements linked with cost-free products).
Sales remedies for digital content products	+ DE,FR, HU,IT, NL, PL	Businesses would have to bear some additional costs as their customers would be able to freely choose the remedy they prefer which is not the case in most MS at present.	- The additional compliance costs might deter companies selling digital content products from using the optional Common European Sales Law. However, these potential additional costs could be offset by savings due to expansion of cross-border trade and economies of scale (digital content products can easily be sold on the internet irrespective of national borders, therefore the expansion of cross-border trade in digital products is likely to be higher than for tangible goods).
Conformity in long term contracts	+ DE,FR, HU,IT, NL, PL	This provision does not involve a direct burden and cost but nevertheless might imply a burden for digital content providers. This burden would stem from the increased liability of digital content providers which as a result could increase the cost of after-sales services.	- The increase of costs for after-sales services might have a negative impact on the take-up of the optional Common European Sales Law. The impact is not expected to be significant as in contrary to tangible products, repair or replacement of digital products are not so costly.

SME PROTECTION PROVISIONS			
Provision	Impact on the level of protection	Compliance costs for businesses	Impact on take-up of the optional Common European Sales Law by SMEs
Duty to disclose information about goods and services	+ BE, ES, FI,FR, IT, NL, PL = EE, HU, PT, DE	Businesses might incur some minor administrative costs for providing information on their products. It could however, be expected that similar information is already provided in the usual course of business.	+ In general, businesses would be in a better position to judge the characteristics of the products they purchase in advance of concluding a deal. This information would enable them to select the products that mostly suit their needs.
Duty to ensure that information supplied is correct	+ BE, ES, FI, IT,PL, PT, UK = EE	Some additional costs may be incurred by businesses to adapt the information materials to make sure that the information supplied is correct and is not misleading. In the case of breach of this	= Businesses would receive complete and correct pre-contractual information that would facilitate the business' decision making process. The potential costs for

		duty the business would be liable for damages.	compensating damages would only affect traders providing incorrect or incomplete pre-contractual information to other parties.
Unfair exploitation	+ BE, ES, IT, PL, UK = EE, FI, PT	Businesses which exploit the other party's situation by taking an excessive benefit or unfair advantage would need to change their businesses practices. These costs are considered as minor as the required standard would correspond to normal business practice.	+ SMEs would be particularly interested in taking up the optional Common European Sales Law as they are often the weaker party and are more likely to fall victim of unfair exploitation.
Unfairness control of standard terms	+ BE,ES, FI, FR, HU, IT, PL,UK = NL, DE	Businesses would no longer be reliant that their standard terms and conditions (which include some unfair terms) could be enforced and might be faced with some legal uncertainty. However the risk and costs are considered minor as including terms which deviate from good commercial practices or which are in contrary to good faith and fair dealing do not correspond to normal business practices.	+ SMEs would be particularly interested in taking up the optional Common European Sales Law, as they usually have less market power to oppose unfair terms or legal resources to identify them in a contract.
Terms which are unfair if not sufficiently drawn to the buyer's attention	+ BE, DE, FI , IT, PL, PT,UK = ES, EE - HU	Some additional costs as businesses supplying the terms to a contract would be obliged to take reasonable steps to draw the other party's attention to them, before or when the contract was concluded.	= Any additional costs are considered as minor as the reasonable steps to inform the other party about inserted terms would correspond to normal business practice.
Seller's right to cure for fundamental non-performance	+ BE, EE, ES,HU,IT,PL,PT, UK = FI	There could be some additional costs for buyers as the sellers would have the right to cure for non-performance whereas at present in some Member States a buyer can refuse the cure and opt for the recession of the contract.	-/+ The provision would be beneficial for sellers as they would have the opportunity to cure for non-performance and thus avoid additional costs if a buyer opts for the recession of the contract and compensation for damages. For buyers, the provision might have a negative impact on the take-up of the optional Common European Sales Law.

Legend for table: Impact of substantive provisions	
++ positive impacts	-- negative impacts
+ limited positive impacts	- limited negative impacts
= neutral, no impacts expected	

While most of the provisions lead to an increase in the level of protection compared to the existing *acquis* and the national laws of a representative selection of MS, the analysis found that they strike a reasonable balance. Traders from those MS where the level of protection is overall lower, may face moderate additional compliance costs. For some provisions such as remedies in cases of lack of conformity or interpretation in favour of consumers, the additional compliance costs might impact negatively on the take-up of the optional Common European Sales Law in MS where the level of consumer protection is lower. However, the optional Common European Sales Law would be voluntary and companies would use it only if the benefits (e.g. lower transaction costs) outweigh possible higher compliance costs.

Social impacts: Compared to the BS, this option would help to facilitate cross border trade and as a result would create 159,300-315,900 new jobs in the EU if 25% of companies used the optional Common European Sales Law.¹⁸⁵ With regard to impacts on fundamental rights, this option would not lead to discrimination, as it would apply across the EU without any distinction on the basis of nationality, in line with Article 21(2) of the Charter of Fundamental Rights of the EU.

¹⁸⁵ See Annex IV.

Environmental impacts: This would be dependent upon the number of businesses who use the optional Common European Sales Law, as an increase in use of transport for delivery would lead to an increase in CO2 and other vehicle emissions and would increase the cost to control pollution due to the binding EU rules.

Simplification potential: For businesses, this option would simplify the regulatory environment, eliminating the need for research of different national laws as only one regulatory framework need be used. Consumer representatives voiced the concern that consumers could be subject to a new unfamiliar system.¹⁸⁶ To aid the consumers' understanding of the optional Common European Sales Law, a standardised information notice would be presented to them alerting them of the use and implications of an optional Common European Sales Law.

Online environment: Compared to the BS, this would be a more simple¹⁸⁷ way to conclude a contract and give a trader cost savings. The additional transaction costs would no longer apply: Businesses would not need to adapt their terms and conditions and IT platforms to take into account the laws of all Member States they trade with. This could provide an incentive to businesses to increase their online cross border sales (or in some cases to commence them). If there were an increase in the number of businesses who used this instrument to trade cross border, then compared to the BS, this option would help towards narrowing the gap between domestic and cross border online sales.

However, an instrument dedicated only to e-commerce could lead to increased legal complexity. Companies using distribution channels other than e-commerce would have to apply different legal rules depending on the distribution channel used. This would create a fragmentation of the market and distort competition. Furthermore, as mentioned by business representatives in their Green Paper consultation responses,¹⁸⁸ it would not be technologically neutral and thus may generate legal uncertainty should new forms of distance sales occur in addition to e-commerce, for instance mobile telephony commerce. A scope limited to cross-border online sales only could however also create additional legal complexity for consumers who could be subject to different rules depending on whether they make a purchase online, at a distance using another method (i.e. post or telephone) or face-to-face.

Impact if this option is applied in a domestic and cross border contract as well as cross border only

Domestic and cross border: An optional Common European Sales Law would facilitate the legal environment for businesses which trade both cross-border and domestically, if they chose to operate under the optional Common European Sales Law for all contracts. On the one hand, if the optional Common European Sales Law also applied in a domestic context it would go beyond what would be necessary to resolve the problem of additional transaction costs and legal complexity. It would therefore not be a proportionate solution to the problem. On the other hand, several respondents to the Green Paper favoured this scope.¹⁸⁹ However as many respondents who favoured this scope, also favoured a cross border only scope. Therefore a more pragmatic solution may be to allow MS the choice as to whether they would also like the optional Common European Sales Law to apply in domestic contracts too.

¹⁸⁶ BEUC's response to the Green Paper, p. 15.

¹⁸⁷ Allen and Overy, Online Consumer Research, found that a relative majority of 46% of the surveyed consumers in the 6 largest MS would be more likely to buy online from another EU country if an EU-wide contract law was put in place.

¹⁸⁸ Eurochambres response to the Green Paper, p.3, European Small Business Alliance response to the Green Paper, p.4.

¹⁸⁹ Member States: EE, LT and NL. Stakeholders (business): BIPAR, EMOTA, UPSI, Eurochambres, EFBS, ICAEW, UEL, I.A.N.U.S., Allianz SE, Audi AG, LVMH, Nokia. Legal practitioners: CCBE, Bundesrechtsanwaltskammer, Scottish Law Commission, Ordre des Barreaux Francophones et Germanophone de Belgique, Deutscher Richterbund, Scottish Law Commission, Law Society of Scotland, Law Society of Ireland.

Cross border only: Traders could use one contract law (the optional Common European Sales Law) for cross border trade with multiple MS (both in B2C and B2B transactions). Thus, they could reduce transaction costs and legal complexity. Businesses could continue to use their national contract laws for domestic trade, whilst at the same time they would also be able to export using the optional Common European Sales Law if they wish to do so. Therefore, business could save costs when trading cross border and continue to enjoy their current arrangements under domestic legislation. A cross border only scope is in accordance with the principle of proportionality as the instrument does not go beyond what is necessary to achieve the objectives. Several respondents to the Green Paper,¹⁹⁰ who commented on this, favoured an instrument which was limited to cross border contracts (in some cases as a first step).

Overall assessment: This option would not replace existing domestic regimes, but complement the national law of MS, as it would be inserted into their national laws as an optional set of contract law rules which could be used for trading across borders. It need only be chosen by parties voluntarily only when it suits their interests.

The main advantage of this option is that it would eliminate the transaction costs which are incurred by businesses when trading with more than one MS. On a relative scale in comparison to annual turnover, this advantage would benefit trade for businesses performing B2C contracts and those B2B contracts which are between SMEs. As it would also offer cost savings to large businesses which contract with other large businesses, this combination for the application of the scope of the optional Common European Sales Law should not be ruled out. It could be left to MS to decide upon. The decrease in costs would provide incentives to increase trade which would result in more competition in the internal market. The increase in trade and competition would benefit consumers by giving them more product choice at a lower price.

There could be some administrative costs which arise from the need for businesses to provide information to consumers not previously required. These costs are however by far outweighed by the savings and the potential savings which are made from not paying the additional transaction costs for when a business trades with more than 1 MS. This option would create opportunities for legal practitioners to cater for new clients as law firms would experience an increase in demand by those expanding their cross-border trade and existing exporters wishing to use the optional Common European Sales Law.

Overall, this policy option meets the policy objectives as it reduces costs for businesses and offers a less complex legal environment for those who wish to trade cross border to more than one MS and at the same time it provides a high level of consumer protection, whilst simplifying the regulatory environment.

5.5. MAIN IMPACTS OF POLICY OPTION 5a AND 6¹⁹¹

5.5.1. Policy Option 5a: Directive on a mandatory Common European Sales Law (full harmonisation) and Policy Option 6: Regulation establishing a mandatory Common European Sales Law

190 Member States: AT, BG, EL, FI, DE, PL. Stakeholders (business): AMICE, FEDSA, APCMA, BdB, EuroCommerce, FAEP, CCIP, Bundesverband der Deutschen Industrie. Legal practitioners: CLLS, CNUE, Bundesnotarkammer, Österreichische Notariatskammer, DBF, Association of Spanish Property and Commercial Registrars, ELRA, UNCC. Stakeholders (consumer): VZBV, Belgian Consumer Organisation.

191 The analysis takes account of several suggestions put forward by the majority of the respondents to the Green Paper concerning the scope of application and the material scope of an instrument, as well as other suggestions on scope including an instrument applicable in an online environment only and in a domestic and cross border setting.

The end result of a full harmonisation Directive (once it has been implemented) and a Regulation replacing national laws would be very close in their outcome (although not exactly the same); therefore both these options are assessed together.¹⁹² The instrument would allow businesses to use one set of rules in B2B and B2C contracts for both domestic and cross border trade¹⁹³ irrespective of the number of countries they trade with in the EU. It would also remove the necessity for businesses to investigate, compare and possibly adapt to several foreign laws.

Transaction costs: The instrument would considerably increase costs as it would also affect companies which do not wish to trade cross border. Companies that trade only domestically (17,136,213 in B2B and 4,420,563 in B2C) would face a one off instant cost of implementation of €208.8 billion¹⁹⁴ to use the new legislation. They would be required to pay these costs with no real financial gain, as the advantages would only be realised for those companies trading across a border.

All current exporters would face a one-off cost of implementation of €8.18 billion in order to use the new law.¹⁹⁵ The estimate of transaction costs do not include the potential higher compliance costs for companies in some Member States where the level of consumer protection would increase. There would not be an additional cost if a business were to export to more than 1 MS.

For example, the cost for a micro retailer to enter the whole of the EU market would be on average only 6.5% of its turnover¹⁹⁶ which would be the same as it would have cost to trade with only 1 MS in the BS. This option would result in costs savings for new exporters and for current exporters who would expand their cross-border sales to new countries. The annual savings for new exporters would be between €0.63-1.6 bn.¹⁹⁷ In addition, similarly as under option 4 the current exporters that would start trading with additional countries would save at least between €3.7 billion and €4.3 billion.¹⁹⁸ The potential benefits of this option would however not outweigh the initial one-off adaptation cost even over a longer time span.

The reduction in transaction costs would also facilitate intra-EU trade by removing obstacles for those companies which currently experience difficulties in either conducting cross-border trade or transferring, for example, property by way of cross border sales and would therefore facilitate the exercise of these rights in line with Articles 16 (Freedom to conduct a business) and 17 (Right to property) of the Charter on Fundamental Rights of the EU, respectively.¹⁹⁹

Administrative costs (these are included in the transaction costs above): The instrument would create an additional cost for 22 million companies (including for those who trade only domestically) in the EU with an average one-off cost per company amounting to €2,500 for those performing a B2C contract and €1,500 for those performing a B2B contract. Compared to the BS, to trade with 2 MS the cost saving per company would amount to €1,500.²⁰⁰

Competition in internal market and impact on consumer prices (B2B and B2C): The instrument would increase competition in the internal market and lead to a decrease in prices. For B2C contracts 40%²⁰¹ of the above mentioned businesses surveyed said that if they were able to choose a single

192 For simplicity the Directive and Regulation are referred to collectively as the 'instrument'.

193 Article 16 of the Charter of Fundamental Rights of the EU. See Annex IV.

194 Businesses who trade only domestically, multiplied by the relative individual one off costs for B2B and B2C.

195 All exporters in B2B and B2C multiplied by the respective costs. Per business this would be €9,100 for B2C (plus €2,900 for e-commerce oriented enterprises selling to consumers that face additional contract law related IT costs) and €9,800 for B2B as in the BS.

196 See section 2.3.2 on problem definition.

197 Number of new exporters annually multiplied by the average saving – see Annex III.

198 -See Annex III.

199 See Annex VI.

200 See Annex VII for more details.

201 EB 321, p. 36.

European contract law they would increase their cross border trade in the internal market. For those performing B2B contracts, this figure was 34%.²⁰² These surveys have also indicated that 14% of those performing B2B contracts would trade with 6 or more additional countries if they were able to choose a single European contract law, 34% said they would trade with 3-5 new countries and 35% said they would trade with 1– 2 new countries. For those performing B2C contracts these figures were: 18%, 32% and 32% respectively.

An increase in cross border trade would lead to a rise in imports, which would be likely to increase the competition in the importing MS. The higher competition would encourage businesses to become more innovative and improve the quality of their products or to reduce prices in order to stay competitive. This would contribute towards the Commission policy on increasing competitiveness²⁰³ and would be of particular relevance in B2B transactions which include the manufacturing industry. Consumers would benefit from an increased choice of product at a lower price. The reduction for the average consumer price level would range between 0.14% - 0.28%.²⁰⁴

Impact on GDP: Overall EU GDP is expected to increase by €20- €40 billion (0.17-0.33%).²⁰⁵ (See Annex IV).

Impact on third countries: Third countries trading with the EU would bear some one-off implementation costs, but could benefit from an easier access to the EU market as a whole in the long term. Third countries may be able to expand exports to more EU countries.

Impact on consumer protection: The instrument would provide a high level of consumer protection (in line with Article 38 of the Charter of Fundamental Rights of the EU)²⁰⁶ and would also increase consumer certainty and therefore confidence, as consumers would have the same rights when shopping cross border.²⁰⁷ However, it would also replace national laws and could lead to changes to the level of protection consumers in certain MS enjoy. While the consumer would benefit from an increase in the protection for a number of provisions, some consumers could lose protection in specific cases compared to their existing national law as their national law would have to be changed.

Impact on SMEs: For businesses trading cross border, this impact would be the same as PO4. However the instrument would also place administrative costs on domestic businesses who do not wish to trade cross border. This would have a particular impact upon micro and small enterprises and comparative to their turnover, would weigh more heavily (compared to the BS). These SMEs would be required to pay these costs with no real financial gain, as this advantage would only be realised for those companies trading across a border.

Impact on law firms: There would be an increase in the demand for legal services, as more businesses would need to understand how to use the instrument even for those advising on domestic transactions. There would be training costs for law firms as they familiarise themselves with the changes in their national law. The concerns highlighted by legal stakeholders in the UK in PO4 are most relevant here as the contract laws among MS would be harmonised and comparative advantages of a specific law like common law as a popular option for choice of law would be fundamentally diminished.

202 EB 320, p. 33.

203 'An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage,' COM (2010) 614.

204 See Annex IV.

205 See Annex IV.

206 See Annex VI.

207 Allen and Overy, Online Consumer Research, found that a relative majority of 46% of the surveyed consumers in the 6 largest MS would be more likely to buy online from another EU country if an EU-wide contract law was put in place.

Impact on Public authorities: MS: The national laws of MS would be affected as this instrument would require a complete overhaul of the domestic legislation. MS would bear the costs which would accompany the implementation of EU legislation (such as consultation of stakeholders, printing of new legislation, educating the public about the new law, time and cost of legislative process, etc.) MS' governments are likely to find the instrument (to change domestic legislation for contract law in such a fundamental way) to be politically sensitive. In the Green Paper consultation, almost all MS responses to the Green Paper consultation rejected both options 5 and 6, stressing that to solve the problem of differences in contract laws, this type of instrument was not consistent with principle of subsidiarity or proportionality.

Judiciary: The judiciary of MS would need to familiarise themselves with the new instrument, this would mean a substantive financial cost for training. A single body of rules would remove the necessity for judges to investigate foreign law and compare several laws. This would decrease litigation costs (compared to the BS) and could in time alleviate the administrative load on a MS judicial system.

ECJ: In the first instance national courts would rule upon cases and submit summaries which would be entered into the Commission created database. These summaries are likely to lead to a defacto convergence of rulings by national courts which national judges would be able to access when needing to refer to how provisions of the optional Common European Sales Law have been ruled upon. There may be a limited number of cases which may need to be referred to the ECJ,²⁰⁸ which would increase the caseload. There would be a financial cost of referral of a case which would need to be borne by the parties to the trial.

Analysis of provisions of instrument: The same impacts as PO4 but in contrary to PO4, the additional compliance costs would affect all 22 million EU companies.

Social impacts: The instrument is expected to create between 650,000 and 1.3 million new jobs.²⁰⁹ However this positive impact of job creation is likely to be counteracted by the costs incurred by all companies and may lead to some initial decrease in employment, which only at a later time would be compensated due to the positive effects on the economy stemming from the rise in intra-EU trade. With regard to impacts on fundamental rights, this option would not lead to discrimination, as it would apply across the EU without any distinction on the basis of nationality, in line with Article 21(2) of the Charter of Fundamental Rights of the EU.

Environmental impacts: The instrument would have an adverse impact upon the environment as an increase in trade would increase the use of transport for delivery. This would lead to an increase in CO2 and other vehicle emissions and would increase the cost to control pollution due to the binding EU rules.

Simplification potential: Compared to the BS, this instrument would simplify the regulatory environment as the differences between the contract laws of MS would be eliminated.

Online environment: If the instrument applied to an online cross border and domestic environment only, it would give a trader cost savings as the additional transaction costs would no longer apply. Businesses would not need to adapt their terms and conditions and IT platforms to a great degree to trade in another country. This could provide an incentive to businesses to increase or commence online cross border sales. However, legal complexity for businesses and for consumers could increase as different rules would apply to differing distribution channels. This would not be

²⁰⁸ This increase of caseload would form a minor part of the ongoing overall institutional and budgetary discussion of the of the resources and responsibilities of the ECJ.

²⁰⁹ GTAP model, see Annex IV.

technologically neutral and could distort competition if new forms of distance sales were used in addition to e-commerce.

Impact if the instrument is applied cross border only: Traders could use one contract law for cross border trade with multiple MS (both in B2C and B2B transactions) and reduce transaction costs. With a cross border scope only, the instrument would comply with the subsidiarity principle as the problem of additional transaction costs arises when businesses export.

However, the instrument would not comply with the proportionality principle as it would go beyond what is necessary to solve the problem. The instrument would replace all national contract laws in relation to cross border contracts. All exporting firms would *have* to use the instrument in their cross border contracts (rather than having a choice to). Those firms who are already exporting would mandatorily have to adapt their contracts to the new instrument – even if they have no desire to enter a new market - and incur once again the additional transaction costs. These transaction costs (€8.18 billion for all current exporters) above would apply to all exporting firms. In the Green Paper consultation, almost all MS responses to the Green Paper consultation rejected both options 5 and 6, stressing that to solve the problem of differences in contract laws, this type of instrument was not consistent with principle of subsidiarity or proportionality.

Overall assessment: Compared to the BS, the instrument would remove obstacles to cross border trade in the internal market as the transaction costs for cross border trade would be diminished. The instrument would facilitate trade and could make it easier for businesses to expand across borders, as they would only need to use one set of rules. There would be an increase in the level of consumer protection allowing consumers to have more confidence to purchase across border and give them increased access to goods. In the longer term, legal practitioners would benefit as they would experience an increase in demand by new clients who would need to understand the instrument for domestic and cross-border contracts. However, it is likely to lead to a loss of income for UK law firms in the area of provision of legal advice on Common law to businesses if these companies chose to obtain legal advice in the United States.

The instrument would have very substantial costs attached to it: Although the transaction costs for cross border trade would no longer exist, businesses which only trade domestically would face a very substantial cost to use the new instrument without an added value. A cross border only scope would not be a proportionate solution as businesses who do not want to use it would have to adapt their contracts and incur transaction costs. MS would be likely to find this option politically very difficult to agree and to implement as it would eliminate domestic laws and legal traditions. The majority of MS who responded to the Green Paper consultation rejected this option outright. Overall, although the instrument would harmonise existing contract law legislation and eliminate transaction costs, it would create other substantive costs – which would not only be of monetary value. Therefore from a holistic perspective, taking all the costs (monetary or otherwise) into account, these costs outweigh by far the benefits of the instrument.

5.5.2. Main Impacts Of Policy Option 5b: Directive on a mandatory Common European Sales Law (minimum harmonisation)²¹⁰

As this option is in the form of a minimum harmonisation Directive, MS could implement legislation beyond the consumer protection level of the Directive. As experience with existing minimum harmonisation Directives shows, the level of implementation could maintain a considerable number of differences in national contract laws.

²¹⁰ The analysis takes account of several suggestions put forward by the majority of the respondents to the Green Paper concerning the scope of application and the material scope of an instrument, as well as other suggestions on scope including an instrument applicable in an online environment only and in a domestic and cross border setting.

This option would to a certain extent reduce transaction costs and increase the level of consumer protection. However, as set out in PO 5a and 6, there would be a very substantial one-off cost borne by all traders (both domestic and cross border) as they would have to adapt their contracts to use the new law. This cost would affect all companies, irrespective of their desire to trade cross-border. In addition, due to the nature of minimum harmonisation, there would still be some extra costs for businesses when trading cross border to consumers, these would arise from the necessity to research the levels of consumer protection in other MS. Therefore, whilst there may be a worthwhile investment for B2B cross border transactions, those performing B2C cross border contracts as well as trading only domestically would have to pay very substantial additional costs without a clear or even no added value. There would also be administrative costs which would arise from the need for businesses to comply with the Directive, these costs would affect all companies. Because this option would add to the issues set out in the problem definition it is highly unlikely to be suitable as a solution, and therefore is only summarised here. The full text of the analysis of this option can be found in Annex V.

6. COMPARATIVE ASSESSMENT OF OPTIONS

The 'comparison of policy options' table below provides a comparative overview of the policy options, showing the extent to which each of the options is expected to contribute to the policy objectives and their key impacts. These impacts are described below.

Policy option 1 - Baseline Scenario

This does not remove additional transaction costs for businesses trading cross-border, or reduce the level of legal complexity experienced by them. This option would also mean that the uncertainty consumers experience about their rights in a cross-border context would remain and the practice of refusal to sell across border would not decrease. Even though this option takes account of full harmonisation of some consumer protection rules due to the adoption of the CRD, this harmonisation is restricted to only a few selected areas of consumer contract law. Some key aspects of consumer contract law, such as sales remedies, would remain fragmented across the EU. This fragmentation would not give consumers the full confidence on all their consumer rights for when they purchase across border. As MS implement EU legislation and retain different national laws in the non harmonised areas for the whole life cycle of a contract, with no EU action these differences between MS would continue.

Policy option 2a – Toolbox as a Commission document

Compared to the BS this option may to a very small extent help to facilitate the expansion of cross-border trade in the internal market. It may also to a small extent indirectly lead to an increased level of consumer protection in national contract laws. However, since the contract law related transaction costs would largely remain unchanged, the positive impacts of this option on businesses and consumers would be minimal. In turn, so would any subsequent impacts upon trade, competition and the internal market. Moreover, any impacts of this option would not be felt immediately as negotiations for new legislation or amendments to existing legislation would take time to achieve. As there is no way of knowing whether and how widely this option would be used and accepted by Council and EP, the impacts of this option would not differ greatly compared to the BS and any impacts felt would be very small and would take place in the longer term.

Policy option 2b – Toolbox as an inter institutional agreement

As this option involves all three Institutions agreeing to make use of the toolbox, this option would, to a limited, but somewhat greater extent compared to PO2a, reduce the differences between national contract laws which would help to facilitate the expansion of cross-border trade in the internal market. This option could to a limited, but greater extent than PO2a indirectly lead to a higher level of consumer protection and legal certainty about consumer rights. However, since the toolbox would only be used for the amendment of existing or preparation of future sectoral legislation, contract law

related costs stemming from differences of national contract laws would largely remain and in turn so would any subsequent impacts upon trade, competition and the internal market. Similar to PO2a, there would not be any immediate impacts of this option upon businesses and consumers as negotiations for new legislation or an amendment to existing legislation would take time to achieve. As this option would only concern national contract law rules which are modified following revised or new EU legislation and would only have an impact at the earliest at a medium term, the overall positive impacts of this option would be, albeit greater than PO2a, still rather limited.

Policy option 3 – Recommendation

This option would only be effective if the Common European Sales Law was incorporated by a number of MS entirely and without amendment to the original version attached to the Recommendation. Only if all the MS did this, would it achieve a result like PO4. However, for both alternatives – for the latter even more than the former - it is highly unlikely that this would occur. This would not greatly affect traders performing a B2B contract as they would have the freedom to decide on the law applicable to their contract. Therefore, these traders would have the opportunity to reduce their transaction costs by using the Common European Sales Law of one MS which has best implemented it. The same would not be the case for traders performing B2C contracts, as they would have to research whether and where MS have changed the drafting of the Common European Sales Law with regards to mandatory consumer protection rules. This means that businesses would not be able to sell across borders to consumers on the basis of one single law and would therefore incur transaction costs of the type indicated in the BS. Consequently this option would only to a limited extent remove the hindrances to cross-border trade identified in the problem definition.

Because of the piecemeal way in which the Common European Sales Law could be incorporated if at all, this option would further complicate the regulatory environment for both consumers and businesses. Both parties would be subject to differing degrees of the Common European Sales Law in different MS and the divergences in national contract laws would remain. In addition, the voluntary nature of the incorporation would mean that the instrument would not be legally binding and there would be no jurisprudence mechanism to ensure its uniform application. As this option would add to the issues set out in the problem definition it is highly unlikely to be suitable as a solution.

Policy option 4 – Optional Common European Sales Law

This option would not replace existing domestic regimes, but complement the national law of MS: It would be inserted into their national laws as an optional set of contract law rules which could be used for trading across borders. It need only be chosen by parties voluntarily only when it suits their interests. The optional Common European Sales Law would very considerably reduce the transaction costs for businesses and offer a less complex legal environment for those who wish to trade cross border to more than one MS. The decrease in costs would provide incentives to increase trade which would result in more competition in the internal market. The increase in trade and competition would benefit consumers by giving them more product choice at a lower price. It would increase the level of consumer protection thereby increasing confidence to shop abroad whilst simplifying the regulatory environment.

This option would mainly be of benefit for businesses who perform B2C contracts and SMEs who perform B2B contracts as:

- For B2C contracts, the optional Common European Sales Law would be the only applicable law in the area covered by its scope. Therefore, for across the EU, the business would no longer have to consider other national mandatory provisions as they would normally have to when concluding a contract with a consumer from another MS.
- For B2B contracts, the cost savings – in particular for micro and small companies - would be disproportionately high. In addition, for SMEs, the negotiation of an applicable law between a similar sized company may not be so relevant.

Cost savings may also be made for those large businesses that contract with other large business. To ensure all businesses have the opportunity to take full advantage of the optional Common European Sales Law, it may be opportune to allow MS to make the choice as to whether large businesses could use the optional Common European Sales Law to contract with other large businesses.

This option does not replace existing domestic regimes and is therefore less politically sensitive. If it applied in a cross border only context it would be a proportionate solution to the problems identified; those businesses who wished to continue to use their national contract laws for domestic trade would be free to do so; whilst at the same time they would also be able to export using the optional Common European Sales Law. However this option would also further facilitate the legal environment for businesses if it applied to both domestic and cross border contracts. As Green Paper respondents were mixed in their responses to the scope of the optional Common European Sales Law (domestic and cross border or cross border application only), a proportionate solution, could be to allow MS the choice as to whether they would also like the optional Common European Sales Law to apply in their domestic contracts too.

Some administrative burdens could arise from the need for businesses to provide information to consumers not previously required. However, they are by far outweighed by cost savings. Contrary to PO5a and 6 it would only affect those companies who choose to use the instrument and not all enterprises. This option meets the policy objectives as it reduces costs for businesses and offers a less complex legal environment for those who wish to trade cross border to more than one MS. At the same time it provides a high level of consumer protection and reduces uncertainty about consumer rights in cross-border shopping , whilst simplifying the regulatory environment.

Policy option 5a – Full harmonisation Directive and policy option 6 - Regulation establishing a mandatory Common European Sales Law

Compared to the BS, transaction costs for cross border trade would be diminished as there would be no differences in contract laws and no legal complexity. The instrument would facilitate trade and could make it easier for businesses to expand across borders, as they would only need to use one set of rules. Consumers would have more access to goods, be more certain of their rights and feel more confident to shop cross border.

Compared to PO4 the instrument would however have substantial costs attached to it: Although the transaction costs for cross border trade would no longer exist, businesses which only trade domestically would face a substantial cost to use the new instrument without an added value. The instrument would not comply with the proportionality principle as it would go beyond what is necessary to solve the problem. The instrument would replace the national contract law both in relation to domestic and/or cross border contracts. All domestic firms and/or those who are already exporting would mandatorily have to adapt their contracts to the new instrument – even if they have no desire to enter a new market. This would mean they would incur the additional transaction costs once again.

MS would be likely to find this option politically very difficult to agree and to implement as it would eliminate domestic laws and legal traditions. The majority of MS who responded to the Green Paper consultation rejected both options 5 and 6, stressing that to solve the problem of differences in contract laws, this type of instrument was not consistent with the principles of subsidiarity and proportionality. Overall, although the instrument would harmonise existing contract law legislation and eliminate transaction costs, it would create compared to PO4 - other substantive costs which would not only be of monetary value. Therefore from a holistic perspective, taking all the costs (monetary or otherwise) into account these cost outweigh by far the benefits of the instrument.

Policy option 5b – Minimum harmonisation Directive establishing a mandatory Common European Sales Law

Compared to the BS, this option would to a certain extent reduce transaction costs and increase the level of consumer protection. However, as set out in options 5a and 6, there would be a very substantial one off cost borne by all traders (both domestic and cross border) as they would have to adapt their contracts to use the new law. This cost would affect all companies, irrespective of their desire to trade cross-border. In addition, due to the nature of minimum harmonisation, there would still be some extra costs for businesses when trading cross border to consumers, these would arise from the necessity to research the levels of consumer protection in other MS.

Therefore, whilst there may be a worthwhile investment for B2B cross border transactions, those performing B2C cross border contracts as well as trading only domestically would have, compared to PO4, to pay very substantial additional costs without a clear added value. There would also be administrative costs which would arise from the need for businesses to comply with the Directive; these costs would affect all companies. Similar to PO5a, MS would be likely to find this option politically very difficult to agree and to implement as it would eliminate domestic laws and legal traditions. It could also lead to a loss of income for law firms in the area of provision of legal advice of a specific law if companies chose to obtain legal advice elsewhere. The majority of MS who responded to the Green Paper consultation rejected this option outright. Although this option would minimally harmonise existing contract law legislation and civil codes and reduce transaction costs for some traders, it would add to the issues set out in the problem definition as some costs for researching the law would still remain. Therefore from a holistic perspective, taking all the costs (monetary or otherwise) into account the costs outweigh by far the benefits of the instrument.

Comparative assessment

The comparative assessment shows that that PO4 (optional Common European Sales Law), PO5a (full harmonisation Directive) and PO6 (Regulation) both establishing a mandatory Common European Sales Law) would best meet the policy objectives. Transaction costs and legal complexity in cross-border trade would be reduced for business. Consumers would be more certain about rights due to the high level of consumer protection available under these options. Therefore, they would be more confident to shop cross-border and would benefit from better choice and prices.

However, PO5a and PO6 create a substantial burden for businesses as all companies would need to adapt to a new legislative framework. The costs for the one off implementation for companies are particularly significant when compared to the other policy options because they would be felt by all traders (22 million companies) in the EU. These costs in total would amount to €217 bn. In particular, they would create a financial burden which will not be compensated by any benefits for the companies who only trade domestically and for whom cross border transactions costs do not create a problem. Taking account of the costs compared to the benefits, PO5a and PO6 are not proportionate solutions to the contract law related obstacles to cross-border trade. In addition to the monetary costs, MS would be likely to find these policy options politically very difficult to agree and implement as they would eliminate domestic laws and legal traditions. Almost all MS who responded to the Green Paper consultation rejected these options outright.

Preferred policy option

The preferred policy option is therefore option 4 which would meet the policy objectives in terms of reducing legal complexity and transaction costs, it would also simplify the current legal environment. The current legal framework is patchy and does not contain a comprehensive set of uniform rules for B2B and B2C contracts. An optional Common European Sales Law would introduce such a set of rules for both types of contract without interfering with national laws. This option would also ensure a high level of consumer protection which would increase consumer certainty and confidence about rights in cross-border shopping. It would contribute to the cross-border trade and competitiveness of the EU economy and would benefit the consumer by greater choice of products and better prices. As this option would be chosen voluntarily by businesses, it would not impose additional burdens but bring significant cost savings for companies extending their trade cross-border. In comparison to PO5a and PO6, the one off implementation cost would be much lower: €1.89 - €3.78 bn for PO4 compared to €217 bn for PO5a and PO6.

Scope of application of the preferred policy option

The problems of transaction costs and legal complexity have a particular impact upon businesses who perform B2C contracts (as they would have to consider the different national mandatory provisions when concluding a contract with a consumer from another MS) and SMEs who trade with other SMEs (as the costs to trade to more than 1 MS are high in relation to turnover, in particular for micro and small companies). As the optional Common European Sales Law would be of a distinct benefit to businesses performing B2C contracts and SMEs performing B2B contracts, this would be the preferred scope of application. However, large businesses that contract with other large businesses may want to have the choice of using the optional Common European Sales Law if they can also make cost savings. Therefore MS ought to have the choice as to whether large businesses could use the optional Common European Sales Law to contract with other large businesses.

In addition, the preferred scope would also be for the optional Common European Sales Law to apply to cross-border only situations as this is where the problems of additional transaction costs and legal complexity arise. This would correspond closest to the principles of subsidiarity and proportionality as it would address the problem of lowering barriers to cross-border trade without interfering in national rules. However to address the issue of this option also facilitating the legal environment for businesses if it applied to both domestic and cross border contracts (taking account of mixed responses to the Green Paper), and ensuring proportionality, MS ought to have the choice to apply the optional Common European Sales Law in their domestic contracts if they wish to.

Legend for tables: Comparing policy options & Effectiveness in meeting the objectives and key impacts:	
+++ : very positive impacts	--- : very negative impacts
++ : considerable positive impacts	-- : considerable negative impacts
+ : limited positive impacts	- : limited negative impacts
0 : no impacts expected	

Effectiveness in Meeting the Policy Objectives and Key Impacts							
	PO1 Baseline Scenario (BS)	PO2a Commission's toolbox	PO2b Inter-institutional agreement	PO3 Recommendation	PO4 optional Common European Sales Law	PO5b Minimum harmonisation Directive	PO5a full harmonisation Directive & PO6 Regulation
Business Objectives							
Reduce transaction costs for cross-border trade	-- Baseline transaction costs in B2C: €8,695-€9,565 per company per MS. Baseline transactions costs in B2B: €9000- €10,568 per company per MS.	-- Very little change compared to the BS.	- Little change compared to the BS.	0 Very limited, highly unlikely	+++ Elimination of transaction costs for cross-border trade. One-off costs for familiarising and compliance with a new legal regime.	+ Positive, but limited effect depending on variances in implementation. One-off costs for familiarising and compliance with a new legal regime. Positive effect by far outweighed by substantial increase in costs for domestic traders.	+ Elimination of transaction costs for cross-border trade. One-off costs for familiarising and compliance with a new legal regime. Positive effects outweighed by substantial increase in costs for domestic traders.
Reduce legal complexity in cross-border trade	--	- Very little change compared to the BS.	0/+ Little change compared to the BS.	0/- Very limited, highly unlikely	+++ Positive impact, one legal regime that could be chosen for all cross-border transactions.	+ Positive, but limited effect depending on variances in implementation.	+++ Positive impact, the same law applicable in the whole of the internal market.
Consumer Objectives							
Reduce uncertainty about consumer rights in cross-border shopping	--	- Very little change compared to the BS.	0 Little change compared to the BS.	0/+ Very limited, highly unlikely	++ Uniform optional rules for all cross-border transactions with clear rights for consumers.	+ Positive, but limited effect depending on variances in implementation	+++ Uniform, mandatory rules applicable to all cross-border transactions.
Increased consumer protection	-	0 Very little change compared to the BS.	0/+ Little change compared to the BS.	+ Very limited, highly unlikely	++ Consumer protection increased compared to BS.	+++ Consumer protection increased compared to BS. MS could go beyond the minimum rules.	++ Consumer protection increased compared to BS.

Comparison of Policy Options							
	PO1 Baseline Scenario (BS)	PO2a Commission's toolbox	PO2b Inter-institutional agreement	PO3 Recommendation	PO4 optional Common European Sales Law	PO5b Minimum harmonisation Directive	PO5a full harmonisation Directive & PO6 Regulation
Key Economic Impacts							
Administrative costs	-- In B2C €10,000 average per company and €11,664 additional for a company selling via e-commerce) In B2B €6,000 average per company	Same as BS.	Same as BS.	0/+ Positive, but very limited impact depending upon the number of MS who incorporate the Common European Sales Law and variances in implementation.	- In B2C €3,000 average per company. In B2B €1,500 average per company. Number of companies affected: 571,685 (B2C) and 240,737 (B2B)	-- In B2C € 2,500 average per company. In B2B €1,500 average per company. All traders affected (22 million companies) and additional costs for companies exporting (as under the BS)	-- In B2C € 2,500 average per company. In B2B €1,500 average per company. All traders (22 million companies) affected.
Competition in internal market and impact on consumer prices	-- Competition in the internal market remains limited. Businesses deterred from trading cross-border.	- Very little change compared to the BS.	0 Little change compared to the BS.	0/+ Positive, but very limited impact depending upon the number of MS who incorporate the Common European Sales Law and the number of businesses who use it.	+++ Positive impact due to an increase of cross-border trade. Increased competition is likely to decrease consumer prices.	+ Little change compared to the BS as the differences between contract laws are likely to remain.	++ Cross-border trade is likely to increase but the positive effect on competition is reduced due to additional costs on business when trading domestically.
Impact on SMEs	--Transaction costs weigh, in relative terms, more heavily on micro and small businesses.	- Very little change compared to the BS.	0 Little change compared to the BS.	0/+ Positive, but very limited depending upon the number of MS who incorporate the Common European Sales Law and variances in implementation.	+++ Positive impact due to elimination of cross border transaction costs that weigh heavily on SMEs	+ Positive, but limited impact as transaction costs only reduced for B2B contracts. For B2C transaction costs would still occur, plus domestic SMEs would face substantive cost to use new law.	0 Positive impact of elimination of transaction costs for cross-border trade is outweighed by costs incurred by all companies that will need to adapt to a new legal framework.
Social Impacts							
	No impact	No impact	No impact	0/+ Positive, but very limited impact depending upon the number of MS who incorporate the Common European Sales Law and the number of businesses who use it.	++ Positive impact due to an increase in cross-border trade that would result in increased employment	+ Limited positive impact as the cross-border trade would only slightly increase.	- Positive impact for cross-border trade is outweighed by costs incurred by all companies that may lead to some initial decrease in employment.
Environmental Impacts							
	No impact	No impact	No impact	0/- Very little change compared to the BS.	- Some impact upon environment due to increase in transport.	-- Adverse impact upon environment due to increase in transport.	-- Adverse impact upon environment due to increase in transport.

Table 4: Cost/benefit comparison of Policy Options

Table 4 summarises the costs/benefits²¹¹ of policy options 1, 4 and 5a and 6.²¹² The estimates are based on the low and medium scenarios of the cross-border trade increases as described in Annex IV.²¹³

Due to a substantial one-off cost imposed on all existing companies, the results of PO5a and PO6 would be dependent upon future GDP growth and may result either in a benefit of €105 bn or a loss of up to €57 bn. PO4 would be the most beneficial for the economy over the next 10 years as there would be a benefit in a range between €32 bn and €149 bn.

	Annual GDP increase	Employment effect	Annual transaction costs ²¹⁴	One-off implementation cost for companies	Costs/ Benefits (10 years)
Option 1	0	0	€ 1 - 2 bn	0	€ (-16) to (-8) bn
Option 4	€ 5 - 20 bn	160 000 - 640000	€ 0.85 - 1.2 bn	€ 1.89 - 3.78 bn	€ 32 to 149 bn
Option 5a/6	€ 20 - 40 bn	640,000 - 1,300,000	€ 0.3 bn	€ 217 bn	€ (-57) to 105 bn

7. MONITORING AND EVALUATION ARRANGEMENTS

MS will be required to send to the Commission notification measures. These measures will set out the text of the adopted legislation by the MS. The Commission will monitor these measures to ensure compliance with the preferred option.

The Commission will launch a monitoring and evaluation exercise to assess how effectively the Common European Sales Law will achieve its objectives. This exercise will take place 4 years after the date of application of the. The intention is for the exercise to precede and feed into a review process which will examine the effectiveness of the Common European Sales Law instrument.

211 The calculations of the costs/benefits are based on the net present value (i.e. the value of future benefits evaluated in the present) of the difference between the annual GDP increase (calculated with the GTAP model, see Annex IV) and the annual transaction costs, minus the one-off implementation cost for current exporters (or for the whole economy for PO5a and PO6). This calculation takes place over a time span of 10 years, using a discount rate of 4% as indicated in the IA Guidelines, Annex XI. For example, if the GDP increase is €5 bn, the annual transaction costs €0.85 bn, the one-off cost €1.89 bn, and the discount rate 4%, the benefit for the society in 10 years is computed with the following mathematical formula: $(5-0.85)/1.04 + (5-0.85)/1.04^2 + (5-0.85)/1.04^3 + \dots + (5-0.85)/1.04^{10} - 1.89 = 32$.

212 The impacts of PO2a and PO2b are difficult to quantify as they would not have a direct impact. Concepts from the toolbox would be used for the development of future contract law legislation or the revision of existing EU legislation. The legislation itself would have the direct impact. The impacts of PO3 and PO5b could not be quantified due to several possible variants of implementations and their subsequent impacts.

213 In the low and the medium scenarios, it is assumed that intra-EU trade increases based on the replies of the businesses (EB 320 and 321) who were asked about the impact of an European contract law on their exports. In the low scenario intra-EU trade increases by 0.76% and in the medium one it increases by 1.53%. For PO4 low and high assumptions, of respectively 25% and 50%, of exporting companies using the optional Common European Sales Law are also considered. The break-even point for PO4, i.e. the moment in which the take-up of the optional Common European Sales Law starts to bring positive benefits to the economy, is just above 5%. This means that a minimum of 5% of current exporters would have to use the optional Common European Sales Law in order for this option to bring benefits to the economy. However, even in the case of a lower 'take up' rate of the optional Common European Sales Law, any loss would be smaller than the loss forecasted for PO1 as PO1 is equivalent to PO4 in the circumstances where nobody uses the optional Common European Sales Law. (This is computed setting the benefits to zero and checking the relative take-up percentage).

214 Administrative costs are included in the transaction costs for PO1 and one-off implementation costs for PO4 and PO5a/6.

The comprehensive statistics on cross-border trade in the EU and cross-border purchases by consumers are available in the Eurostat database which should be a primary source of data for the evaluation. Other suitable data collection tools could be in-depth interviews, surveys and a mystery shopper exercise. Depending on the cost-efficiency of the available monitoring options, these tools could be combined within a comprehensive market monitoring study.²¹⁵ Alternatively, the Commission may launch separate data collection initiatives on different indicators. For instance, the indicators for the achievement of business objectives could be assessed by means of Eurobarometer and the more specific SME Panel and European Business Test Panel surveys. The indicators for consumer objectives could be addressed by means of Eurobarometer surveys and a possible mystery shopper exercise examining the ease of access to cross-border offers. Based on the data on the indicators and information obtained from MS the Commission will assess the progress achieved and will evaluate the effectiveness of the Common European Sales Law instrument.

<p>General business objective</p> <ul style="list-style-type: none"> Facilitate the expansion of cross-border trade in the internal market 	<p>Indicators</p> <ul style="list-style-type: none"> Variation in number of enterprises trading cross-border Variation in average number of EU countries companies export to
<p>Operational business objectives</p> <ul style="list-style-type: none"> Reduce transaction costs for cross-border trade 	<ul style="list-style-type: none"> Change in transaction costs per company trading in more than 1 MS under a Common European Sales Law % of companies using the Common European Sales Law Change in aggregate transaction costs of exporting companies within the EU
<ul style="list-style-type: none"> Reduce legal complexity in cross-border trade 	<ul style="list-style-type: none"> Rate of importance that businesses assign to contract law related obstacles in cross-border trade
<p>General consumer objective</p> <ul style="list-style-type: none"> Facilitate cross-border purchases by consumers in the internal market 	<ul style="list-style-type: none"> Variation of % of consumers shopping cross-border
<p>Operational consumer objectives</p> <ul style="list-style-type: none"> Reduce level of uncertainty about consumer rights in cross-border shopping Ensure high level of consumer protection 	<ul style="list-style-type: none"> Variation in consumer confidence in cross-border shopping % of consumers who experienced refusal of cross-border offers

²¹⁵ http://ec.europa.eu/consumers/strategy/facts_en.htm#In-depth (last visited: May 2011).

ANNEX I: PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

1.1. Policy Background

With its 2001 Communication on European contract law,²¹⁶ the European Commission (Commission) launched a process of extensive public consultation on the problems arising from differences between Member States' contract laws and on potential actions in this field. As a follow-up, the Commission issued an Action Plan in 2003²¹⁷, with the intention among others to improve the quality and coherence of European contract law by establishing a Common Frame of Reference (CFR) containing common principles, terminology and model rules to be used by the Union legislator when making or amending legislation.

Via a grant under the 6th Framework Programme for Research, the Commission financed the work of an international academic network which carried out the preparatory legal research in view of the adoption of the CFR. This research work was finalised at the end of 2008 and led to the publication of the Draft Common Frame of Reference (DCFR)²¹⁸ as an academic text.²¹⁹

The Stockholm Programme for 2010-2014²²⁰ states that the European judicial area should serve to support the economic activity in the internal market. The Programme invited the Commission to examine further the issue of contract law. The Commission Work Programme 2010 provided for a communication on European contract law. Consequently, a 'Green Paper on policy options on progress towards a European contract law for consumers and businesses' (Green Paper) was published in July 2010. Following the publication of the Green Paper, the Commission's Work Programme for 2011 provided for a legal instrument of European contract law as a strategic initiative to be proposed in the last quarter of 2011.²²¹

1.2. Organisation and timing

The Commission adopted a Decision²²² on 26 April 2010 to establish an Expert Group (EG). Its role was to produce a feasibility study of a 'user-friendly' instrument covering the life-cycle of a contract. The EG was composed of, former judges, academics, legal practitioners and representatives of consumer and business organisations (who acted in their personal capacity). The EG members also reflected the main legal systems and traditions within the EU. The EG feasibility study was completed at the end of April 2011. It supported the Commission's work in developing its proposal for a legal instrument of a Common European Sales Law for the EU.

An Impact Assessment Steering Group (IASG) was set up in May 2010. The participating Commission services included: the Secretariat General, the Legal Service, Directorate-General (DG) Competition, DG Communication, DG Economic and Financial Affairs, DG Internal Market and Services, DG Enterprise and Industry, DG Health and Consumers, DG Information Society and Media, DG Mobility and Transport, DG Trade. The IASG met 5 times and was consulted on the draft Green Paper on European contract law, on the impact assessment (IA) report as well as on the provisions of the Expert Group and the possible instrument of a Common European Sales Law for the EU.

216 COM(2001) 398, 11.7.2001.

217 COM(2003) 68, 12.2.2003.

218 Von Bar, C., Clive, E. and Schulte Nölke, H. (eds.), Principles, Definitions and Model Rules of European Private Law. Draft Common Frame of Reference (DCFR), Munich, Sellier, 2009.

219 Although financed by the Commission, the text is not an official Commission document.

220 Council Act, Stockholm Programme - AN OPEN AND SECURE EUROPE SERVING AND PROTECTING CITIZENS, (2010/C 115/01) of 2.12. 2009, No 17024/09.

221 Commission's Work Programme for 2011, COM(2010) 623 final of 27.10.2010.

222 Commission Decision 2010/233/EU, OJ 105 of 27.4.2010

1.3. Consultation and expertise

1.3.1. Public consultation

The Commission organised several general and targeted public consultations throughout the IA process.

- **General consultations**

- The **Green Paper** opened an EU wide public consultation on 7 policy options. It was launched on 1 July 2010 and closed on 31 January 2011.

The Commission received 320 responses from all categories of stakeholders from across the EU. The responses came from most Member States' governments (20), some Member States' parliaments (5), senates (2) and other government bodies (4); the European Economic and Social Committee; a large number of business organisations (137), several consumer organisations (18) and a Catholic NGO; many associations of legal practitioners (52); a considerable amount of academics (66) and a few individual businesses and citizens (14). Most responses came from respondents based in Germany (96), UK (47), Brussels (31), France (29) and Italy (25).

The number of responses shows a widespread interest for European contract law at all levels. While many respondents wanted to participate in the discussion, some felt unable to provide in depth comments given the rhythm of the progress of the work and that they did not know the detail of the policy options. A large number of respondents stressed the importance of the outcome of the impact assessment for their ultimate position.

With regard to the policy options set out in the Green Paper, many respondents saw value in the Green Paper option 1 (publication of the results of the Expert Group) and supported green Paper option 2 (a 'toolbox' for the EU legislator). However, there was little support for Green Paper option 3 (a Commission Recommendation).

With regard to Green Paper option 4 (an optional instrument of European contract law) the responses were more varied. Several Member States and a considerable number of other respondents – particularly business representatives, legal practitioners and academics – said they could support an optional instrument, provided that it fulfilled certain conditions (for example: had a high level of consumer protection, a clear and user-friendly nature, was clear about its link with the proposed Consumer Rights Directive and other EU-legislation). A large number of Member States and business representatives did not want to take a position at that time, because they did not know the detail of this option and the work of the Expert Group. Some respondents expressed a preference for Green Paper option 6 (a Regulation establishing a European contract law that would replace Member States' national contract laws). There was very little support for Green Paper options 5 (a minimum harmonisation Directive) and 7 (a Regulation establishing a European civil code).

Of those respondents to the Green Paper who commented on the scope of a European contract law instrument most only expressed opinions on a toolbox (Green Paper option 2) and an optional instrument (Green Paper option 4). Out of those respondents who made explicit comments concerning the scope of the toolbox, the majority believed it should be as comprehensive as possible, i.e. should not be restricted to certain types of contract and should have a rather broad scope. Out of those respondents who made explicit comments concerning the scope of the optional instrument, the majority seemed in favour of an instrument which focused on cross-border business to consumer (B2C) sales contracts.

Based on the stakeholder responses to the Green Paper several specific and general concerns relating to the creation of a European contract law could be identified. Different categories of stakeholders raised specific concerns. A number of Member States were concerned about business taking advantage of the weaker position of the consumer/SME, the reduction of the level of consumer protection and legal uncertainty. Some business representatives raised concerns relating to the increased legal uncertainty and an unbalanced high level of consumer protection which would be burdensome for business. On the other hand, consumer representatives insisted that any new regulatory or non-regulatory tool in the field of consumer policy should have a clear added value for consumers, as they feared a reduction of consumer protection levels in their Member States. They also expressed a specific concern relating to an optional instrument (Green Paper option 4), which they thought would lead to uncertainty and confusion for consumers. Associations of legal practitioners were concerned about an increase of legal complexity and uncertainty, largely due to the lack of accessible case law.

The Commission addressed all the abovementioned concerns. With regards to the concern of Member States and consumer representatives about a decrease in consumer protection, the Commission created a special sub-group within the Expert Group focusing on ensuring a high level of consumer protection. However, the Commission also took care that the level of consumer protection would be balanced with the needs of business. It invited both consumer and business representatives as part of the *key stakeholders expert group* (described in the paragraph below) to comment on a continuous basis on the work carried out by the Expert Group. This would ensure that the different views would be taken into account in the development of the substantive rules. Furthermore, the advice of the key stakeholder expert group was taken into account in order to ensure that the rules the Common European Sales Law for the EU proposal were user-friendly and practical. For this purpose, for instance a distinction between the rules for B2C and B2B was made. The Commission also addressed the specific concern by consumer organisations that an optional instrument (Green Paper option 4) would create uncertainty and confusion for consumers, as they would not be able to assess the implications of an optional instrument when it applied to a contract instead of their national law. If this option were chosen for the Commission proposal, the Commission would develop a standardised information notice, which businesses would have to provide to consumers when they used the optional instrument. This information notice would be available in all official languages of the EU, but would have the same content. It would inform the consumers in their own language that the Common European Sales Law applied and what their key rights under this law would be. At the same time, the information notice would reduce the administrative burden for businesses, as it will remove the need for each trader to individually explain the implications of the Common European Sales Law for the EU to consumers. The Commission also examined ways to minimise the legal uncertainty which would accompany the introduction of a Common European Sales Law for the EU. One solution could be the creation of a data-base on relevant future European and national case-law which would be accessible by legal practitioners from all Member States (i.e. judges, notaries, lawyers and legal advisors). For this purpose the Commission would explore the suitability of comparable databases (e.g. the JURE Database) and systems linking national authorities (e.g. the Internal Market Information System²²³, European e-Justice Portal).

- A **key stakeholder experts group** was set up in September 2010. It included representatives of the main European organisations of business (BusinessEurope, UEAPME, Eurocommerce, Eurochambres and the International Chamber of Commerce), consumers (BEUC), representatives of

223 Commission Staff Working Paper, Background information related to the strategy for expanding and developing the Internal Market Information System ('IMI'), Brussels,

21.2.2011, SEC(2011) 206 final, p. 9: European contract law is indicated as a potential area which could benefit from an extension of IMI to cooperation of national judicial authorities.

the legal professions of lawyers and notaries (CCBE and CNUE) and representatives from the banking and insurance sectors (EBIC and CEA).

The first role of the stakeholder group was to provide a practitioner's perspective on the work of the Expert Group, thereby ensuring the instrument developed was user-friendly and practical. The Commission organised 10 meetings during which the stakeholder group were continuously consulted on the draft chapters of the instrument developed by the Expert Group.

Once the concrete work on the preparation of the IA was launched, the stakeholder group discussed IA related matters at 5 of its meetings. The Commission presented the developments and asked stakeholders to comment on the main issues concerning the methodology of the IA study and the approach to the data collection, problem definition and the analysis of impacts of policy options in the IA report. The stakeholders' suggestions contributed to refining the methodology of the IA study, the development of the problem definition and the analysis of the impacts in the IA report.

- **Specific consultations targeting main stakeholder groups**

- A workshop with business stakeholders on potential benefits of a European contract law instrument from the perspective of large businesses and SMEs was organised in November 2010.

- Several surveys consulted businesses on their attitudes and experiences with problems related to contract law, and the impacts of an instrument of European contract law. Two Flash Eurobarometer surveys (EB 320/2011 and 321/2011) enquired about contract law related experiences of companies involved or interested in cross-border trade with businesses and consumers. The SME Panel survey conducted within the Enterprise Europe Network gathered responses from 1,047 micro, small and medium sized businesses, while a European Business Test Panel attracted responses from 378 companies of all sizes at the end of 2010.

- Targeted meetings with consumer stakeholders: took place between October and January 2010. Commission officials met representatives of BEUC and attended two meetings of the European Consumer Consultative Group (ECCG) to discuss the Green Paper and how it addressed consumer problems.

- A consumer survey (Flash Eurobarometer 299) enquired about consumer experiences with cross-border shopping and in particular problems related to contract law.

The survey results were used as data sources on business and consumer attitudes to contract law related problems and the assessment of policy options in the IA report. The Commission ensured that the specific concerns expressed by representatives of business, consumers and legal practitioner stakeholders during the consultation process were taken into account in the development of substantive provisions of the text drafted by the EG and in the IA. In particular, the comments, questions and suggestions of the stakeholder group were discussed and followed up by the EG.

1.3.2. Outside expertise

In November 2010 the Commission awarded a public tender to IBF International Consulting to carry out a study in the context of preparing the IA. The aim of the study was to assist the Commission in gathering further evidence on the problems identified and to carry out an economic analysis of the impacts of the main policy options set out in the Green Paper. The contractor carried out economic analysis and modelling, supplemented by in-depth interviews with representatives of business and consumer organisations and legal professionals. The draft final report of the study was submitted on 16 March 2011 and the final report was submitted in spring 2011.

ANNEX II: THE CURRENT LEGAL FRAMEWORK

1. Overview

The current legal framework in the area of contract law in the EU is characterised by the differences between the respective national laws of the Member States (MS).

The EU developed uniform conflict of law rules, which help determine which substantive laws apply to cross-border contracts. However, when it comes to the substantive laws, the current legal framework does not contain a single set of uniform substantive contract law rules which would cover a life cycle of a cross-border contract comprehensively. A patchwork of European and international rules has led to a limited approximation of national laws only in a few areas of contract law, as described in sections 2 and 3 below.

As a result, substantial differences between MS contract laws remain under the current legal framework. These differences in contract law are seen as a barrier to cross-border trade by business with a slightly higher impact on B2C transactions than in B2B transactions.²²⁴

- **Conflict of law rules**

The EU put in place uniform *conflict of law rules* on contractual²²⁵ and non-contractual obligations²²⁶ in order to improve legal certainty for cross-border contracts. Conflict of law rules allow contracting parties within certain limits to choose which law applies to their contract and which law applies in the absence of choice.

However, due to the nature of conflict of law rules, even uniform conflict of law rules cannot remove the differences between substantive contract law. They only lead to the application of a given substantive national law in cross-border transactions when otherwise several different national laws could potentially apply. This means that, no matter what the choice is, at least for one of the parties to a contract the applicable law is a foreign law. This party is therefore disadvantaged by the need to familiarise itself with a different legal system. This situation disadvantages both businesses and consumers who have to deal with unfamiliar foreign laws in cross-border transactions.

- **Substantive rules**

The EU has partially reduced the differences by harmonisation measures in some areas of contract law. The legal framework applicable to B2C contracts has been characterised by minimum harmonisation legislation at EU level. While the consumer acquis has led to an increase of consumer protection to the advantage of consumers, it does not completely eliminate the differences in national contract laws. MS still have the possibility to go beyond the minimum standards established by the consumer acquis. They can also legislate freely in the areas of contract law where no European legislation has been adopted.

The legal framework applicable to B2B contracts has been characterised by very limited harmonisation measures at European level. Uniform rules of a wider scope have been introduced through an instrument of international law, the 1980 UN Convention on the International Sale of Goods (Vienna Convention), which applies by default to cross-border B2B transactions. However,

224 See, for example, Eurobarometers 320 on European contract law in business-to-business transactions (EB 320) and 321 on European contract law in consumer transactions of 2011 (EB 321): 32% in B2B and 36% in B2C of exporting businesses said that contract law difficulties were a barrier to cross border trade and were almost equally cited as other practical barriers such as language and delivery. See also the SME Panel, the EBTP, 2010 surveys, presented in Annex 3 and the Clifford Chance Survey in European Contract Law (2005).

225 Regulation (EC) No 593/2008 of the European Parliament and of the Council on the law applicable to contractual obligations (the Rome I Regulation).

226 Regulation (EC) No 864/2007 of the European Parliament and of the Council on law applicable in non-contractual obligations (Rome II Regulation).

as described below the instruments of international law are not comprehensive and have a number of other limitations. They are not widely used in practice, with less than 1 in 10 businesses saying that they frequently apply them in B2B cross-border transactions.²²⁷

2. Legal framework for business-to-consumer (B2C) contracts

While the overall legal framework for B2C contracts ensures an adequate level of protection for consumers who shop in their own country, it creates increased complexity and confusion for proactive consumers who shop cross-border. Thus, it does not encourage consumers to seek better opportunities in the internal market. It mostly does not provide a uniform set of rules thereby creating the necessary consumer confidence. It also creates increased complexity and costs for businesses interested in selling to consumers across border.

a) Conflict-of-law rules. The Union put in place uniform conflict-of-law rules which cover B2C contracts. These rules aim to protect consumers in situations where the business pursues its commercial activities or directs this activity to the country of habitual residence of the consumer. In practice, whether the business directs its activity to the consumer's country has to be determined on a case-by-case basis.²²⁸ This is particularly relevant for e-commerce transactions where it may not be obvious to which countries a business advertises and markets through its web-site.

Thus, in the absence of a choice of law, in a situation described in the paragraph above, the law of the consumer's country of habitual residence applies (Article 6(1), Rome I Regulation). If the parties choose a law other than the law of the country of the habitual residence of the consumer – in practice mostly the seller's law - according to Article 6(2) of the Rome I Regulation, the contract cannot deprive the consumer of the mandatory protection afforded by his or her country. Thus, consumers can be confident that they will benefit from at least the same level of protection as guaranteed in their country of residence.

Practically, the Rome I Regulation does not provide an appropriate level of protection to the proactive consumer who shops cross-border as it only grants the consumer the protection of the mandatory rules of his own national law in cases where the trader directs its activities²²⁹ to the MS where the consumer is domiciled. If the trader does not envisage doing business with consumers from another MS, but agrees to contract with them if they contact him on their own initiative, the consumers do not benefit from the protection rules of their national law. These consumers fall under the general choice-of-law rules according to which parties are free to choose the applicable law, which will lead in practice mostly to the application of the seller's law. In the absence of choice, the law of the seller applies anyway. This means that consumers who want to take advantage of the internal market and want to buy something in another country out of their own initiative are disadvantaged compared to those consumers who are contacted by a foreign trader in their own country.

227 EB 320, p. 27.

228 In the recent Pammer & Alpenhof judgment of 7 December 2010 (Joined cases C-585/08 and C-144/09) the Court of Justice established criteria for assessing whether a business directs its country of residence. However, as these criteria require a case-by-case analysis a degree of uncertainty about the level of consumer protection in cross-border trade remains.

229 The concept of "commercial or professional activities directed to the consumer's domicile", has been clarified by the Court of Justice in the Pammer/Alpenhof judgment of 7 December 2010 (Joined cases C-585/08 and C-144/09).

b) EU consumer acquis: The consumer contract *acquis* consists of a number of Directives²³⁰ mostly based on the principle of minimum harmonisation. The Directives on consumer contract law cover the areas of doorstep selling,²³¹ unfair contract terms,²³² distance selling²³³ and sales and commercial guarantees.²³⁴ As these Directives were harmonised at a minimum level, MS, in implementing their provisions into national laws, were allowed to go beyond them (only) in favour of the consumer. As MS used this possibility to differing extents, the result was an improvement of consumer protection in the EU, but also a patchy legal landscape.²³⁵ As this legal situation was fragmented along national frontiers, it did not achieve the internal market integration that was also intended.

The Commission addressed the differences in the MS consumer contract laws by its 2008 proposal for a Consumer Rights Directive (CRD).²³⁶ The CRD proposal was aimed at facilitating cross-border shopping and sales and up-grading core consumer rights by consolidating the existing legislation in the area of consumer contract law. This would have been achieved on the basis of a fully harmonised set of key consumer contract provisions of interest for the functioning of the internal market. To this end the initial proposal of 2008 aimed at revising the Directives on doorstep selling, unfair terms, distance contracts and consumer sales and commercial guarantees. These four Directives would be merged into a single horizontal instrument regulating the common aspects in a systematic fashion, removing inconsistencies and closing gaps.

However, two years of intense negotiations in the Council and European Parliament led to a considerable reduction of the scope of the CRD. Firstly, its application was generally limited to distance and off-premises contracts. Secondly, two out of the four areas included in the initial proposal were ultimately excluded from the Directive's scope, namely the rules on sales and unfair terms. The impossibility to agree on fully harmonised rules on sales and unfair terms highlighted the limits of a full harmonisation approach in core areas of national contract law.

In any case, even with these fully harmonised provisions in the CRD, there will be a need to apply them in conjunction with other national provisions of general contract law, for example on remedies for breach of information duties. Consequently, differences between the contract laws of the MS will remain even after the adoption of the CRD.

The Directive on electronic commerce limits itself to some contract law provisions,²³⁷ which ensure that contracts concluded by electronic means are valid, that consumers are given certain pre-contractual information and that providers acknowledge receipt of the orders placed by electronic means.

230 Council Directive 85/577/EEC of 20 December 1985 on contracts negotiated away from business premises, Council Directive 90/314/EEC on package travel, package holidays and package tours, Council Directive 1993/13/EEC of 5 April 1993 on unfair terms in consumer contracts; Directive 97/7/EC of the European Parliament and of the Council of 20 May 1997 on the protection of consumers in respect of distance contracts; Directive 1999/44/EC of the European Parliament and of the Council of 25 May 1999 on certain aspects of the sale of consumer goods and associated guarantees; Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services; Directive 2008/122/EC of the European Parliament and of the Council of 14 January 2009 on the protection of consumers in respect of certain aspects of timeshare, long-term holiday product, resale and exchange contracts; Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers.

231 Council Directive 85/577/EEC of 20 December 1985 aims to protect the consumer in respect of contracts negotiated away from business premises.

232 Council Directive 1993/13/EEC of 5 April 1993 on unfair terms in consumer contracts.

233 Directive 97/7/EC of the European Parliament and of the Council of 20 May 1997 on the protection of consumers in respect of distance contracts.

234 Directive 1999/44/EC of the European Parliament and of the Council of 25 May 1999 on certain aspects of the sale of consumer goods and associated guarantees

235 The "EC Consumer Law Compendium"(up-dated version of 2007 covering all 27 MS) shows to what extent MS have made use of minimum clauses and options when transposing consumer acquis. The Consumer Law Compendium is a comparative study on the implementation of 8 consumer Directives in the legislation of MS, carried out by the University of Bielefeld, on request by the European Commission. The Green Paper on the Review of the Consumer Acquis, COM(2006) 744 final of 08.02.2007, acknowledges that the minimum harmonisation directives have led to a fragmentation of national laws, p.6.

236 Proposal for a Directive of the European Parliament and of the Council on consumer rights, COM(2008) 614, 8.10.2008.

237 Article 9, 10 and 11 of Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce').

3. Legal framework for business-to-business (B2B) contracts

The legal framework for B2B contracts lacks a comprehensive set of uniform rules and is characterised by the need to negotiate applicable law in cross-border contracts. The negotiations often disadvantage SMEs, which frequently have to apply an unfamiliar law of their business partner. Even though the Vienna Convention, introduced a uniform set of rules, it is not comprehensive and has several limitations which have led to its limited use.

a) Conflict-of-law rules. For B2B contracts, uniform choice of law rules stipulate that the parties are free to choose the applicable law, with a very limited number of exceptions. In practice however, where there is a considerable difference in bargaining power between the parties to a contract (e.g. often between a big company and an SME) the applicable law is generally imposed by the party with more bargaining power. If both parties have a comparable negotiating power, for instance two small companies in a cross-border region, the negotiations may be difficult for both of them. In contracts between SMEs of comparable bargaining power the need to negotiate the applicable law may be a significant obstacle for both parties, as none of them may be familiar and willing to accept the law of the other partner.²³⁸ One in two respondents to the SME panel survey indicated that they saw negotiations on applicable law as an obstacle to cross-border trade.²³⁹

a. EU *acquis* substantive rules The Directive on electronic commerce contains some pre-contractual information requirements for contracts concluded online.

The Directive on combating late payments²⁴⁰ applies only in B2B transactions and harmonises the rules on the default interest rate which apply in cases of late payment. It also contains a test of unfairness of contractual terms relating to stipulated interest rates. However, MS may continue to maintain or to bring into force rules which are more favourable to the creditor than the provisions of the new Directive. Experience with the predecessor Directive on combating late payments has shown that MS made use of the possibilities to depart from the minimum standards established and by consequence the implementing rules across the EU were not uniform.²⁴¹ Thus, even though there are harmonised rules on late payments at the EU level, businesses still have to familiarise themselves with potential differences in the respective national laws.

c. International substantive law. The Vienna Convention is an international convention which most of the MS have ratified. It is by default the applicable law in B2B cross-border sales contracts whenever the parties have not excluded its application.

However, the Vienna Convention does not apply uniformly in the EU. Firstly, it has not been ratified by Ireland, Malta, Portugal and the UK. Secondly, there is no single court which would ensure its uniform interpretation. Furthermore, the Vienna Convention covers only some issues of general contract law, notably the rules on formation of contracts, as well as sale-specific provisions. Therefore, it leaves many potential disputes relating to other matters of general contract law to be solved by the national law applicable according to conflict of law rules.

The UNIDROIT Principles of International Commercial Contracts can be incorporated into B2B contracts. However, the non-binding nature of these principles as well as the absence of a

238 See response to the Green Paper by the Scottish Law Commission, p. 5

239 55% of the respondents to the SME Panel Survey indicated that "Difficulties in negotiating with the other contractual party on applicable contract" were an obstacle in cross-border trade.

240 The Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions (recast)

241 An analysis of the implementation of Directive 2000/35/EC of the European Parliament and of the Council of 29 June 2000 on combating late payments in commercial transactions showed that some Member States have gone beyond the minimum standards established by the Directive. For instance, on the implementation of Article 3(1)(d) on the interest for late payment, see: Study on the effectiveness of EC legislation on combating late payment (2006), p.140-143 available at http://ec.europa.eu/enterprise/policies/single-market-goods/files/late_payments/doc/finalreport_en.pdf and Impact Assessment accompanying the Proposal for a Directive of the European Parliament on combating late payment in commercial transactions (recast) SEC(2009) 315, p. 6.

mechanism of uniform interpretation contribute to its limited success in day-to-day commercial transactions.

Among others, the abovementioned difficulties lead to a situation, where in practice these instruments are not frequently applied.²⁴²

4. Limitations of the current legal framework

The current legal framework in the EU does not contain a single set of uniform and comprehensive contract law rules which could be used by consumers and businesses in cross-border trade.

As illustrated in Table 1, the current legal framework consists of a patchwork of contract law rules, introduced via different instruments limited only to some of the key areas of contract law. They include some fully harmonised rules, but also a number of minimum standards and gaps in the EU *acquis* which allow for differences in the laws of MS to evolve.

Table 1 illustrates key areas of contract law covering the life-cycle of a contract.²⁴³ It shows that the existing *acquis* and international rules are limited in scope: out of the 13 key contract law areas they only cover six for B2C (one only partially) and eight areas for B2B contracts (one only partially). As demonstrated by Table 1 the current legal framework lacks a uniform set of rules that would cover the whole life cycle of a contract both for B2C and B2B cross-border transactions comprehensively. The remaining differences in contract laws continue to generate obstacles to the smooth functioning of the internal market both on the demand and supply side.

²⁴² In EB 320, 2011: only 9% of respondents said that their cross-border contracts are mainly covered by international instruments such as the Vienna Convention and UNIDROIT Principles.

²⁴³ The Expert Group created by the Commission identified these areas as key areas of contract law for cross-border contracts.

Table 1: EU legal framework in the area of contract law

Contract law area	Consumer Rights Directive	Other relevant EU consumer legislation	Directive on electronic commerce	Directive on electronic commerce	Directive on combating late payments	Vienna Convention on the international sale of goods
<i>Pre-contractual information and negotiation</i>	YES	YES	YES	YES	NO	NO with a few exceptions
<i>Conclusion of contract</i>	NO	NO	YES (partially)	NO	NO	YES
<i>Rights to withdraw</i>	YES	YES	NO	NO	NO	NO
<i>Defects in consent</i>	NO	NO	NO	NO	NO	NO
<i>Interpretation</i>	NO	NO with one exception	NO	NO	NO	YES
<i>Contents and effects</i>	NO	NO	NO	NO	NO	NO with a few exceptions
<i>Unfair contract terms</i>	NO	YES	NO	NO	YES (partially)	NO
<i>Obligations and remedies of the parties to a sales contract</i>	NO	YES	NO	NO	NO	YES
<i>Delivery and Passing of Risk</i>	YES	NO	NO	NO	NO	YES
<i>Obligations and remedies of the parties to a related service contract</i>	NO	NO	NO	NO	NO	NO
<i>Damages, Stipulated payments for non-performance and interest</i>	NO	NO	NO	NO	YES (partially)	YES
<i>Restitution</i>	NO	NO	NO	NO	NO	YES
<i>Prescription</i>	NO	NO	NO	NO	NO	NO

5. The added value of a Common European Sales Law

A Common European Sales Law would add value to the current legal framework as it would introduce a uniform set of contract law rules which cover the life cycle of a contract comprehensively. These rules would be the same for all economic operators in the EU who use them, irrespective of the MS where they are based. Common European Sales Law rules could be used both for B2C and B2B transactions within its scope.

As these rules would cover the whole life cycle of a contract they would address the main problems which could practically affect a cross-border transaction.

The feasibility study developed by the Expert Group the Commission created contains rules for the key contract law areas. They cover the lifecycle of a contract and the main contractual problems which may occur within a cross-border transaction. The feasibility study could serve as a basis for developing the substantive rules of a Common European Sales Law instrument.

Table 2 illustrates how a Common European Sales Law (see respective columns) fits into and completes the gaps within the current legal framework. It shows that the scope of a Common European Sales Law will cover the whole life cycle of a contract comprehensively.

Table 2: Common European Sales Law and the current legal framework

B2C CONTRACTS				B2B CONTRACTS				
Contract law area	Consumer Rights Directive	Other relevant EU consumer legislation	Directive on electronic commerce	Common European Sales Law	Common European Sales Law	Directive on electronic commerce	Directive on combating late payments	Vienna Convention on the international sale of goods
<i>Pre-contractual information and negotiation</i>	YES	YES	YES	YES	YES	YES	NO	NO with a few exceptions
<i>Conclusion of contract</i>	NO	NO	YES (partially)	YES	YES	NO	NO	YES
<i>Rights to withdraw</i>	YES	YES	NO	YES	YES	NO	NO	NO
<i>Defects in consent</i>	NO	NO	NO	YES	YES	NO	NO	NO
<i>Interpretation</i>	NO	NO with one exception	NO	YES	YES	NO	NO	YES
<i>Contents and effects</i>	NO	NO	NO	YES	YES	NO	NO	NO with a few exceptions
<i>Unfair contract terms</i>	NO	YES	NO	YES	YES	NO	YES (partially)	NO
<i>Obligations and remedies of the parties to a sales contract</i>	NO	YES	NO	YES	YES	NO	NO	YES
<i>Delivery and Passing of Risk</i>	YES	NO	NO	YES	YES	NO	NO	YES
<i>Obligations and remedies of the parties to a related service contract</i>	NO	NO	NO	YES	YES	NO	NO	NO
<i>Damages, Stipulated payments for</i>	NO	NO	NO	YES	YES	NO	YES (partially)	YES

<i>non-performance and interest</i>								
<i>Restitution</i>	NO	NO	NO	YES	YES	NO	NO	YES
<i>Prescription</i>	NO	NO	NO	YES	YES	NO	NO	NO

6. Consistency of the Common European Sales Law instrument with the existing legal framework

A Common European Sales Law instrument would be consistent with existing European legislation in the areas it covers. Consistency is achieved by taking into account the relevant existing rules of the EU acquis in the legal areas a Common European Sales Law instrument would cover.

Fully harmonised rules of the EU acquis are taken over completely. For instance, a Common European Sales Law instrument would take over the fully harmonised rules on pre-contractual information for distance and off-premises contracts from the CRD. The benefit of this approach is that businesses would have to comply with the same rules they anyhow have to observe according to their domestic legislation. In addition, a Common European Sales Law instrument could not be used to circumvent otherwise applicable national rules implementing the respective Directives.

Rules of the EU acquis which have been harmonised at a minimal level are taken as a basis. However, in a number of cases the respective provisions of a Common European Sales Law instrument could go beyond the minimum standards of the *acquis*. For instance, the rules on sales remedies have been harmonised at a minimum level by the Consumer Sales Directive. A Common European Sales Law instrument could provide for a higher level of consumer protection by giving consumers a free choice of remedies for defective products (as opposed to the hierarchy of remedies established by the Consumer Sales Directive. However, as opposed to the differing MS laws implementing the Directive, the rules on sales remedies would be regulated in a uniform way under a Common European Sales Law instrument. Consumers would benefit from a higher level of consumer protection. The benefit for business would be that they could operate based on the same rules in all MS when using the Common European Sales Law instrument.

Consistency of a Common European Sales Law instrument with all relevant legislative instruments would also be ensured in the long term. To this end, the review of the Common European Sales Law instrument would take into account the potential future changes in relevant European legislation.

The existing instruments of international law have also been taken into account in the process of developing a Common European Sales Law instrument. For instance, the Vienna Convention and the UNIDROIT Principles were among the sources which inspired the work of the Expert Group created by the Commission. Based on the lessons learnt from the use of the Vienna Convention, as well as other existing instruments of international law, a Common European Sales Law instrument could go beyond or build upon the existing international standards, to the extent improvements are necessary.

• Relationship with the Consumer Rights Directive

A number of stakeholders, in particular business representatives, have pointed out the importance of ensuring the consistency²⁴⁴ between a Common European Sales Law instrument and the Consumer Rights Directive (CRD) and that the two instruments work in tandem.²⁴⁵ Indeed, a Common European Sales Law instrument and the CRD are interlinked, as they address similar problems and largely pursue the same objectives for B2C transactions. Both instruments address the fragmentation

²⁴⁴ Response to the Green Paper, for instance by UEAPME, p.2-3.

²⁴⁵ Responses to the Green Paper, for instance by Business Europe, p. 2.

of the legal framework in the area of B2C contracts and the resulting problems of the business' and consumers' reluctance to engage in cross-border trade and reap the benefits of the internal market.

However, a Common European Sales Law instrument and the CRD have a different scope. A major difference is that the CRD only covers B2C contracts, while a Common European Sales Law instrument would also contain rules on B2B contracts. Furthermore, the CRD only covers three key areas of consumer contract law (pre-contractual information, right of withdrawal and delivery/passing of risk). While a Common European Sales Law instrument would also cover these areas, it would also contain rules in 10 additional areas of contract law. Finally, the CRD generally applies to distance and off-premises contracts, while a Common European Sales Law instrument would apply to all transactions, irrespective of the distribution channel.

Consistency between the two instruments has to be ensured in the areas where the two of them overlap, i.e. the two instruments largely overlap in the areas of pre-contractual information, right of withdrawal and delivery and passing of risk.

ANNEX III: CALCULATION OF OPPORTUNITY AND TRANSACTION COSTS

1. Opportunity costs for intra-EU trade

Eurobarometer surveys (EB) were used to find out *if* and *to what extent* companies were dissuaded from exports due to contract law related barriers. In response to the question "how often contract law related obstacles deterred the company from conducting cross-border transactions", respondents could answer "always", "often", "not very often", "never", "do not know".²⁴⁶ The percentage of companies which were deterred from cross-border trade can be established based on these responses. However, in order to identify the frequency and number of failed transactions more precisely, some assumptions need to be made. The cumulative amount of failed transactions can be expressed as opportunity costs. It represents the forgone trade for the EU economy due to contract law related barriers.

The calculation of opportunity costs in the main IA report depends on the assumptions on the weighting of the qualitative answers indicating the frequency as "often" or "not very often" of failed transactions of the surveyed enterprises which were dissuaded from trade due to contract law from various degrees. Table 1 presents the full range of assumptions to quantify "often" and "not very often". It shows the opportunity costs for intra-EU trade which does not take place due to contract law related problems. In order to identify how often transactions fail due to this reason a frequency going from 0 to 100% is attributed to a "company often deterred due to contract law" and to a "company not very often deterred due to contract law". 0% means that the potential opportunity cost generated by enterprises which are not deterred in every transaction, but only in some ("often" and "not very often"), are not taken into account. The table also reflects the theoretical values up to 100% as a weight (which would mean that all the trade of those companies who were deterred "often" or "not very often" is considered as a missed opportunity), even though this is not a realistic scenario.

Table 1: Opportunity costs for businesses: intra-EU trade not made - different weights (€ billion)

Weight for "not very often" (β) → Weight for "often" ↓(α)	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
0%	26	68.4	110.8	153.2	195.6	238	280.4	322.8	365.2	407.6	450
10%	36.4	78.8	121.2	163.6	206	248.4	290.8	333.2	375.6	418	460.4
20%	46.8	89.2	131.6	174	216.4	258.8	301.2	343.6	386	428.4	470.8
30%	57.2	99.6	142	184.4	226.8	269.2	311.6	354	396.4	438.8	481.2
40%	67.6	110	152.4	194.8	237.2	279.6	322	364.4	406.8	449.2	491.6
50%	78	120.4	162.8	205.2	247.6	290	332.4	374.8	417.2	459.6	502
60%	88.4	130.8	173.2	215.6	258	300.4	342.8	385.2	427.6	470	512.4
70%	98.8	141.2	183.6	226	268.4	310.8	353.2	395.6	438	480.4	522.8
80%	109.2	151.6	194	236.4	278.8	321.2	363.6	406	448.4	490.8	533.2
90%	119.6	162	204.4	246.8	289.2	331.6	374	416.4	458.8	501.2	543.6
100%	130	172.4	214.8	257.2	299.6	342	384.4	426.8	469.2	511.6	554

When 0% is the weight for both "often" and "not very often" the opportunity cost is considered to be only the one generated by the 0.96%²⁴⁷ of involved or interested in cross-border trade companies that

²⁴⁶ EB 320, EB 321.

²⁴⁷ EB 320 European contract law in business-to-business transactions, 2011: 3% of companies that consider contract law as a barrier in cross-border trade (out of 32 % of companies which see contract law as a barrier to B2B transactions = 0.96% of all companies) are always deterred from cross-border trade for this reason. It is assumed that

are "always" deterred from cross-border transactions due to contract law. The opportunity costs for this group of companies amount to €26 billion.

However, this estimate does not take into account the opportunity costs for companies who are deterred by contract law obstacles "often" or "not very often". The highlighted weights in the table are the most realistic assumptions for the values of "often" and "not very often". Respectively, "often" is placed between 50% and 90%, of the cases and "not very often" between 0% and 40% of the cases. However, the table illustrates all possibilities between the minimum and maximum.

The calculation of opportunity costs for intra-EU trade is based on the value of total intra-EU trade estimated by Eurostat at €2704 billion in 2008.²⁴⁸ The value of forgone intra-EU trade is calculated as a percentage of the actual trade value, as follows:

€2704 billion (total trade in goods intra-EU in 2008) * 32% of companies (exporting or interested in exporting) who see contract law as a barrier to cross-border trade * 3% of companies **always**²⁴⁹ deterred from cross-border trade due to contract law (= €26 bn)

+
 α ²⁵⁰ €2704 billion * 32% of companies (exporting or interested in exporting) who see contract law as a barrier to cross-border trade * 12% of companies **often**²⁵¹ deterred from cross-border trade due to contract law (= α * €104 bn)

+
 β ²⁵² €2704 billion * 32% of companies (exporting or interested in exporting) who see contract law as a barrier to cross-border trade * 49% of companies **not very often**²⁵³ deterred from cross-border trade due to contract law (= β * €424 bn)

= opportunity costs

Summarising the above: €26 billion + α (€104 billion) + β (€424 billion) = opportunity costs.

Each box of table 1 represents this formula for different values of α and β ²⁵⁴. The most plausible ones are in bold.

The assumptions on the values of "often" and "not very often" underlying the calculations used in the IA report are:

- For the high estimate: α (the value for often) = 70% and β (the value for not very often) = 20%.
- For the low estimate: α = 0 and β = 0, since only companies who were always deterred by contract law were considered and those who were deterred partially were disregarded. This estimate is very conservative.

companies deterred from trade due to contract law would represent the same share in exports. That is, the calculations assume that the 0.96% of companies that are always deterred by contract law differences would, in the absence of these differences, account for 0.96% of exports.

248 Eurostat Statistical Books, External and Intra-EU trade – a statistical yearbook, 2009 edition, p. 82.

249 EB 320 European contract law in business-to-business transactions, 2011: 3% of companies that consider contract law as a barrier in cross-border trade (out of 32% of B2B transactions) are always deterred from cross-border trade for this reason.

250 Assumed numerical expression to quantify the frequency of "often", as illustrated by the figures in table 1.

251 EB 320 European contract law in business-to-business transactions, 2011: 12% of companies that consider contract law as a barrier in cross-border trade (out of 32% of B2B transactions) are often deterred from cross-border trade for this reason.

252 Assumed numerical expression to quantify the frequency of "not very often", as illustrated by the figures in table 1.

253 EB 320 European contract law in business-to-business transactions, 2011: 49% of companies that consider contract law as a barrier in cross-border trade (out of 32% of B2B transactions) are not very often deterred from cross-border trade for this reason.

254 The weight for "always" is implicitly equal to 100%.

The quality of the results does not change significantly, depending on whether the figures of companies deterred from B2B or B2C trade are used.²⁵⁵ For simplicity in the calculations, only the figures for B2B are used, as they are the decisive variable for the estimate of opportunity costs.²⁵⁶

These opportunity costs show the lost value of cross-border trade for companies which were dissuaded from cross-border trade due to contract law. In part these costs will be reduced due to the domestic transactions which may take place instead of the failed cross-border ones.²⁵⁷ It is hardly possible to quantify the value of the domestic transactions which compensate for failed cross-border trade. This data is not available. However, it is plausible that the compensatory domestic trade most likely takes place at a higher price and is detrimental to consumers, especially when they cannot purchase certain products at a higher price.

2. Transaction costs at company level

The average costs per company concluding a transaction under a foreign applicable law are calculated on the basis of the results of about 1400 responses to two independent surveys: the SME²⁵⁸ and European Business Test Panel²⁵⁹ surveys. The SME²⁶⁰ and the EBTP²⁶¹ surveys were the most suitable data collection tools for obtaining the necessary data, as they allow respondents sufficient time to prepare, before giving the answers. Therefore, it was possible to ask precise questions, for instance on monetary ranges of costs savings. The Eurobarometer surveys (EB 320 and EB 321) which could provide more representative results than the SME and EBTP surveys, were not suitable for asking precise questions. Since the EB 320 and 321 were conducted over the phone, the respondents did not have sufficient time to prepare the answers in advance. Since, it was very likely that respondents would say they "did not know" the answer to a precise question, they were usually asked to give a general qualitative reply.

Since the sample of responses to the SME panel was more representative than the one of the EBTP survey, the calculations of transaction costs were carried out based on the SME panel survey and the results were verified by calculations based on the EBTP. As indicated below, the findings of the two surveys are similar.

2.1. Costs in B2B transactions

The results of the SME panel survey on cost ranges are summarised in Table 2. Based on the responses of individual companies average transaction costs were estimated.

There are 136 companies which indicate the costs of cross-border transactions due to differences in contract law to be lower than €5,000; 109 companies indicate these costs as being in the range of €5,000 - €10,000; 45 companies in the range of €10,000-€15,000; 23 companies in the range of €15,000-€30,000 and 27 companies estimate the costs to be more than €30,000.

255 Based on EB 320 (Q3) and EB 321 (Q3), the percentage of exporting of interested in exports companies deterred from cross-border trade can be identified; always deterred: 0.96% of total trade for B2B, 0.72% for B2C; often deterred: 3.84% B2B and 5.04% B2C; not very often: 15.68% B2B and 14.76% B2C.

256 B2C cross-border trade represents only 0.44% of the overall EU trade, calculated based on figure on cross-border shopping under EB 298: 211.7 million of households * 25% purchasing abroad * € 800 average yearly expenditure = € 42.3 billion. 72% of this is purchased on holidays, business or shopping trips. The pure cross-border distance trade is € 12.1 billion. So, out of the € 2,705 billion of international trade, B2C represents 0.44%.

257 The estimate does not reflect cross-border trade which failed for other reasons than contract law. It also does not take into account the domestic transactions which could compensate the failed cross-border trade.

258 Results available at: http://ec.europa.eu/justice/policies/consumer/docs/report_sme_panel_survey_feb_2011_en.pdf

259 Results available at: http://ec.europa.eu/yourvoice/ebtp/consultations/2010/european_contract_law/report_en.pdf

260 The responses to the SME Panel survey are usually collected through face-to-face interviews or written questionnaires.

261 The EBTP survey is conducted by means of a written questionnaire, which respondents are asked to fill in online; See brochure on EBTP at http://ec.europa.eu/yourvoice/ebtp/docs/brochure/ebtp-brochure-a4_en.pdf

Table 2: Businesses involved in B2B transactions – SME panel survey

Question: If you could use a single European contract law in transactions across the EU, please estimate the cost savings from saved transaction costs (for example legal fees, research and translation of foreign law) for expanding your activity in one additional EU country?

	Number of firms involved only in B2B	Number of firms involved in both B2B and B2C	Total businesses involved in B2B transactions
a. Less than € 5 000	85	51	136
b. € 5 000-10 000	65	44	109
c. € 10 000-15 000	22	23	45
d. € 15 000-30 000	16	7	23
e. More than €30 000	17	10	27
f. Don't know	159	110	269
Firms that gave an answer (other than "f")	205	135	340
Number of firms	364	245	609

Based on these numbers the average costs associated with B2B transactions are calculated within a low and high estimate.

- The low estimate:

The costs are estimated at the average value²⁶² (i.e. €2,500, €7,500, €12,500, €22,500 and €30,000) of the indicated transaction costs by companies.

$$(2\,500 \cdot 136 + 7\,500 \cdot 109 + 12\,500 \cdot 45 + 22\,500 \cdot 23 + 30\,000 \cdot 27) / 340 = \text{€}8,963$$

Thus, based on the low estimate the average transaction costs for firms involved in B2B transactions (*all businesses involved in B2B transactions*) amount to €8,963.

- The high estimate:

As evident from Table 2, 27 firms indicate that transaction costs of entering one additional market are more than €30,000. For the calculation of a high estimate it is assumed that these costs are €50,000:

$$(2\,500 \cdot 136 + 7\,500 \cdot 109 + 12\,500 \cdot 45 + 22\,500 \cdot 23 + 50\,000 \cdot 27) / 340 = \text{€}10,551$$

Thus, based on the low estimate the average transaction costs for firms involved in B2B transactions amount to €10,551.

Based on these two estimates it is assumed that B2B transaction costs range between €8,963 - €10,551. These costs are calculated on basis of the fourth column in Table 2 (*Total Businesses involved in B2B transactions*) which covers all firms engaged in B2B transactions. Some of these firms however indicate that they are also involved in B2C transactions. For this reason, the same calculation of transaction costs (as described above) is repeated for B2B considering *only* B2B transactions (column 2 in Table 2). For firms involved *only* in B2B transactions, transaction costs fall within a similar range of **€9,000 - €10,658**. The latter range is used for the calculations in the report, as it reflects more accurately the costs for companies involved in B2B transactions.²⁶³

2.2. Costs in B2C Transactions

Transaction costs for B2C are estimated in a similar way. For B2C transactions (Table 3) transaction costs amount to €8,876-€10,268.²⁶⁴ For companies involved only in B2C transactions (Table 3, column 2) these costs are within a similar range and amount to **€8,695 - €9,565**²⁶⁵. The latter range is

²⁶² €30,000 is taken as a conservative figure for the low estimate

²⁶³ This estimate deviates only marginally from the range between €8,963 - €10,551, which is based on the larger sample.

²⁶⁴ $8,876 = (2\,500 \cdot 62 + 7\,500 \cdot 51 + 12\,500 \cdot 23 + 22\,500 \cdot 11 + 30\,000 \cdot 11) / 158$ or $10\,268 = (2\,500 \cdot 62 + 7\,500 \cdot 51 + 12\,500 \cdot 23 + 22\,500 \cdot 11 + 50\,000 \cdot 11) / 158$

²⁶⁵ $8\,695 = (2\,500 \cdot 11 + 7\,500 \cdot 7 + 12\,500 \cdot 0 + 22\,500 \cdot 4 + 30\,000 \cdot 1) / 23$ or $9\,565 = (2\,500 \cdot 11 + 7\,500 \cdot 7 + 12\,500 \cdot 0 + 22\,500 \cdot 4 + 50\,000 \cdot 1) / 23$

used for the calculations in the report, as it is more conservative and reflects more accurately the costs for companies involved in B2C transactions.²⁶⁶

Table 3: Businesses involved in B2C transactions – SME panel survey

Question: If you could use a single European contract law in transactions across the EU, please estimate the cost savings from saved transaction costs (for example legal fees, research and translation of foreign law) for expanding your activity in one additional EU country?

	Number of firms involved only in B2C	Number of firms involved in both B2C and B2B	Total Businesses involved in B2C transactions
a. Less than EUR 5 000	11	51	62
b. € 5 000-10 000	7	44	51
c. € 10 000-15 000	0	23	23
d. € 15 000-30 000	4	7	11
e. More than €30 000	1	10	11
f. Don't know	24	110	134
Firms that gave an answer (all rows except "f")	23	135	158
Number of firms interviewed (a+b+c+d+e+f)	47	245	292

2.2.1. Specific IT related costs in B2C transactions

Furthermore, specific contract law related IT costs may occur for businesses selling online to consumers in other EU countries. Business representatives assessed that the IT related costs stem from the need for a business to adapt its website to the legal requirements of each Member State it directs its activity towards.²⁶⁷

This assessment can be verified by an estimate based on the SME Panel survey, which also shows that the transaction costs are higher in B2C transactions, when a business sells online. While the average transaction costs in B2C transactions are estimated between €8,695 and €9,565 for companies selling online the average costs are €11,875 - €13,541. Therefore, both in the high and low estimate the additional costs for e-commerce amount to respectively €2,917 and €2,916. The costs are estimated based on the formula:

*additional contract law related IT costs * % of retailers exporting through e-commerce * average number of EU countries exported to.*

- **The EBTP panel survey**

As already mentioned, the EBTP survey was used as an additional independent data source, in order to verify the results of the SME panel.

The average transaction costs, based on Table 4, are similar to the costs calculated based on the responses to the SME Panel survey and fall within the range of €11,132 – €14,704. However, since the EBTP survey attracted a smaller sample of responses, it is only used as an additional source in order to verify the reliability of the SME Panel figures.

266 This estimate deviates only marginally from the range of €8,876-€10,268, which is based on the larger sample of companies (158) that declared doing business with both consumers and businesses. Furthermore it coincides with the estimates provided by the Federation of Small Businesses which estimated that for an SME engaged in cross-border B2C trade the transaction costs amount to €9,120 per Member State. In order to verify the accuracy of this estimate, the statistical standard error has been computed using a bootstrap analysis. It allowed drawing multiple samples from the sample that is actually available in order to test the robustness of the estimate. Computing 30,000 re-samples, bootstrap shows that, within a 95% level of probability, B2C transaction costs cannot be lower than €5,181 or higher than €1,4 292.

267 The costs include adapting the web-site so that it can recognise the consumer's country of residence and retrieve the correct set of pages. See Federation of Small Businesses (FSB) in the UK, Response to the Green Paper on policy options for progress towards a possible European contract law for consumers and businesses, p.3; see FSB Position Paper on Rome I, p.3 for detailed breakdown of costs.

Table 4: Businesses involved in B2B and B2C transactions – EBTP panel survey

Question: If you could use a single European contract law in transactions across the EU, please estimate the cost savings from saved transaction costs (for example legal fees, research and translation of foreign law) for expanding your activity in one additional EU country?

	Number of firms involved in both B2B and B2C
Less than € 1 000	15
€ 1 000 – 5 000	42
€ 5 001 – 10 000	36
€ 10 001 – 15 000	9
€ 15 001 – 30 000	13
More than € 30 001	25
Other	0
Don't know	69
Firms that gave an answer	140

3. Number of Member States EU companies export to

Eurobarometers 320 and 321 provide information about the number of EU countries where firms make cross-border transactions (EB 320, Q D6; EB 321, Q D5). It should be noted that the sample of EB 320 and 321 only includes companies with an interest or experience in cross-border trade. Table 5 and 6 present the results respectively for B2B and B2C transactions.

Approximately 26% of companies involved in B2B trade are engaged in cross-border transactions with only one EU country; 38% with 2-3 EU countries and 36% with four or more EU countries. A similar picture emerges from Table 6 on B2C trade. Approximately 86% of the interviewed managers indicate to be involved in cross-border B2C transactions. Around 26% serve consumers in only one EU country, 35% in 2-3 EU countries and 39% in four or more EU countries.

Table 5: Firms involved in B2B transactions.

D.6 Besides (your country), in how many other EU countries do you currently make cross-border transactions?			
	Number of all respondents	Share of all respondents (number of all respondents / f)	Share of all respondents exporting to a number of Member States (number of all respondents/g,, except rows a and e)
a. Domestic transactions only	518	8%	-
b. Trading with 1 other EU countries	1 489	23%	26%
c. Trading with 2-3 other EU countries	2 202	34%	38%
d. Trading with at least 4 other EU countries	2 072	32%	36%
e. Not answered	194	3%	-
f) Total number of interviewed firms (a+b+c+d+e)	6 475	100%	-
g) Total number of firms trading cross-border (b+c+d)	5 763	89%	100%

Source: Flash Eurobarometer 320.

Note: The survey is based on a random sample of 6,475 managers in 27 EU Member States. The sample includes only enterprises that are currently involved in cross-border B2B transactions (sales/purchase of goods or services) or are planning to do this in the future. The sample is randomly selected in each country within the following activity sectors: manufacturing; wholesale and retail trade; accommodation and food service activities; information and communication; financial and insurance activities.

Table 6: Firms involved in B2C transactions.

D.5 Besides (your country), in how many other EU countries do you currently make cross-border transactions?			
	Number of all respondents	Share of all respondents (number of all respondents / f)	Share of all respondents exporting to a number of Member States (number of all respondents/g, except rows a and e)
a. Selling only to domestic consumers	517	8%	-
b. Selling to consumers in 1 other EU country	1 422	22%	26%
c. Selling to consumers in 2-3 other EU countries	1 940	30%	35%
d. Selling to consumers in at least 4 other EU countries	2 198	34%	39%
e. Not answered	388	6%	-
f) Total number of interviewed firms (a+b+c+d+e)	6 465	100%	-
g) Total number of firms trading cross-border (b+c+d)	5 560	86%	100%

Source: Flash Eurobarometer 321.

Note: The survey is based on a random sample of 6,465 managers in 27 EU Member States. The sample includes only enterprises that are currently involved in cross-border B2C transactions (sales/purchase of goods or services) or are planning to do this in the future. The sample is randomly selected in each country within the following activity sectors: manufacturing; wholesale and retail trade; accommodation and food service activities; information and communication; financial and insurance activities.

An estimate of the number of Member States where exporting companies conduct cross-border transactions can be made on the basis of the above tables (considering points b, c and d.)

Thus, on average, companies involved in B2B transactions trade with 2.7-4.8 Member States:
 $(1489*1+2202*2.5+2072*4) / (1489+2202+2072) = 2.7$ (used in the low estimate) and
 $(1489*1+2202*2.5+2072*10) / (1489+2202+2072) = 4.8$ (used in the high estimate)

Companies involved in B2C transaction trade on average with 2.7-5.1 Member States.
 $(1422*1+1940*2.5+2198*4) / (1422+1940+2198) = 2.7$ (used in the low estimate) and
 $(1422*1+1940*2.5+2198*10) / (1422+1940+2198) = 5.1$ (used in the high estimate)

4. Cumulative transaction costs for the EU economy

In order to find out the total transaction costs due to differences in contract law for the EU economy, the cumulative transaction costs for all exporters must be identified. A distinction between sectors is made in order to take into account the differences in B2C and B2B cross-border transactions for trade in goods. B2C transactions occur in the retail trade sector; B2B transactions occur in the sectors of manufacturing and mining, agriculture and wholesale trade.

For B2C transactions

The aggregate transaction costs in B2C transactions are the costs incurred by companies exporting to consumers (exporting retailers) in other EU countries. They include the transaction costs (e.g. for legal advice and translation of foreign laws), but also the additional contract law related IT costs which occur in B2C cross-border e-commerce transactions.

However, realistically not all exporters consult a lawyer on foreign law. EB 321 found that 17.6% of retailers currently involved in cross-border trade are not at all informed about the consumer protection provisions in the contract laws of the EU countries where they sell or wish to sell to consumers. It is reasonable to assume that these exporters have not consulted a lawyer on foreign law at all. Hence, only 82.4% (100% - 17.6%) of B2C exporters are included in the computation of transaction costs.

The cumulative transaction costs can be calculated based on the following formula:

*82.4% of exporting businesses informed about foreign law * (Transaction costs per company * number of exporting retailers in the EU * average number of EU countries European exporters trade with + contract law related IT costs for retailer exporting through e-commerce).*

To compute the cumulative IT related transaction costs for B2C traders, the number of retailers exporting through e-commerce is considered. Eurostat Information Society Statistics²⁶⁸ provide answers to the question "have you done electronic sales to other EU countries?" for companies having more than 10 employees (small, medium and large), as well as a detailed figure specific for small companies (10-49 employees). For retailers, these figures are respectively 4.5% and 2.4%.²⁶⁹

However, as the above database does not contain data on micro companies (with less than 10 employees) and this category of companies is notably the overwhelming majority of retailers²⁷⁰, the following assumption has to be used. It is assumed that the ratio among micro and small retailers exporting through e-commerce is proportional to the ratio of all exporting micro and small firms (7/13)²⁷¹. As the figure for small retailers exporting through e-commerce is available (2.4%), the one for micro firms is assumed to be 1.3% (= 2.4% x 7/13). The figure for micro firms and the one for the rest of the companies are weighted by the total number of firms in the respective categories, and the result is that 1.46%²⁷² of all retailers export through e-commerce, as it can be seen from table 7.

Table 7: Contract law related IT costs in B2C transactions

IT related costs in billion euro				Average number of countries exported to = 2.7 * transaction costs per firm = € 2916 * 82.4% of informed exporters	Average number of countries exported to = 5.1 * transaction costs per firm = € 2917 * 82.4% of informed exporters
Sector	Firms	Percentages exporting through e-commerce	Exporters	Low estimate	High estimate
Retail	4 605 233	1,46%	67 230	0.44	0.82

For B2B transactions

For B2B transactions it should be taken into account that in the case where an exporting company negotiates the applicability of its own law to the contract it may have no transaction costs at all. In this case, the company would not have to deal with a foreign law at all (as opposed to B2C transactions when a company still has to check the level of mandatory consumer protection provisions in the consumers' legislation even if it applies its own law). Therefore, it is assumed that in B2B trade transaction costs occur only when a company needs to apply a foreign law. EB 320, Q1 asks exporting companies "Which contract law most often governs your business-to-business cross-border transactions". 14.6% of the respondents said that most often they applied the national law of their business partner; 9% applied international legal instruments and 0.6% the law of a third country (0.6%). All these percentages are likely to be higher as 17% of the enterprises were not able (or did not want) to answer the related question.

268 Comprehensive databases, statistics on ENT 2009_2010 (NACE Rev 2), variable e_aeseu, %ent.

269 Comprehensive databases, statistics on ENT 2009_2010 (NACE Rev 2), variable e_aeseu, %ent.

270 4 364 674 out of 4 605 233, Eurostat Structural Business Statistics.

271 EB 196, 2007 Observatory of SMEs, p.45

272 [4.5% of e-commerce exporting retailers with more than 10 employees * 240 559 (number of retailers with more than 10 employees) + 1.3% of estimated e-commerce exporting micro retailers * 4 364 674 (number of micro retailers)] / 4 605 233 (total number of retailers) = 1.46% (percentage of total retailers exporting with e-commerce).

For the purpose of calculating the total transactions costs in B2B trade, based on a conservative assumption, only the companies applying the national law of their business partner are considered. The use of this figure also guarantees that all the costs that are considered are actually incurred, as companies had to become familiar with the foreign contract law. The costs for these companies are likely to grow proportionately to the number of EU countries they trade with.

The estimate is conservative as it does not take into account the companies which apply the law of a third country or international legal instruments, as it is assumed that they bear the transaction costs only once even if they trade with multiple countries. Furthermore, a number of exporting companies may not even have consulted a lawyer before they started exports. EB 320 found that 14.9% of companies currently involved in cross-border B2B transactions did not even know which contract law most often governs their transactions in the EU. However, this group of companies is excluded from the estimate based on the formula below:

*Transaction costs per company * number of exporting companies in B2B sectors (agriculture, manufacturing and mining, wholesale trade)* average number of EU countries exported to* 14.6% of cases when the national contract law of the business partner applies to the contract*

The number of exporters is estimated on the basis of a Eurostat database²⁷³ using data of 2007. More up-to-date data is not available in the databases of Eurostat as of 2011. In order to calculate an estimate for the whole EU, the average share of exporters for each sector in these 18 countries is multiplied by the total number of enterprises in the EU-27 in each sector.

273 DS-056329-1: Trade by activity and enterprise size class, that provides the number of enterprises exporting intra-EU in 2007 in a sample of 18 Member States, divided by sector of activity (Czech Republic, Denmark, Germany, Estonia, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Austria, Portugal, Romania, Slovenia, Slovakia, Finland and Sweden). In this database, data on wholesalers and retailers are not available for Luxembourg (estimate based on 17 countries), and data on agriculture are not available for Italy and Luxembourg (estimate based on 16 countries).

Table 8: Cumulative transaction costs for the EU economy

Overall transaction costs (without IT related costs) in €billion

Sector	Number of Firms	Percentages of exporting firms	Number of Exporters	Low estimate ²⁷⁴	High estimate ²⁷⁵
Agriculture	13 700 400	0.21%	28 771	0.10	0.21
Manufacturing and Mining	2 344 213	15.50%	363 353	1.29	2.71
Wholesale	1 752 154	15.32%	268 430	0.95	2.00
Retail	4 605 233	4.01%	184 670	3.58	7.42
Total	22 402 000	3.77%	845 224	5.92	12.34

IT related costs in €billion

Sector	Number of Firms	Percentages of exporting firms	Number of Exporters	Low estimate ²⁷⁶	High estimate ²⁷⁷
Retail	4 605 233	1.46%	67 230	0.44	0.82
				Low estimate	High estimate
Total transaction costs in €billion				6.36	13.16
Annual costs in €billion ²⁷⁸				0.93	1.92

Considering the agricultural sector, where the number of companies is higher than in all other sectors combined, the percentage of European firms exporting drops to 3.77%. If the agricultural sector is excluded from the estimate, the figure rises to 9.3%.

- **Annual transaction costs for the EU economy**

Annual costs are based on the estimate that 14.6% of exporters enter cross-border trade in the EU every year.²⁷⁹ This is computed comparing the figures in Table 7 (2007) with the equivalent ones for 2006 obtained from the same database. Both the total number of firms and the percentages of firms exporting are lower in 2006. The results are shown in Table 9.

274 For B2B (agriculture, manufacturing and mining and wholesale) the costs are calculated using the lower value of €9,000 per company * 14.6% of companies applying a foreign law * 2.7 Member States companies export to * number of exporters; For B2C (retail) the costs are calculated using the lower value of €8,695 * 82.4% of informed exporting companies * 2.7 Member States companies export to * number of exporters

275 For B2B (agriculture, manufacturing and mining and wholesale) the costs are calculated using the higher value of €10,658 per company * 14.6% of companies applying a foreign law * 4.8 Member States companies export to * number of exporters; For B2C (retail) the costs are calculated using the lower value of €9,565 * 82.4% of informed exporting companies * 5.1 Member States companies export to * number of exporters

276 Average number of countries exported to = 2.7 * transaction costs per firm = € 2 916 * 82.4% of informed exporting companies * number of exporters in e-commerce

277 Average number of countries exported to = 5.1 * transaction costs per firm = € 2 917 * 82.4% of informed exporting companies * number of exporters in e-commerce

278 See Table 9, Table 10 and related explanation.

279 Eurostat database DS-056329-1: Trade by activity and enterprise size class. Comparable data are only available for the period 2006-2007. Eurostat also contains statistics for the period of 2004-2005, but since a different methodology was used for collecting the data, the figures contain large discrepancies and are not comparable with the period 2006/2007.

Table 9 – Number of exporting firms (2006-2007) and growth

	2006	2007
Manufacturing	333 927	360 039
Wholesale	239 439	268 430
Retail	139 154	184 670
Total	712 520	813 139
Annual increase in number of exporting firms 2006-2007	14.59%	

This figure does not take into consideration the fact that some of the new exporters may have already exported in the past and previously incurred the one-off transaction costs. However, this may be balanced by the fact that this estimate does not include companies which already export and want to expand their operations to more EU countries. Therefore, we consider that new exporters explore on average the same number of foreign markets (between 2.7 and 5.1 Member States) as exporters that are not new. Hence, in order to estimate the annual transaction costs, a growth rate of 14.59% in the number of companies is assumed in each sector. Table 10 shows the estimate of the total annual transaction costs. The low and high estimates are computed as above.

Table 10: Annual transaction costs for the EU economy

Annual transaction costs (without IT related costs) in €billion

Sector	Number of exporters (2007)	Number of new exporters every year²⁸⁰	Low estimate²⁸¹	High estimate²⁸²
B2B ²⁸³	660 554	96 375	0.34	0.72
B2C ²⁸⁴	184 670	26 943	0.52	1.08
Total	845 224	123 318	0.86	1.80

IT related costs in €billion

Sector	Number of exporters (2007)	Number of new exporters every year²⁸⁵	Low estimate²⁸⁶	High estimate²⁸⁷
B2C ²⁸⁸	67 230	9 809	0.07	0.12

Low estimate	High estimate
0.93	1.92

Annual costs in € billion

€1 to €2 billion is therefore the estimate for the incurred one-off cost for new exporters every year.

²⁸⁰ 14.59% of number of exporters in 2007.

²⁸¹ For B2B (agriculture, manufacturing and mining and wholesale) the costs are calculated using the lower value of €9,000 per company * 14.6% of companies applying a foreign law * 2.7 Member States companies export to * number of exporters; For B2C (retail) the costs are calculated using the lower value of €8,695 * 82.4% of informed exporting companies * 2.7 Member States companies export to * number of exporters

²⁸² For B2B (agriculture, manufacturing and mining and wholesale) the costs are calculated using the higher value of €10,658 per company * 14.6% of companies applying a foreign law * 4.8 Member States companies export to * number of exporters; For B2C (retail) the costs are calculated using the lower value of €9,565 * 82.4% of informed exporting companies * 5.1 Member States companies export to * number of exporters

²⁸³ Agriculture, Manufacturing and Mining, Wholesale.

²⁸⁴ Retail.

²⁸⁵ 14.59% of number of exporters in 2007.

²⁸⁶ Average number of countries exported to = 2.7 * 82.4% of informed exporting companies * transaction costs per firm = €2,916 * number of exporters in e-commerce

²⁸⁷ Average number of countries exported to = 5.1 * 82.4% of informed exporting companies * transaction costs per firm = €2,917 * number of exporters in e-commerce

²⁸⁸ Retail.

5. Implementation costs for options 4, 5a and 6

The implementation of the different policy options would generate costs, which depending on the option, would affect either exporting companies only, or all companies (including those who only trade domestically).

Option 4 (optional Common European Sales Law)

The one-off implementation costs would affect only those exporting companies, who decide to choose the optional Common European Sales Law. Under option 4, only a certain percentage of exporters would use it. The assumption is that realistically at the first stage 25% up to 50% of new exporters would be willing to choose the optional Common European Sales Law. Thus, the aggregate implementation costs for the EU economy can be calculated based on the formula below:

*% using optional Common European Sales Law * number of exporting companies * implementation costs per company*

Assuming that 25% use the OI, and using the transaction costs per company estimated in section 2 of this Annex, the implementation costs would be:

B2C (low estimate): 25% 184 670 * €8,695 = €0.4 bn*
+
*B2B (low estimate): 25% * 660 554 * €9,000 = € 1.49 bn*
= €1.89 bn

Option 5a (Full harmonisation Directive) / Option 6 (Regulation establishing a mandatory Common European Sales Law)

The one-off implementation costs under options 5a and 6 would affect both exporting companies and those who trade only in their domestic market, as the respective instrument would be binding for all companies. The aggregate implementation costs for the EU economy can be calculated based on the formula below:

*Companies that trade only domestically (17 136 213 in B2B and 4 420 563 in B2C) * implementation costs per company = €208.8 bn*
+
*companies that export * implementations costs per company = €8.18 bn*
= € 216.98 bn

6. Savings for the EU economy

6.1. Savings for new exporters

The savings for new exporters would arise annually, as a consequence of the reduction in transaction costs for cross-border trade as a result of a Common European Sales Law instrument.

Option 4 (optional Common European Sales Law)

Exporters will benefit from savings when they export to more than 1 Member State. The companies using the optional Common European Sales Law will only incur the cost of familiarising themselves with the new law.

If the current export level persists (on average about 2.7 – 5²⁸⁹ MS), the cost savings could be estimated as follows:

Annual transaction costs under baseline scenario – annual transaction costs under the optional Common European Sales Law = Savings under the optional Common European Sales Law

Therefore, under different assumptions for the percentage of companies who would use the optional Common European Sales Law, the savings can be calculated as:

*(100% -% using the optional Common European Sales Law) * annual transaction costs under baseline scenario + % using the optional Common European Sales Law * (annual transaction costs under baseline scenario / average number of countries they export to) = annual transaction costs under the optional Common European Sales Law.*

For instance, assuming that 25% of the new exporters will use the optional Common European Sales Law:

- The annual costs would be:

Low estimate: 75% * €1 bn + 25% * €1bn / 2.7 MS = € 0.85 bn

High estimate: 75% * €2bn + 25%* €2 bn / 5 MS = €1.6 bn

- The annual savings would be:

Low estimate: €1bn – €0.85 bn = **€0.15 bn**

High estimate: €2 bn – € 1.6 bn = **€0.4 bn**

The more companies that use the optional Common European Sales Law, the higher the savings will be.

In a longer term, these annual savings could be discounted²⁹⁰ to €3.9-€10bn and the net benefit for the EU economy would be €2-€8.11bn (€3.9-€10bn minus €1.89bn).

Option 5a (Full harmonisation Directive) / Option 6 (Regulation establishing a mandatory Common European Sales Law)

The savings for new exporters under option 5a would amount to **€0.63 – €1.6 bn** (computed under the formula used for option 4).²⁹¹

However, this estimate is simplified and does not consider that, particularly in B2B transactions, companies would continue to benefit from the freedom of choice of law under international private law rules. The percentage of companies that would have a preference for international law instruments or laws of third countries in a scenario where a Directive was put in place is difficult to determine. It would partially depend on the content of the Directive and whether companies would see it as a more beneficial choice compared to other alternatives. In any case, the Vienna Convention would continue to apply on an opt-out basis and would therefore govern the transactions where no choice of law was exercised. Furthermore, companies which would have specific preferences for the law of third countries, such as Swiss law, could continue to exercise this choice.

These savings would however not outweigh the initial one-off adaptation cost of €216.98 bn even in the longer time frame.²⁹²

289 4.8 in B2B and 5.1 in B2C

290 Discount rate of 4% as recommended in the European Commission IA Guidelines, Annex XI.

291 It is important to note that these savings only represent a situation under which the new exporters trade with the same number of MS as under the BS.

292 In a longer term, these annual savings could be discounted to €15.75 - €40 bn and the net loss for the EU economy would be (- €201.23) – (- €176.98) bn (i.e. €15.75 - €40 bn minus €216.98 bn).

6.2. Potential savings for current exporters

Current exporters that would expand their cross-border sales to new countries would also benefit as they would incur only a one-off adaptation cost in order to begin trade to a new EU country.

It is assumed that 25% of the companies would use the optional Common European Sales Law (46,168 companies).²⁹³ The expected increase in number of new countries the companies would trade with if the Common European Sales Law was available is based on the results of EB 321.²⁹⁴

The potential avoided transaction costs for the EU economy are illustrated in the table below. The table takes as a basis the low estimate of transaction costs i.e. €8,695 for each new MS into which a company exports.

Table 11: Savings for the EU economy, B2C

Companies	Would trade to			
	1-2 new countries (=1.5)	3-5 new countries (=4)	6 or more new countries (=6)	
Currently trading to				
1 country	40%	31%	8%	PERCENTAGES
2-3 countries	31%	33%	17%	
4 or more	17%	35%	27%	
1 country	4 723	3 660	945	COMPANIES ²⁹⁵
2-3 countries	4 994	5 316	2 738	
4 or more	3 103	6 388	4 928	
1 country	20 533 394	95 480 283	41 066 788	SAVINGS (€)
2-3 countries	21 710 238	138 665 390	119 056 143	
4 or more	13 488 938	166 628 061	214 236 078	
Total savings (low estimate)	830 865 313			

The table is divided into three horizontal parts. The first part (percentages) shows the share of exporters (currently trading to 1, 2-3, or "4 or more" countries) that declared they would expand their cross-border sales.

The second part of the table (companies) shows the absolute number of current exporters that would expand their cross-border to a certain number of new countries (1-2, 3-5, "6 or more").

For example, 40% of current exporters trading with 1 country i.e. 4,723 companies, would expand their cross-border sales to 1-2 new countries.

In order to estimate the potential savings (third part of the table), the number of companies are multiplied by the number of additional MS these companies would export to and by the cost per MS that they avoid when using the Common European Sales Law.²⁹⁶

²⁹³ According to EB320 and EB321 40% of companies in B2C and 34% in B2B would increase their cross-border operations if they were able to choose a single Common European Sales Law for transactions. These figures give an indication on the number of companies that expect their cross-border trade to expand under option 4. However, as the sample of the EB surveys covered also non-exporters that are interested in cross-border trade, the more conservative estimate of 25% of exporters using the optional Common European Sales Law is used.

²⁹⁴ EB 321, p.36.

²⁹⁵ Data on number of current exporters and their level of cross-border trade taken from Table 6 of this Annex.

Under the low estimate, total savings amount to €0.8 bn. If the high estimate of transaction costs i.e. €9,565 (per company per MS) is used, total savings would amount to around €0.9 bn.

For B2B transactions, it has been assumed that 25% of the companies would use the OI (165,139 companies)²⁹⁷.

The expected increase in number of new countries the companies would trade to if the Common European Sales Law was available is based on the results of EB 320.²⁹⁸

The potential avoided transaction costs for the EU economy are illustrated in the table below. The table takes as a basis the low estimate of transaction costs i.e. €9,000 for each new MS into which a company exports.

The calculations are developed similarly as described for the previous table.

Table 12: Savings for the EU economy, B2B

Companies	Would trade to			
	1-2 new countries (=1.5)	3-5 new countries (=4)	6 or more new countries (=6)	
Currently trading to				
1 country	54%	27%	5%	PERCENTAGES
2-3 countries	31%	37%	14%	
4 or more	24%	37%	21%	
1 country	23 040	11 520	2 133	COMPANIES ²⁹⁹
2-3 countries	19 560	23 346	8 834	
4 or more	14 250	21 968	12 468	
1 country	103 681 360	311 044 081	96 001 260	SAVINGS (€)
2-3 countries	88 022 001	630 351 105	397 518 715	
4 or more	64 122 910	593 136 917	561 075 462	
Total savings (low-estimate)	2 844 953 811			

Under the low estimate, total savings amount to €2.84 bn. If the high estimate of transaction costs i.e. €10,658 (per company per MS) is used, total savings would amount to around €3.4 bn.

The total savings for the EU economy for B2B and B2C transactions considering the extra number of MS in which companies would trade under an OI would be **€3.7 – €4.3 bn**.

The total savings under **option 5a** (full harmonisation Directive) would be at least of the same scale as option 4, as the level of exports is likely to increase similarly to the scenario under option 4. However, it is difficult to estimate the precise scale of the increase and the law which would govern those transactions in particular in B2B trade. It is not certain what percentage of businesses would choose, as their preferred choice, the national law after the implementation of the Directive under option 5a. Companies would continue to benefit from the freedom of choice of law under international private law rules. Thus, their preference for the Directive would partially depend on its

296 e.g. for companies currently trading to 1 country that would trade to 6 or more new countries, the savings would be 6*€8,695 – €8,695 of implementation = €43,475, multiplied by 945 companies = €41 million.

297 According to EB320 and EB321 40% of companies in B2C and 34% in B2B would increase their cross-border operations if they were able to choose a single Common European Sales Law for transactions. These figures give an indication on the number of companies that expect their cross-border trade to expand under option 4. However, as the sample of the EB surveys covered also non-exporters that are interested in cross-border trade, a more conservative estimate of 25% of exporters using the optional Common European Sales Law has been taken forward.

298 EB 320, p. 34

299 The number companies currently trading with 1 to "4 or more" MS comes from Table 5 of this Annex.

content, compared to other alternatives. In any case, the Vienna Convention would continue to apply on an opt-out basis and would govern transactions where no choice of law was exercised. Another alternative to the Directive would be the law of third countries, such as Swiss law. As B2B trade accounts for the larger share of aggregate transaction costs, it would also largely determine potential costs savings.

ANNEX IV: ECONOMIC MODEL APPLIED TO THE ASSESSMENT OF POLICY OPTIONS

1. The Global Trade Analysis Project (GTAP)

The macro-economic analysis has been carried out using the Global Trade Analysis Project (GTAP) model.³⁰⁰ GTAP is a static general equilibrium model analysing changes in production, trade and consumption as a consequence of changes in such exogenous variables as costs.³⁰¹ The model includes all countries in the EU27 and 57 products among which 24 are manufactured goods. GTAP is able to calculate the impact of a new policy on GDP, trade, intra-EU trade, consumer prices and expenditure and consumer welfare.

For each country, GTAP identifies demand for the 57 products by households (consumers), businesses and governments. For each type of customer, product demand is split into demand for domestic products and demand for imported products. For each country, product supply depends on the use of domestic and imported products and domestic production factors such as capital, land, labour and natural resources.

The model identifies prices at different levels of the supply chain from the production costs to the customer prices i.e. producer prices, market prices, export prices, import prices, consumer prices. Prices diverge due to taxes and subsidies, transport costs and wholesale and retail margins.

The labour market is assumed not to be in equilibrium. Wages are fixed and employment grows with demand and production.

Data is collected and processed by a consortium of 27 agency members including the European Commission, FAO, OECD, World Bank, three US agencies and WTO.

2. Assumptions for impact calculation

The Flash Eurobarometer surveys 320 and 321³⁰² provide data on the attitudes of companies trading and interested in cross-border trade, among others on their willingness to use the European contract law and impacts it could have on the level of their cross-border trade. More specifically, the companies were asked to indicate whether they would use the European contract law if it was made available and whether they would expand their trade to more Member States.

The respondents were asked to provide a qualitative assessment of the impact the European contract law would have on their cross-border sales i.e. to indicate whether their cross border sales would increase a lot, a little or decrease. Therefore, assumptions had to be made on the numerical value of these qualitative answers. The following assumptions have been made:

- "small decrease/increase in trade": the assumed value for "small" is within the range of 1%-4% where 1% is the low, 2% is the medium and 4% is the high estimate. Under the low estimate it is assumed that the cross-border operations of a company would increase/decrease by 1% and under the high estimate by 4%.
- if a respondent indicated that he expected a "large increase", the assumed value for "large" is within the range of 5%-20%, where 5% is the low, 10% the medium and 20% the high estimate. Under the low estimate it is assumed that the cross-border operations of a company would increase/decrease by 5% and under the high estimate by 20%.

300 See www.gtap.agecon.purdue.edu and Hertel et al. (1997), *Global trade analysis; Modelling and applications*, Cambridge University Press.

301 The model has an Input-Output structure for all the economies included. Trade is identified at the bilateral level.

302 Flash Eurobarometer 321, European contract law in consumer transactions and Flash Eurobarometer 320, European contract law in business-to-business transactions

The above assumptions underlie the estimates of impacts of each option.

Options 5 and 6 would apply to all Member States and all traders and therefore have the most significant impact. The impact of option 4 would only be a fraction of the impact of option 5 and 6, as only a part of companies would choose the new optional Common European Sales Law. The impact of option 3 is likely to be much more limited than the one of option 4, as not only the companies, but also the Member States will have the possibility to choose if they want to apply the optional Common European Sales Law and in which form.

Assumed impact of policy option 5 and 6

Based on the above assumptions, the impact on trade could be estimated at 0.8%-3.1% for B2B transactions and 0.9%-3.5% for B2C transactions. Option 5 and 6 are likely to increase cross-border trade by 0,8% in B2B and 0,9% in B2C under the low estimate and up to 3,1% in B2B and 3,5% in B2C under the high estimate.

Table 1 – Assumed impact on trade³⁰³

B2B transactions: EB 320, question 5				
If companies were able to choose one single European contract law for their B2B cross-border transactions in the EU, would their cross-border operations...				
Impact expected	Share of firms indicating expected impact on cross-border trade	Assumptions		
		Low estimate	Medium estimate	High estimate
Decrease	1,20%	-1%	-2%	-4%
Remain the same	54,30%	0%	0%	0%
Increase a little	24,60%	1%	2%	4%
increase a lot	8,90%	5%	10%	20%
Don't know	11,00%			
Impact on trade Weighted average		0.76%	1.53%	3.05%
B2C transactions: EB 321, question 6:				
If companies were able to choose one single European contract law in all transactions with consumers from other EU countries, would their cross-border operations...				
Impact expected	Share of firms indicating expected impact on cross-border trade	Assumptions		
		Low estimate	Medium estimate	High estimate
Decrease	0,60%	-1%	-2%	-4%
Remain the same	48,70%	0%	0%	0%
Increase a little	30,10%	1%	2%	4%
increase a lot	9,50%	5%	10%	20%
Don't know	11,00%			
Impact on trade Weighted average		0.87%	1.73%	3.46%

The price elasticity of import demand is a measure of how the volume of cross-border trade reacts to a change in prices i.e. it shows how the demand decreases as the result of a one percentage increase in price. The value of price elasticity of import demand is equal to -2.8%.³⁰⁴

³⁰³ In all MS for options 5 and 6. For option 4, these impacts are proportionally reduced according to the fraction of companies using the optional Common European Sales Law. Option 3 has the same characteristic and the trade increases only in MS incorporating the Recommendation.

³⁰⁴ GTAP model

As indicated above, the impact of policy options 5 and 6 is an increase in trade of 0,76% (low estimate) to 3,05% (high estimate). In order to achieve this level of the trade growth, import prices would need to fall by 0.27% under the low estimate, 0,55% under the medium estimate and 1,23% under the high estimate.³⁰⁵

These values have been used to compute economic impacts in the GTAP model.³⁰⁶

In order to have the desired change in trade, import prices (and not trade itself) are manually adjusted at the right level in the model.

Assumed impact of policy option 4

In case of option 4 all Member States will have to implement the optional Common European Sales Law in their national law. Therefore, assumptions need to be made only for the number of companies who would be willing to use it.

The most optimistic assumption is that 70% of exporting companies in all Member States would use the optional Common European Sales Law. It is based on the responses to EB 320 (on B2B transactions) and EB 321 (on B2C transactions) in which respectively 70% and 71% of the respondents indicated that they were likely or very likely to use a single European contract law in cross-border transactions.

However, considering that only a fraction of these respondents indicated an optional instrument as the preferred option, respectively 38% EB 320 (on B2B) and 37% in EB 321 (for B2C), more conservative assumptions could be that 50% or 25% of the exporters use the optional Common European Sales Law. These conservative assumptions have been taken forward in the analysis below.³⁰⁷

Assumed impact of policy option 3

The assumptions on the take-up of an optional Common European Sales Law by companies used for option 4 also apply for option 3. In addition, for option 3 a further assumption on the number of Member States who would incorporate the Commission Recommendation introducing an optional Common European Sales Law needs to be made.

It is likely that not all Member States would incorporate the Commission Recommendation. It is however assumed that the Recommendation could be followed by large and small, old and new Member States located in different parts of the EU, at a different level of economic development. Based on this criterion a representative selection of EU countries is made. It includes Denmark, Lithuania, Germany, Netherlands, Hungary, Poland, Portugal, Italy, Romania and the UK.

For an estimate of the most positive impacts possible, it is assumed that the countries incorporating the Recommendation do this entirely and without changes. The willingness to expand trade is the same as under option 4, at least for the countries incorporating the Recommendation. It seems likely that an instrument available only in a number of countries would be less attractive to companies than an instrument available in the whole of the EU. Therefore the low assumption on the number of companies using the optional Common European Sales Law i.e. 25% is used for the estimates of impacts of policy option 3.

³⁰⁵ 0.76% divided by -2.8%, 1.53% divided by -2.8% and 3.46% divided by -2.8%.

³⁰⁶ In order to have the desired change in trade, import prices (and not trade itself) are manually adjusted at the right level in the model.

³⁰⁷ For the impact on administrative costs the assumption of 70% of exporters using the optional Common European Sales Law was considered in order to show the maximum magnitude of costs.

In fact, businesses in countries not incorporating the Recommendation could still use the new instrument when trading into a country having implemented it (B2C transactions). In B2B transactions when the Recommendation is incorporated by at least one Member State, companies also from other Member States could choose the incorporated law as applicable law. The economic impact of this on countries not applying the Recommendation is shown in the column "Impact on other Member States" in the tables below and applies only to option 3.

3. Estimates of specific impacts

Following the requirements of the Commission Impact Assessment Guidelines only the most significant impacts have been quantified.

The following tables are generated through the application of GTAP based on the assumptions made in section 2.

3.1. Impact of policy options on export

As import prices fall³⁰⁸ there would be a shift in demand from domestic supply to import supply (imported products become more attractive in terms of their prices). At the same time, businesses would shift supply from domestic customers to foreign customers i.e. businesses have more foreign customers.

As import prices fall, domestic prices would be under pressure as well. As a result, aggregate demand would go up as a consequence of which production would go up. The price decrease would benefit both domestic and import supply.

Table 2 - Impact on exports by EU Countries: intra- and extra-EU trade (€millions)

	Option	Companies participating	Impact on countries participating	Impact on other Member States	Total
Low estimate	Option 3	25% Companies	2,100	298	2,398
	Option 4	25% Companies	4,915		4,915
		50% Companies	9,831		9,831
	Options 5 & 6		19,662		19,662
Medium estimate	Option 3	25% Companies	4,115	580	4,695
	Option 4	25% Companies	9,585	-	9,585
		50% Companies	19,070	-	19,070
	Options 5 & 6		38,341	-	38,341
High estimate	Option 3	25% Companies	8,397	1,190	9,587
	Option 4	25% Companies	19,498	-	19,498
		50% Companies	38,996	-	38,996
	Options 5 & 6		77,993		77,993

With option 4, exports increase by approximately €5-€19 billion.

³⁰⁸ This variable does not depend from other ones and it is set manually in the model, based on the assumptions described above.

3.2. Impacts on consumers

3.2.1. Impact on consumer prices

The decrease in import prices would lead to a decrease of consumer prices. For instance, a decrease in import prices by 0.27% under the low estimate (see section 2) under options 5 and 6 leads to a decrease in consumer prices by 0.14% (see table 4). This is lower, because import prices are only a fraction of consumer prices and because prices of domestically supplied products would decrease less.

Under option 3, consumer prices would decrease by 0.03% under the low estimate (if 10 countries³⁰⁹ incorporated the Recommendation and 25% of companies used the instrument).

Consumers would consume more imported goods as they become relatively cheaper. In the low estimate, consumption of imported goods would go up by 0.8% under options 5 and 6 and 0.2-0.4% under option 3 and option 4 (see table 3).

Table 3 - Impact on consumer price and consumption of imported household goods (% changes)

	Option	Companies participating	Consumer price		Consumption of imported goods	
			Participating countries	Other countries	Participating countries	Other countries
Low estimate	Option 3	25% Companies	-0.033	-0.002	0.181	0.026
	Option 4	25% Companies	-0.035	-	0.208	-
		50% Companies	-0.070	-	0.415	-
	Options 5 & 6		-0.140	-	0.830	-
Medium estimate	Option 3	25% Companies	-0.064	-0.003	0.355	0.05
	Option 4	25% Companies	-0.070	-	0.410	-
		50% Companies	-0.140	-	0.820	-
	Options 5 & 6		-0.280	-	1.640	-
High estimate	Option 3	25% Companies	-0.131	-0.006	0.724	0.103
	Option 4	25% Companies	-0.143	-	0.835	-

³⁰⁹ See country selection in section 2.

		50% Companies	-0.285	-	1.670	-
	Options 5 & 6		-0.570	-	3.340	-

3.2.2. Impact on consumer welfare

The decrease in consumer prices increases consumer welfare. Consumers would get the same value at lower prices. This would increase consumer surplus, i.e. the difference between the price the consumers are willing to pay and the amount they actually pay. Under the low estimate consumers would have a surplus of €18 billion if a full harmonisation Directive (option 5) or Regulation establishing a mandatory Common European Sales Law (option 6) was adopted. A percentage of this value would measure the surplus for consumers under option 4: if 25% companies use the optional Common European Sales Law, consumers will enjoy an extra €4.5 billion. Option 3 with the same percentage of companies using the optional Common European Sales Law, will give a consumer surplus of €1.5 billion.

Table 4 - Impact on consumer welfare (€millions)

	Option	Companies participating	Impact on countries Participating	Impact on other Member States	Total
Low estimate	Option 3	25% Companies	1,483	449	1,932
	Option 4	25% Companies	4,575	-	4,575
		50% Companies	9,150	-	9,150
	Option 5		18,300	-	18,300
Medium estimate	Option 3	25% Companies	2,911	882	3,793
	Option 4	25% Companies	8,980	-	8,980
		50% Companies	17,961	-	17,961
	Option 5		35,922	-	35,922
High estimate	Option 3	25% Companies	5,392	1,797	7,729
	Option 4	25% Companies	18,300	-	18,300
		50% Companies	36,599	-	36,599
	Option 5		73,199	-	73,199

3.3. Macro-economic impacts

3.3.1. Impacts on GDP

GDP grows because of changes in consumption ΔC , investment ΔI , government spending ΔG , exports ΔX and imports ΔM .

The change in GDP equals

$$\Delta \text{GDP} = \Delta C + \Delta I + \Delta G + \Delta X - \Delta M$$

All these variables have been computed in the GTAP model based on the assumptions in section 2.

Table 5 - Impact on GDP (€millions)

	Option	Companies participating	Impact on countries participating	Impact on other Member States	Total
Low estimate	Option 3	25% Companies	1,817	363	2,180
	Option 4	25% Companies	5,008	-	5,008
		50% Companies	10,017	-	10,017
	Option 5		20,034	-	20,034
Medium estimate	Option 3	25% Companies	3,567	712	4,279
	Option 4	25% Companies	10,017	-	10,017
		50% Companies	20,034	-	20,034
	Option 5		40,069	-	40,069
High estimate	Option 3	25% Companies	7,268	1,451	8,720
	Option 4	25% Companies	20,329	-	20,329
		50% Companies	40,658	-	40,658
	Option 5		81,316	-	81,316

For instance, for option 4, under the low estimate, the GDP grows by € 5-10 billion and under the high estimate grows by €20- €40 billion.

3.3.2. Impacts on Employment

Table 6 - Impact on employment (persons)

	Option	Companies participating	Impact on countries Participating	Impact on other Member States	Total
Low estimate	Option 3	25% Companies	63,667	10,083	73,751
	Option 4	25% Companies	159,300	-	159,300
		50% Companies	318,600	-	318,600
	Option 5		637,200	-	637,200
Medium estimate	Option 3	25% Companies	124,977	19,793	144,770
	Option 4	25% Companies	315,900	-	315,900
		50% Companies	631,800	-	631,800
	Option 5		1,263,600	-	1,263,600
High estimate	Option 3	25% Companies	254,670	40,332	295,002
	Option 4	25% Companies	637,200	-	637,200
		50% Companies	1,274,400	-	1,274,400
	Option 5		2,548,800	-	2,548,800

For instance, for option 4, under the low estimate, there would be approximately 160 000 – 320 000 new jobs.

ANNEX V: DETAILED ANALYSIS³¹⁰ OF IMPACTS OF POLICY OPTIONS³¹¹

1. Policy option 1: Baseline Scenario

ECONOMIC IMPACTS

Transaction costs: The baseline scenario (BS) transaction costs³¹² (one off) for trading with one other Member State (MS) amount to: in B2C transactions: on average €9,100 (€8,695- €9,565, plus €2,900 for e-commerce oriented enterprises selling to consumers that face additional contract law related IT costs) and in B2B transactions €9,800 (€9,000-€10,658).

The overall transaction costs stemming from contract law for EU business currently involved in B2C and B2B transactions range between €7 billion and €15 billion.³¹³ These figures represent sunk costs that are not recoverable. But, in addition to these sunk costs we can compute an annual cost for the EU economy as new traders enter the market.

This cost can be estimated based on the percentage of new exporters within the EU on a yearly basis, (estimated at 14.6%).³¹⁴ Using this estimate, the annual aggregate transaction costs are approximately €1-2 billion. This is the maximum incurred annual cost due to the differences in contract law. If we assume these costs continued, by the year 2020, exporting firms would face transaction costs of €9-18 billion due to differences in contract laws.

For a micro enterprise in the retail sector the cost of trading in one additional MS amounts to 6.5% of its average annual turnover and for trading in the whole of the EU exceeds its average annual turnover by almost twice. For a small enterprise in the same sector the cost of trading in one additional MS would amount 0.25% of its annual turnover. For trading in the whole of the EU this would be 6.4% of its annual turnover. If a medium enterprise wished to trade with the whole of the EU it would have to invest 2.22% of its annual turnover, for a large enterprise it would cost 0.06% of its annual turnover. (see problem definition for calculation of costs and more detail).

Administrative costs (included in the overall figure of transaction costs): To trade in another MS, companies need to familiarise themselves with foreign law, adapt their terms and conditions and meet requirements (such as information provision to potential customers) set out in the law of this MS.

With no EU action, the average administrative costs³¹⁵ per company per MS with which it trades would amount to: in B2C €2,500, in B2B €1,500. These are mostly one-off costs but accumulate as the number of MS a company trades with increases. For example, for trade with 2 MS these figures would be €3,000 for B2B and €5,000 for B2C and for 5 MS it would be €7,500 for B2B and €12,500 for B2C.³¹⁶

Opportunity costs of foregone trade: As set out in the problem definition, the transaction costs in some cases deter some businesses from trading, and in others limit their trade. Businesses

310 The economic impacts in this section have been calculated using the Global Trade Analysis Project (GTAP) model. (See www.gtap.agecon.purdue.edu and Hertel et al. (1997), *Global trade analysis: Modelling and applications*, Cambridge University Press.) GTAP is a static general equilibrium model analysing changes in production, trade and consumption as a consequence of changes in such exogenous variables as costs. The model has an Input-Output structure for all the economies included. Trade is identified at the bilateral level. The model includes all countries in the EU27 and 57 products among which 24 are manufactured goods. GTAP is able to calculate the impact of a new policy on GDP, trade, employment, intra-EU trade, consumer prices, expenditure and consumer welfare.

311 Unless otherwise stated the analysis in this section applies to both B2B and B2C transactions in a cross border only context. In addition, unless otherwise stated, all data in this section comes from EB 320 and 321. (EB surveys 320 and 321 provide data on the attitudes of export oriented companies, in particular, on their willingness to use the European contract law and the impacts it could have on the level of their cross-border trade. More specifically, the respondents indicated to what extent they would use European contract law if it was made available and whether they would expand their trade to more Member States. The impacts on all considered macro-economic variables are computed based on the companies' expectations for cross-border expansion of their trade if European contract law existed.)

312 See Annex III.

313 See Annex III.

314 See Annex III.

315 See Annex VII. Per company per MS for B2C this would be €2,500 and for B2B €1,500.

316 See Annex VII for more details on how these costs are calculated.

therefore miss out on potential trade. The costs for these missed opportunities are €26 billion–€184 billion for sales not made (B2B and B2C).

Competition in internal market and impact on consumer prices: With no EU action, competition in the internal market would remain limited. Due to the remaining legal differences and related costs, many businesses would not be encouraged to trade cross-border. Without this extra trade taking place, a number of businesses would not act competitively, which if they were to, would drive down prices.³¹⁷ As a result without an increase in competition in the market place, consumers would continue to face a restricted choice of products at a higher price

Impact on consumer protection: This option includes the adoption of the CRD which, due to its nature (a large element of full harmonisation) ensures that within its scope, consumers have rights which are harmonised across the EU. Therefore divergences between the consumer protection rules of different MS remain. Many Green Paper respondents stated that action should only be taken if a previously adopted instrument has proven to be inefficient.³¹⁸ However the text adopted does not harmonise important areas of consumer contract law, for instance sales remedies and unfair contract terms would remain fragmented across the EU. In addition, the CRD does not cover the full life cycle of a contract or B2B contracts. Therefore differences between the consumer protection rules of different MS remain. Not to take EU action would allow these differences to continue.

Impact on SMEs: For those performing B2B contracts, where parties are of a similar size, negotiating the applicable law is a time consuming factor which could otherwise be spent in the business. In the SME Panel Survey, 55% of SMEs responded that the negotiation of applicable law was an important obstacle to cross border trade.

In addition, it is normally the stronger (usually larger) party which imposes their country's law on the smaller party³¹⁹ as the law applicable to the contract. The smaller party then has to bear the transaction costs of finding out about the foreign contract law which applies to their contract. If the SMEs concerned in both scenarios are micro or small enterprises, then these costs would weigh, in relative terms, more heavily upon them.

Impact on law firms: No impact.

Public authorities: MS: No impact.

Judiciary: Litigation costs would result from the need for courts to investigate and apply different national laws than their own which are relevant for cross-border contracts would remain. Judges would either need to investigate the foreign applicable law themselves or obtain the necessary knowledge through the advice of legal experts or the evidence submitted by lawyers. In these instances, time of the judges and experts/lawyers would be taken to research the foreign applicable law. The cost of this time and research would be borne by either the courts or parties involved.

Analysis of provisions of instrument:³²⁰ No impact.

SOCIAL IMPACTS

No impact.

ENVIRONMENTAL IMPACTS

Without EU action there would not be an increase in cross border trade and therefore no impact upon the environment (via for example an increase in delivery of goods which would increase CO2 and other emissions, or an increase of costs to control pollution due to the binding EU rules) would not be felt.

317 Thereby not contributing towards the Commission policy towards increasing competitiveness 'An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage', COM (2010) 614.

318 E.g. BEUC's response to the Green Paper consultation, p. 4; UEAPME's position on the EC Green Paper, p. 2; EuroCommerce's response to the EC consultation, p.1-2.

319 It is recognised that SMEs are not always in a weaker bargaining position; this example only applies to those who are.

320 This analysis is only applicable to those options which describe the impacts of a legal instrument.

ONLINE ENVIRONMENT

With no EU action, the trend of domestic sales being far greater than cross border ones would continue.

OVERALL ASSESSMENT

This option would not remove the additional transaction costs for cross-border trade identified in the problem definition. The subsequent opportunity costs would continue; the level of legal complexity for businesses wishing to trade cross border would not be reduced. This option would also mean that the complexity consumers experience regarding their rights in a cross-border context would remain and the practice of refusal to sell across border would not decrease. Even though this option takes account of full harmonisation of some consumer protection rules due to the adoption of the CRD, this harmonisation is restricted to only a few selected areas of consumer contract law. Most aspects of this law such as sales remedies and unfair contract terms would remain fragmented across the EU. This fragmentation would not give consumers the full confidence on all their consumer rights for when they purchase across border.

2. Policy option 2

2.1. Policy option 2a: Toolbox as a Commission document

The toolbox itself would only have an indirect impact upon businesses and consumers because concepts from the toolbox would be used for the development of future contract law legislation or the revision of existing EU legislation. The legislation itself would have the direct impact. As such a Commission instrument would not be agreed by the Council and EP, the EU legislator could always deviate from the parts on Commission proposals implementing the toolbox. Because of the uncertainty of its implementation, the impact of this option would not only be indirect but also very limited.³²¹ For this reason it is difficult to quantify what this impact would be. In addition, there would not be any immediate impact of this option upon businesses as negotiations for new legislation or an amendment to existing legislation would take time to achieve.

ECONOMIC IMPACTS

Transaction costs: In the longer term this option could lead to a small reduction in the transaction costs due to the limited convergence of certain contract law concepts, but the extent of this is unknown as one cannot predict when and how these concepts would be used.

Administrative costs (included in the overall figure of transaction costs): This option could create indirect administrative costs associated with future contract law requirements. For example if a future law based upon the toolbox obliged a trader to provide information not previously required, it could mean that the trader would have to bear the associated administrative costs. The use of the toolbox would have an indirect impact on these costs only as far as the concepts used from it impose an administrative burden on businesses in future legislation compared to the BS. These costs would depend on the potential future use of the toolbox.

Competition in internal market and impact on consumer prices: There would be little changed from the BS.

Impact on consumer protection: Where rules from the toolbox (which are not in the current acquis or domestic legislation) are adopted in EU legislation, they could raise the level of consumer protection in the laws of some MS. Having common rules in the toolbox, in the longer term could improve and harmonise to some extent the legal protection of consumers compared to the BS, however the impacts on consumer protection would only be felt if the EU legislator agrees to use the rules from the toolbox.

³²¹ European Small Business Alliance response to the Green Paper, p2 also supports that the Toolbox does not have the substance 'to deliver real benefits to businesses engaged in transactions across the wider European market.'

<p><u>Impact on SMEs:</u> Very little change compared to the BS. Initially national contract laws would still apply and therefore so would the BS transaction costs. In the longer term there could be some limited convergence of Common European Sales Laws that could lead to a small reduction in transaction costs, however the extent of this is unknown.</p>
<p><u>Impact on law firms:</u> No change from the BS.</p>
<p><u>Public authorities: MS:</u> Very little change compared to the BS. An indirect impact felt only where new contract law concepts based on the toolbox would be included in future legislation and would need to be implemented/transposed by MS.</p> <p><u>Judiciary:</u> Very little change compared to the BS. A limited indirect impact could also be felt by the judiciary who, depending on the extent of the change, would need to train for new concepts in future legislation.</p>
<p><u>Analysis of provisions of instrument:</u>³²² No impact.</p>
<p>SOCIAL IMPACTS</p> <p>No change from the BS. With very little likely impact on facilitation of cross border trade, social impacts such as job creation would not occur.</p>
<p>ENVIRONMENTAL IMPACTS</p> <p>No change from the BS. Without an increase in cross border trade there would not be an impact upon the environment (via for example an increase in delivery of goods which would increase CO2 and other emissions).</p>
<p>SIMPLIFICATION POTENTIAL</p> <p>This option could create some convergence of the relevant contract law legislation and result in a small level of simplification as national laws would in time begin to develop similarities.</p>
<p>ONLINE ENVIRONMENT</p> <p>No change from the BS as this impact would only be applicable to those options which describe a legal instrument.</p>
<p>OVERALL ASSESSMENT</p> <p>Compared to the BS this option may to a very small extent help to facilitate the expansion of cross-border trade in the internal market. It may also to a small extent indirectly lead to an increased level of consumer protection in national contract laws.</p> <p>However, since the contract law related transaction costs would largely remain unchanged, the positive impacts of this option on businesses and consumers would be minimal and in turn so would any subsequent impacts upon trade, competition and the internal market. Moreover, any impacts of this option would not be felt immediately as negotiations for new legislation or amendments to existing legislation would take time to achieve. Overall, as there is no way of knowing whether and how widely this option would be used and accepted by the Council and EP, the impacts of this option would not differ greatly compared to the BS and any impacts felt would be very small and would take place in the longer term.</p>

2.2. Policy option 2b: Tool box as an inter-institutional agreement

As per policy option (PO) 2a, the toolbox itself would not have a direct impact upon businesses and consumers. As an inter-institutional agreement would bind the three EU institutions to make use of the toolbox concepts when drafting and negotiating legislative proposals related to contract law (except when overriding sector-specific reasons would lead to another result) there would be less

³²² This analysis is only applicable to those options which describe the impacts of a legal instrument.

deviation from the use of the toolbox concepts compared to PO2a and more certainty in its implementation.

However, despite this increased certainty, the impacts of this option would remain indirect. For this reason it is difficult to quantify what these impacts would be. In addition, there would not be any immediate impacts of this option upon businesses as negotiations for agreeing new legislation or an amendment to existing legislation would take time to achieve.

<p>ECONOMIC IMPACTS</p> <p><u>Transaction costs:</u> In the longer term this option could lead to some reduction in transaction costs due to the convergence of certain contract law concepts. Although the extent of this use is unknown, there is a greater likelihood of this taking place as all three EU Institutions would agree on application of the toolbox concepts rather than just the Commission as would be the case in PO2a.</p> <p><u>Administrative costs (included in the overall figure of transaction costs):</u> This option could create indirect administrative costs associated with future contract law requirements as set out under PO2a.</p> <p><u>Competition in internal market and impact on consumer prices:</u> There would be little changed from the BS.</p> <p><u>Impact on consumer protection:</u> Where rules from the toolbox are adopted in EU legislation, they could raise the level of consumer protection in the laws of some MS. The impact would be the same as set out under PO2a with one difference. As under this option there the toolbox concepts would be accepted by the Council and EP, the impacts would be felt to a greater extent than those felt under PO2a.</p>
<p><u>Impact on SMEs:</u> Very little change compared to the BS. Initially national contract laws would still remain and therefore so would the baseline transaction costs. In the longer term there would be some limited convergence of Common European Sales Law that could lead to a small reduction in transaction costs, however the extent of this is unknown.</p>
<p><u>Impact on law firms:</u> No change from the BS.</p>
<p><u>Public authorities: MS:</u> Very little change compared to the BS. An indirect impact felt only where new contract law concepts based on the toolbox would be included in future legislation and need to be implemented by MS.</p> <p><u>Judiciary:</u> Very little change compared to the BS. This limited indirect impact would also be felt by the judiciary who, depending on the extent of the change would need to train for new concepts in future legislation.</p>
<p><u>Analysis of provisions of instrument:</u>³²³ No impact.</p>
<p>SOCIAL IMPACTS</p> <p>No change from the BS. With very little likely impact on facilitation of cross border trade, social impacts such as job creation would not occur.</p>
<p>ENVIRONMENTAL IMPACTS</p> <p>No change from the BS. Without an increase in cross border trade there would not be an impact upon the environment (via for example an increase in delivery of goods which would increase CO2 and other emissions).</p>
<p>SIMPLIFICATION POTENTIAL</p> <p>This policy option could create a greater convergence of the relevant contract law legislation than PO2a and result in a small level of simplification as national laws would in time begin to develop similarities to each other.</p>

³²³ This analysis is only applicable to those options which describe the impacts of a legal instrument.

ONLINE ENVIRONMENT

No change from the BS as this impact would only be applicable to those options which describe a legal instrument.

OVERALL ASSESSMENT

As this option involves all three Institutions agreeing to make use of the toolbox, this option would, to a somewhat greater extent compared to PO2a, reduce the differences between national contract laws which would help to facilitate the expansion of cross-border trade in the internal market. This option could to a limited, but greater extent than PO2a indirectly lead to a higher level of consumer protection and legal certainty about consumer rights.

However, since the toolbox would only be used for the amendment of existing or preparation of future sectoral legislation, contract law related costs stemming from differences of national contract laws would largely remain and in turn so would any subsequent impacts upon trade, competition and the internal market. Moreover, there would not be any immediate impacts of this option upon businesses and consumers as negotiations for new legislation or an amendment to existing legislation would take considerable time to achieve. As this option would only concern national contract law rules which are modified following revised or new EU legislation and would only have an impact at the earliest at a medium term, the overall positive impacts of this option would be, albeit greater than PO2a, still rather limited.

3. Policy option 3: Recommendation on a Common European Sales Law

This option would encourage MS to incorporate voluntarily into their domestic law a Common European Sales Law instrument as a 'second regime'. This second regime would not replace existing legal traditions, but sit alongside a relevant specific national regime. The rules of the Common European Sales Law could be voluntarily chosen by the parties as the law applicable to their cross-border contracts. Therefore businesses would have the choice to continue to use their national law in their cross border transactions or to use the Common European Sales Law.

ECONOMIC IMPACTS

Transaction costs: The impacts of this option would very much be dependent upon:

- Whether and how many MS decide to incorporate a Common European Sales Law instrument as an optional regime and to what extent
- How many businesses decide to use the Common European Sales Law

On a qualitative basis the impacts would reduce transaction costs to some degree as for those MS who decide to incorporate the Common European Sales Law without any changes, the differences between national cross border laws would cease. There are several variants of the incorporation of the Common European Sales Law under this option and its subsequent outcomes:

Scenario 1: In the ideal scenario all MS would implement the Common European Sales Law completely without changes and at the same time. If this occurred then the impacts of this scenario would be the same as those listed under the analysis of impacts of policy option 4.

Scenario 2: If only some of the MS (for example 10), implemented the Common European Sales Law completely, without changes and at the same time a differentiation would be necessary for those traders performing a B2B contract and those performing a B2C contract. This scenario would be of benefit to traders who perform B2B contracts, because even where MS decide not to incorporate the Common European Sales Law, traders would have the freedom to decide on the law applicable to their contract. This would mean that traders who performed B2B contracts would have the opportunity to reduce their transaction costs through the use of the Common European Sales Law. This reasoning would also apply to B2C contracts but only for trade with consumers from those MS which implement the Common European Sales Law entirely and without changes. For

those MS who do not do this, scenario 3 (below) would apply.

Scenario 3: Some MS could decide to incorporate the Common European Sales Law not completely, with changes, not at the same time, or a combination of these factors. For B2B contracts the same situation as scenario 2 would apply. For B2C contracts the situation would become even more complicated as under scenario 2. First, like under scenario 2 the Common European Sales Law could only be applied if the law of a MS which has incorporated the Recommendation would be applicable. However, businesses would have to research whether and where MS have changed the drafting of the Common European Sales Law with regards to mandatory consumer protection rules. This means that businesses could not be sure to sell across borders on the basis of one single law and would therefore have similar transaction costs as in the BS. (This risk of an increase in legal complexity was raised in several responses to the Green Paper and particularly by business representatives.)

This analysis applies scenario 2 to the impacts below as it would allow some quantification for these impacts as well as simplicity in their presentation; in reality though scenario 3 would be the most likely one to occur. However, scenario 3 is not applied to the impacts because the piecemeal way of incorporation of the Common European Sales Law (if at all) would make it very difficult to quantify the exact impacts upon both B2B and B2C contracts. One could assume that there may be some benefits for traders with B2B contracts, but for those with B2C contracts the likelihood is that the majority of BS impacts would still apply (although the extent of the impacts would be unknown). To apply scenario 3 to the analysis would mean that every impact would reflect the reasoning given above without giving possible quantification.

Administrative costs (included in the overall figure of transaction costs): Some administrative costs would occur for B2C traders using the Common European Sales Law. Otherwise BS administrative costs would apply.

Opportunity costs of foregone trade: The costs for missed opportunities of trade costs are not possible to calculate, however one could assume that they would be less than those set out in the BS (for both B2B and B2C).

Competition in internal market and impact on consumer prices: Compared to the BS, the impact would be greater the more MS incorporate it without changes and at the same time. For those MS who decide not to incorporate it at all/or with changes the impact would be similar to the BS. A more harmonised legal system would incentivise more businesses to trade cross border and would result in increased competition between them. An increase in cross border trade would therefore lead to a rise in imports, which would be likely to increase the competition in the importing MS. To be able to compete in the market, businesses would be encouraged to either by improve the quality of their products or reduce prices. This would contribute towards the Commission policy on increasing competitiveness³²⁴ and would be of particular relevance in B2B transactions which include the manufacturing industry. This would have a positive impact upon consumers and would allow them to further benefit from the internal market; as an increase in the number of traders and more competition between them would give consumers an increased choice of product at a lower price. For scenario 2, the prices are estimated to fall by 0.03-0.06%.³²⁵

Impact on consumer protection (Applicable to B2C contracts only): The extent of the impact would depend upon the number of MS incorporating the Common European Sales Law entirely and without changes and the number of businesses using it. Depending on the degree of implementation, this option could provide a high level of consumer protection (in line with Article 38 of the Charter of Fundamental Rights of the EU)³²⁶ giving consumers confidence that they would have similar rights when using the Common European Sales Law in their own country as they would in all MS

324 'An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage,' COM (2010) 614.

325 See Annex IV.

326 See Annex VI.

applying the Common European Sales Law.

Impact on GDP: Under scenario 2, GDP of the EU is expected to increase by €1.8 to €3.6 billion (0.015% - 0.03%).³²⁷

Impact on SMEs: SMEs which perform B2C contracts would still incur transaction costs to find out about the level of consumer protection provisions in another country and would incur administrative costs where new information provisions were required. Although difficult to quantify, it is assumed that these costs would have a greater impact upon micro and small enterprises. For SMEs performing B2B contracts, the negotiation of an applicable law between similar sized companies are likely to become easier.³²⁸

Impact on law firms: There would be a new demand for legal advice from new exporters, as well as from existing exporters who would need to become familiar with the Common European Sales Law. This would create an opportunity for law firms to tap into the new market and expand their business on giving advice on contract law. However as contract law differences would still remain, this option could add a level of complexity as law firms would need to ensure they fully understand the differences of the Common European Sales Law between the MS. In their responses to the Green Paper several practitioner representatives mentioned that there would be a cost for law firms to train and familiarise themselves with the Common European Sales Law, as with all new legislation. However unlike the BS, a very small share of these costs would be relieved given that the Common European Sales Law would be available in all official languages in the EU, and would therefore be more accessible.

Some stakeholders were concerned that businesses would no longer choose to use domestic legislation and as a result the law firms that advise on specific national laws for international transactions would move their business to outside of the EU. However, a Common European Sales Law would not replace national laws and businesses could continue to choose their preferred national law in B2B contracts. (Business that choose a particular law compared to other legal systems tend to do so because of its specificities and it would be unlikely that these businesses which already choose it for these reasons would cease to do so.)

Public authorities: MS: The national laws of MS would not be affected. However, MS would bear costs which accompany the implementation of EU legislation (such as consultation of stakeholders, printing of new legislation, educating the public about the new legislation, time and cost of legislative process, etc.)

Judiciary: For those MS who choose to incorporate the Common European Sales Law into their national laws, there would be a cost for the judiciary to train and familiarise themselves with the new system. However this cost would also apply to the judiciary of MS who have not incorporated the Common European Sales Law as businesses in their B2B contracts may choose to apply the law of a third country (i.e. the Common European Sales Law).

Analysis of provisions of instrument: The analysis of impacts of the main provisions of the instrument are described in Annex VIII.

SOCIAL IMPACTS

Compared to the BS, the more that MS incorporate it entirely and without changes the greater the facilitation of cross border trade and increase in employment. Under scenario 2 it is estimated that there would be 74,000-145,000 new jobs in the EU.³²⁹

ENVIRONMENTAL IMPACTS

Compared to the BS, the more that MS incorporate it entirely and without changes the greater the

³²⁷ See Annex IV.

³²⁸ In the SME Panel Survey, 55% of SMEs responded that the negotiation of applicable law was an important obstacle to cross border trade. In response to a similar question in the EB 320 (p.16) 25% of respondents said that difficulties on agreeing on the foreign applicable contract law had an impact on their decision to trade cross-border. However, as the sample in the EB also included large companies, the results of the SME Panel survey are more relevant for the SME test.

³²⁹ See Annex IV

increase in the use of transport. This would have an adverse impact upon the environment as the increase in use of transport for delivery would lead to an increase in CO2 and other vehicle emissions and, would increase the cost to control pollution due to the binding EU rules.

SIMPLIFICATION POTENTIAL

Compared to the BS, using scenario 2 this option could create some simplification to the regulatory environment. However this would only apply to those MS which have incorporated the Common European Sales Law entirely and without changes and for those businesses that choose it.

ONLINE ENVIRONMENT

The extent of this impact would depend upon the number of MS who incorporate the Common European Sales Law entirely and without changes and the number of businesses who use it. If for instance, compared to the BS, if scenario 2 applied to an online cross border and domestic environment only it would allow businesses the choice to trade under the same law regime for a cross border sale as they would with a domestic one. This would mean businesses that use the Common European Sales Law in those MS which have implemented it entirely and without changes would not need to adapt their terms and conditions and IT platforms to a great degree to trade in another country – this could provide an incentive to businesses to increase their online cross border sales (or commence them). If there were an increase in the number of businesses who used this instrument to trade cross border, then compared to the BS, this option would help towards narrowing the gap between domestic and cross border online sales.

However, an instrument dedicated to e-commerce only could lead to increased legal complexity. Companies using distribution channels other than e-commerce would have to apply different legal rules depending on the distribution channel used which would create a fragmentation of the market and distort competition. Furthermore, as mentioned by business representatives in their Green Paper consultation responses,³³⁰ it would not be technologically neutral and thus may generate legal uncertainty should new forms of distance sales occur in addition to e-commerce, for instance mobile telephony commerce. On the other hand, some businesses who responded favoured a scope limited to cross-border online sales only.³³¹ Such a scope could create additional legal complexity for consumers who could be subject to different rules depending on whether they make a purchase online, at a distance using another method (i.e. post or telephone) or face-to-face.

IMPACT IF THIS OPTION APPLIED IN A DOMESTIC CONTRACT AS WELL AS CROSS BORDER

The extent of this impact would depend upon the number of MS which incorporate the Common European Sales Law entirely and without changes. Using scenario 2:

Domestic and cross border: Between those MS who incorporate the Common European Sales Law, the legal environment for businesses which trade both cross-border and domestically would be facilitated; if businesses chose to operate under the Common European Sales Law for all contracts. However, for businesses who wish to trade with businesses in those MS who do not incorporate the Common European Sales Law, transaction costs would still occur.

Cross border only: Between those MS who incorporate the Common European Sales Law, traders could use one contract law (the Common European Sales Law) for cross border trade with multiple MS (both in B2C and B2B transactions). Thus, they could reduce transaction costs and legal complexity. Those businesses who wished to continue to use their national contract laws for domestic trade would be free to do so; whilst at the same time they would also be able to export using the Common European Sales Law. Therefore, business could save costs when trading cross

330 Eurochambres Position Paper on the Green Paper on policy Options for Progress towards a European Contract Law for Consumers and Businesses, European contract law, January 2011 p.3, European Small Business Alliance response to the Green Paper on policy Options for Progress towards a European Contract Law for Consumers and Businesses, p.4.

331 Eurocommerce response to the Green Paper on policy Options for Progress towards a European Contract Law for Consumers and Businesses, 27 January 2011, p. 3.

border and continue to enjoy their current arrangements under domestic legislation. However, for businesses who wish to trade with businesses in those MS who do not incorporate the Common European Sales Law, transaction costs would still occur (both in B2B and B2C contracts).

OVERALL ASSESSMENT

This option would only be effective if the Common European Sales Law was incorporated by a number of MS entirely and without amendment to the original version attached to the Recommendation. If this occurred,³³² the transaction costs for cross border trade would be reduced, there would be more trade and competitiveness in the internal market and consumers would benefit by having an increase in choice of products at a lower price as well as an increased level of consumer protection when they buy abroad using the Common European Sales Law.

However, it is highly unlikely that this option would be incorporated entirely or without amendment. This would not greatly affect traders performing a B2B contract (as they would have the freedom to decide on the law applicable to their contract) and therefore, these traders would have the opportunity to reduce their transaction costs by using the Common European Sales Law of one MS which has best implemented it. The same would not be the case for traders performing B2C contracts, as they would have to research whether and where MS have changed the drafting of the Common European Sales Law with regards to mandatory consumer protection rules. This means that businesses would not be able to sell across borders to consumers on the basis of one single law and would therefore incur transaction costs of the type indicated in the BS. Consequently this option would only to a limited extent remove the hindrances to cross-border trade identified in the problem definition. The voluntary nature of the incorporation would mean that the instrument would not be legally binding and there would be no jurisprudence mechanism to ensure its coherence.

Overall, because of the piecemeal way in which the Common European Sales Law could be incorporated, if at all, this option would further complicate the regulatory environment for both consumers and businesses as both parties in B2C contracts would be subject to differing degrees of the Common European Sales Law in different MS and the divergences in national contract laws would remain. Many respondents to the Green Paper consultation (business groups, consumer organisations and legal practitioners rejected this option). Because this option would add to the issues set out in the problem definition it is highly unlikely to be suitable as a solution.

4. Policy option 4: Regulation/Directive setting up an optional Common European Sales Law

The optional Common European Sales Law would insert a set of clear and practical rules into each of the different national laws of a MS as a 'second regime'. This second regime would not replace existing legal traditions, but sit alongside a relevant specific national regime. These rules could be voluntarily chosen by the parties as the law applicable to their cross-border contracts. Therefore businesses would have the choice to continue to use their national law in their cross-border transactions or to use the optional Common European Sales Law.

³³² In order to estimate the impacts of PO3 assumptions on the number of exporting companies taking up the optional Common European Sales Law have been made. EB 320 and 321 show that 70% of businesses would be likely to use a new Common European Sales Law instrument. Businesses would however need to agree this choice with their business partners. Therefore the more conservative assumptions i.e. 25% and 50% of companies using the Common European Sales Law are applied throughout in the report. This allows demonstrating a range of possible economic impacts.

ECONOMIC IMPACTS

Transaction costs: This option would greatly reduce transaction costs because it would allow businesses to use one set of rules for cross border trade irrespective of the number of countries they trade with in the EU. In practice, this means that businesses using the optional Common European Sales Law may only have to pay one transaction cost for trade with multiple MS.³³³ For example, a business exporting to between 1 and 26 MS may only have to pay on average €9,800 for B2B and €9,100 for B2C (plus €2,900 for e-commerce oriented enterprises selling to consumers that face additional contract law related IT costs), (see BS).

For businesses that already export and decide to expand their sales but decide not to use the optional Common European Sales Law, the costs for exporting to 5 MS could amount to €49,100 for B2B and €45,600 for B2C if the business applied the law of the country traded to in each case. A company applying the optional Common European Sales Law to the same contracts with all 5 MS would save €39,300 and €36,500 respectively. Costs for exports to 10 MS using the law of the country traded to could amount to €98,300 for B2B and €91,100 for B2C. If the trader used the optional Common European Sales Law the costs saved would be €88,500 and €82,000 respectively.

Assuming that initially only 25%³³⁴ of current exporters decide to use the optional Common European Sales Law, one-off implementation costs would amount to €1.89 billion.³³⁵ However a business stakeholder noted, the initial cost of the optional Common European Sales Law would be acceptable when compared to continuing potentially high transaction costs.³³⁶ The estimate of transaction costs does not include the potential higher compliance costs for companies in some Member States where the level of consumer protection would increase (see section on analysis of provisions of instrument).

These costs would however be outbalanced on one hand by costs savings for new exporters and on the other hand by potential savings for current exporters that would expand their cross-border sales to new countries. Using a conservative assumption of 25% of new exporters using the optional Common European Sales Law and the current average level of exports, the annual savings³³⁷ for new exporters would be €150-400 million.³³⁸ In addition, if 25% of the current exporters decide to use the optional Common European Sales Law and start trading with additional EU countries the potential saving would be between €3.7bn and €4.3 bn.³³⁹ (i.e. costs if they were to expand their sales to new countries under the BS €5.6- €6.2 minus one-off cost of implementation €1.89 billion).

These cost savings would have the biggest impact upon SMEs (in particular on micro and small companies) and this is where the optional Common European Sales Law would add the most value for such traders. However the optional Common European Sales Law would also save costs (albeit on a relatively lesser scale)³⁴⁰ for big businesses who want to use the optional Common European Sales Law to trade with other big businesses. (To ensure all businesses have the opportunity to take

333 This would facilitate the freedom to conduct a business in line with Article 16 of the Charter on Fundamental Rights of the EU. See Annex VI.

334 EB 320 and 321 show that 70% of businesses would be likely to 334. 38% of all the companies surveyed would prefer to use a single European contract law as an alternative to their national law. Businesses would need to agree the choice of using the instrument with their business partners. Therefore assuming that some business partners would not wish to use the Common European Sales Law, the more conservative assumption i.e. 25% of companies using the Common European Sales Law are applied throughout the report.

335 25% of current exporters in B2B and B2C multiplied by the respective costs-see Annex III.

336 ESBA response to the Green Paper consultation, p. 2.

337 Number of new exporters annually multiplied by the average saving – see Annex III.

338 In a longer term, these annual savings could be discounted to €3.9-€10 bn and the net benefit for the EU economy would be €2-€8,11bn (€3.9-€10 bn minus €1.89bn), See Annex III

339 Number of current exporters that decide to use the optional Common European Sales Law (25%) multiplied by the saving depending on the number of additional countries they would make cross-border sales to - see Annex III.

340 The amount a big business spends to trade to the whole of the EU is 0.06% of their average annual turnover (see problem definition).

full advantage of the optional Common European Sales Law and to ensure non exclusivity of the use in terms of application of scope of the instrument, it may be prudent to allow MS to make the choice as to whether big businesses could use the optional Common European Sales Law to contract with other big businesses.)

The reduction in transaction costs would also facilitate intra EU trade by removing obstacles for those companies which currently experience difficulties in either conducting cross-border trade or transferring, for example, property by way of cross border sales and would therefore facilitate the exercise of these rights in line with Articles 16 (Freedom to conduct a business) and 17 (Right to property) of the Charter on Fundamental Rights of the EU, respectively.³⁴¹

Administrative costs (included in the transaction costs): This option would require traders to provide consumers with information about the choice of using the optional Common European Sales Law. For example, companies trading via e-commerce would need to create for example a pop-up window informing a consumer about the application of the optional Common European Sales Law and companies trading via post would need to add similar information, for instance, in a brochure format. This would cost a business approximately €500.³⁴² However, the application of the optional Common European Sales Law would be voluntary and need only be used by the contractual parties if it offered them a commercial advantage compared to the BS. This is one of the instances where the optional Common European Sales Law safeguards the principle of 'freedom of contract', which was a concern raised by business representatives in response to the Green Paper.

Exporters could achieve cost savings if trading with more than 1 MS as they would be able to use one set of information, available in all EU languages. If a business used the optional Common European Sales Law the administrative costs would amount to (on average) for B2C contracts €2,500 and for B2B €1,500.³⁴³ Compared to the BS if a company traded with 2 MS the cost saving per company would amount €1,500 in B2B and €2,000 B2C transactions. Under an extreme scenario, when a company trades across the whole of the EU, the cost saving per company would amount to €37,500 in B2B transactions and €62,000 in B2C transactions.³⁴⁴

Competition in internal market and impact on consumer prices: This option would increase competition in the internal market and lead to a decrease in prices. For B2C contracts 40%³⁴⁵ of the above mentioned businesses surveyed said that if they were able to choose a single Common European Sales Law they would increase their cross border trade in the internal market. For those performing B2B contracts, this figure was 34%.³⁴⁶ These surveys have also indicated that 14% of those performing B2B contracts would trade with 6 or more additional countries if they were able to choose a single Common European Sales Law, 34% said they would trade with 3-5 new countries and 35% said they would trade with 1– 2 new countries. For those performing B2C contracts these figures were: 18%, 32% and 32% respectively.

An increase in cross border trade would therefore lead to a rise in imports, which would be likely to

341 See Annex VI.

342 Explained further in Annex VII.

343 See Annex VII for more details on how these costs are calculated.

344 See Annex VII for more details on how these costs are calculated.

345 EB 321, p. 36.

346 EB 320, p.33.

347 'An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage,' COM (2010) 614.

348 The impacts are computed using the GTAP (see Annex IV).

349 See Annex VI.

350 According to data from EB 342, p. 122-125, most consumers either do not read the terms and conditions (27%) or do not read them carefully and completely (30%).

According to Allen and Overy, Online consumer research, 2011: 52% of the consumers in the 6 largest EU MS never (5%) or only occasionally (47%) read the terms and conditions when purchasing online.

increase the competition in the importing MS. To be able to compete in the market, businesses would be encouraged to either improve the quality of their products or reduce prices. This would contribute towards the Commission policy on increasing competitiveness³⁴⁷ and would be of particular relevance in B2B transactions which include the manufacturing industry. Consumers would benefit from an increased choice of product at a lower price. Prices are expected to decrease around 0.04-0.07% if 25% of EU companies used the optional Common European Sales Law.³⁴⁸ The more companies that make use of the optional Common European Sales Law, the greater the probability that companies who do not use the optional Common European Sales Law would need to remain competitive by improving the quality of their products or reducing prices.

Impact on GDP: Overall EU GDP is expected to increase by €5- €10 billion (0.04-0.08%) (see Annex IV).

Impact on third countries: if third countries could choose the optional Common European Sales Law, they would benefit from an easier access at lower transaction costs to the whole EU market and may be able to expand exports to more EU countries. If they could not use the optional Common European Sales Law, some negative impact could be possible, provided that trade would grow more between EU countries at the expense of potential partners from third countries.

Impact on consumer protection This option would provide a high level of consumer protection (in line with Article 38 of the Charter of Fundamental Rights of the EU)³⁴⁹ by increasing consumer protection in certain areas which are currently harmonised at minimum level, by creating a high level of consumer protection in areas in which the Union has not previously acted by integrating the fully harmonised provisions of the CRD and by taking the other minimum harmonisation provisions of the *acquis* as a benchmark.

The optional Common European Sales Law would strengthen rights on some points of particular concern to consumers compared to the existing *acquis*. For instance, the consumer could choose the type of remedy if the goods did not conform to the contract; these remedies would also be available to consumers who bought digital content products which also did not conform to the contract. These and other consumer protection provisions would give consumers confidence that they would have a very high level of consumer protection whenever they used the optional Common European Sales Law.

To strengthen certainty about their rights and thereby consumer confidence, businesses would provide consumers with a standardised information notice whenever the optional Common European Sales Law was chosen for use. This information notice would explain that Common European Sales Law applied and would set out information about the key rights consumers would enjoy under the optional Common European Sales Law. The provision of this information responds to some concerns (i.e. increase of the legal complexity, inability for the consumer to make an informed choice for the application of the optional Common European Sales Law) raised by consumer and legal practitioner representatives in their responses to the Green Paper. Within this setting the optional Common European Sales Law could encourage more consumers to shop cross-border, as they would have the same rights at a high level of protection everywhere in the EU, whenever the optional Common European Sales Law would apply. Moreover, the information notice would be beneficial for the large percentage of consumers who do not always read terms and conditions, as it would present their key rights in a concise and prominent way before they agree to the contract.³⁵⁰ If this information is not provided to the consumer, then the consumer would have the right to terminate the contract without bearing any costs. In addition, the agreement would only be valid if the consumer consented - in a separate statement - to using the optional Common European Sales Law. A business would therefore not be allowed to include the choice of the optional Common European Sales Law as only a term in his standard terms and conditions.

The optional Common European Sales Law could become a 'trustmark' for consumers: once they have become familiar with their rights under the optional Common European Sales Law, they would become more certain and therefore confident in purchasing products across the EU under the optional Common European Sales Law's uniform rules. Additionally, the optional Common European Sales Law could be of an advantage to the economic interests of consumers, as they could gain access to more and better offers at a cheaper price, which would not have been made available by foreign businesses if the optional Common European Sales Law had not existed.

Thus, the information notice and the explicit separate statement of consent the consumer will have to provide would also eliminate the fears of several MS and consumer associations who have some concerns about the optional Common European Sales Law, as they think businesses could take advantage of the weaker position of the consumers, as the latter would not be fully able to understand the consequences of choosing an optional Common European Sales Law.

Impact on SMEs: There would be a positive impact upon SMEs trading with more than 1 MS. Micro and small companies would benefit in particular as the cost savings of using the optional Common European Sales Law would be disproportionately high compared to the BS.

For B2C contracts, if the optional Common European Sales Law were chosen, it would be the only applicable law in the area covered by its scope. Therefore, the trader would have to consider only one set of rules – those of the optional Common European Sales Law. It would no longer be necessary to consider other national mandatory provisions as they would normally have to when concluding a contract with a consumer from another MS. There would be some administrative costs where provision of information would be required.³⁵¹ However these costs would be unlikely to outweigh the cost savings, especially for those companies trading in multiple MS. The standardised information notice for the optional Common European Sales Law would limit the administrative costs: Businesses will not be required to provide individual explanations of the consequences of the use of the optional Common European Sales Law to the consumer, as the information notice would fulfil this purpose. For SMEs concluding B2B contracts the negotiation of an applicable law³⁵² would not be so burdensome anymore.³⁵³ Two SMEs could be more willing to agree on the optional Common European Sales Law as a 'neutral' contract law. As both parties would have equal access to this law as part of their national system, neither of them would be in a weaker position compared to the situation where one of them would be as the applicable law would be unknown to that party. Evidence shows that a law which is considered 'neutral' and is available in multiple languages such as the Swiss law, is more likely to become the preferred choice of law.³⁵⁴

Impact on law firms: There would be a new demand for legal advice from new exporters, as well as from existing exporters who would need to become familiar with the optional Common European Sales Law. This would create an opportunity for law firms to tap into the new market and expand their business on giving advice on contract law.

In their responses to the Green Paper several practitioner representatives mentioned that there would be a cost for law firms to train and familiarise themselves with the optional Common European Sales Law, as with all new legislation. However unlike the BS, some of these costs would be

³⁵¹ See Annex VIII.

³⁵² Article 16 of the Charter of Fundamental Rights of the EU. See Annex VI.

³⁵³ In the SME Panel Survey, 55% of SMEs responded that the negotiation of applicable law was an important obstacle to cross border trade. In response to a similar question in the EB 320 (p.16) 25% of respondents said that difficulties on agreeing on the foreign applicable contract law had an impact on their decision to trade cross-border. However, as the sample in the EB also included large companies, the results of the SME Panel survey are more relevant for the SME test.

³⁵⁴ Stefan Voigt, *Journal of Empirical Legal Studies*, Volume 5, Issue 1, 1–20, March 2008, "Are International Merchants Stupid? Their Choice of Law Sheds Doubt on the Legal Origin Theory", p. 17.

relieved given that the optional Common European Sales Law would be user-friendly, clear and available in all official languages in the EU, and would therefore be more accessible. Moreover there would be public funding available for training on new EU legislation.³⁵⁵

In time, there could be a chance that law firms could advise less, which would mean less billable hours for them. However this would be mitigated by the increased flow of new businesses entering the 'cross-border-trade' market and the expansion of existing client advice to a wider range of cross-border transactions covering all MS.

The simultaneous application of the optional Common European Sales Law by national courts would allow case law to build up quickly. The uniform application would be ensured firstly by the ultimate interpretation of the optional Common European Sales Law through the ECJ. A database, accessible to judges and legal practitioners and containing translated summaries of national rulings applying optional Common European Sales Law provisions would ensure transparency and de-facto convergence of relevant case-law. This would alleviate concerns related to legal certainty raised by some Green Paper respondents.

Legal stakeholders were mostly positive towards this option. Some stakeholders from the UK expressed views³⁵⁶ that this option would make the UK, and in particular London, a less attractive place for, in particular, large companies (who are advised to use common law as their preferred choice of law for international transactions) to obtain legal advice from English law firms. These stakeholders maintain that as a result, the expenses for legal advice³⁵⁷ made by these businesses would be lost to the UK as companies would obtain legal advice in the US. While these submissions are relevant for PO5/6, they do not really apply to PO4.

An optional Common European Sales Law would not replace national laws. It would become a second regime existing alongside domestic legislation, which could be chosen as an alternative to the national law, only when businesses see fit. Since English law is chosen by companies because of its specificities, compared to other legal systems it is unlikely that companies which already choose it for these reasons would cease to do so.

Thus companies could continue to use common law and the services of English law firms if they choose to do so. In this context it is important to note that the number of EU exporting companies using the law of a 3rd country (for instance English law or Swiss law) is at any rate only 0.6% of EU exporters.³⁵⁸ SME from non Common law practising countries would not be likely to apply Common law to their contracts (e.g. a Swedish SME trading with an Italian SME would be more likely to use Swedish or Italian law). However a UK based SME trading with a non-Common law country would still have the choice to use common law.

Public authorities:

There would be a cost concerning a data-base which would be created and maintained by the

355 In 2010 the European Commission made available €12 million of funding for judges and prosecutors (and lawyers to a lesser extent) to train on EU new legislation. The cost per trainee was about €1,400. The Commission will continue to finance training and will publish a Communication on this topic by the end of 2011 in which the training on a Common European Sales Law instrument will be mentioned as a priority.

356 Law Society of England and Wales Response to the Green Paper, p.17 – 20; Bar Council of England and Wales response to the Green Paper p.20 and p.21; COMBAR response to the Green Paper p.3; City of London Law Society response to the Green Paper on contract law p. 2.

357 According to the Bar Council of England and Wales Response to Green Paper p.20 and p.21 "Currently the annual fee income of the 100 largest law firms is approaching £15bn, with over half of that revenue being generated by London – based law firms." According to the Law Society of England and Wales Response to the Green Paper p.18. "The City Business series Report on Legal Services in 2007 valued the contribution of legal services to the UK economy at £14.9bn in 2004". However it would need to be noted that the income mentioned above seems to refer to the contributions of all legal services, not just on contract law. Therefore income solely due to the areas of contract law as defined under section 4.2.3. of the IA report in a cross border scenario would be a relatively small percentage of this overall income.

358 EB 320, p. 57

Commission. This database would contain summaries of rulings of the application of the optional Common European Sales Law provisions (as submitted by national courts). This cost would fall upon the Commission and would be broken down as follows:

- one-off approximately €100,000³⁵⁹ for creating the website and database;
- annually approximately €100,000³⁶⁰ for maintaining the website and database;
- €160.56 for summarising a ruling submitted by a MS' court (assuming that it will take 4 hours to read and summarise one ruling and a documentalist is paid €321.12³⁶¹ a day), and
- €117 for the translation of a summary in English, French and German (assuming that each summary will be one page and the translation cost will be €39³⁶² per page).

Member States: The national laws of MS would not be affected. However, MS would bear the costs which would accompany the implementation of EU legislation (such as consultation of stakeholders, printing of new legislation, educating the public about the new law, time and cost of legislative process, etc.)

Judiciary: As raised in the Green Paper consultation, there would be a need for some initial training for judiciaries familiarise themselves with a new system. However this cost would be mitigated by public funding available for training on the new EU legislation.³⁶³ All legal practitioners across the EU would have access to a database containing summaries of rulings on the application of the optional Common European Sales Law. This would allow them to view the application of the optional Common European Sales Law and ensure the consistency of its future use. The use of this option, i.e. a consistent reference to a single body of rules, would remove the necessity for judges to investigate foreign law and compare several laws decreasing litigation costs compared to the BS. In the longer term, this would alleviate the administrative load on a MS judicial system. Moreover, the database would also reduce the risk of a different application and interpretation of the optional Common European Sales Law mentioned by several respondents to the Green Paper.

European Court of Justice (ECJ): In the first instance national courts would rule upon cases and submit summaries which would be entered into the Commission created database. These summaries are likely to lead to a defacto convergence of rulings by national courts which national judges would be able to access when needing to refer to how provisions of the optional Common European Sales Law have been ruled upon. There may be a limited number of cases which may need to be referred to the ECJ,³⁶⁴ which would increase the caseload. There would be a financial cost of referral of a case which would need to be borne by the parties to the trial.

Analysis of provisions of instrument: The analysis of impacts of the main provisions of the instrument is described in Annex VIII.

359 In 2002 a database (JURE data-base) was created for summaries of judgements concerning the Brussels I Regulation no 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters, the Brussels II Regulation no 1347/2000 of 29 May 2000 on jurisdiction and the recognition and enforcement of judgements in matrimonial matters and in matters of parental responsibility for children of both spouses, the new Brussels II Regulation no 2201/2003 of 27 November 2003 on jurisdiction and the recognition and enforcement of judgements in matrimonial matters and in matters of parental responsibility for children of both spouses, repealing Regulation no 1347/2000 and the Convention of 16 September 1988 on jurisdiction and the enforcement of judgements in civil and commercial matters (Lugano Convention). The creation of this database cost at that time almost €80.000.

360 In the past four years the maintenance of the JURE data-base has cost on average €117.500. As the new data-base will likely be linked with the system of an existing data-base – e.g. the data-bases on the e-justice portal – the cost will assumable be lower.

361 Annex 1 of amendment №4 to Framework contract noJLS/2008/A5/01/lot 21 "Websites, web content management systems and other computer services".

362 Price list in the Framework contract noJLS/2008/A5/01/lot 21 "Websites, web content management systems and other computer services".

363 In 2010 the European Commission made available €12 million of funding for judges and prosecutors (and lawyers to a lesser extent) to train on EU new legislation. The cost per trainee was about €1.400. The Commission will continue to finance trainings and will publish a Communication on this topic by the end of 2011 in which the training on a Common European Sales Law instrument will be mentioned as a priority.

364 This increase of caseload would form a minor part of the ongoing overall institutional and budgetary discussion of the of the resources and responsibilities of the ECJ.

SOCIAL IMPACTS

The more businesses that use this option, the greater the extent of the positive impact on trade and growth. Compared to the BS, this option would help to facilitate cross border trade and as a result would create 159,300-315,900 new jobs in the EU if 25% of companies use the optional Common European Sales Law.³⁶⁵

With regard to impacts on fundamental rights, this option would not lead to discrimination, as it would apply across the EU without any distinction on the basis of nationality, in line with Article 21(2) of the Charter of Fundamental Rights of the EU. Moreover, it would be effective in removing the contract law related barriers, which may be a reason for the traders' practice of refusal to sell to consumers resident in other Member States. It may also contain a rule providing that contract terms which restrict privacy rights are unfair and therefore non-binding on the consumer (in line with Article 8 of the Charter).

ENVIRONMENTAL IMPACTS

This would be dependent upon the number of businesses who use the optional Common European Sales Law, as an increase in use of transport for delivery would lead to an increase in CO2 and other vehicle emissions and would increase the cost to control pollution due to the binding EU rules.

SIMPLIFICATION POTENTIAL

For business: Compared to the BS, this option would simplify the regulatory environment, eliminating the need for research of different national laws as only one regulatory framework need be used.

For consumers: While they could be subject to a new unfamiliar system,³⁶⁶ the standardised information notice would aid consumer understanding of the optional Common European Sales Law by explaining in a concise and prominent way the use and implications of an optional Common European Sales Law.

ONLINE ENVIRONMENT

Compared to the BS, this would be a more simple³⁶⁷ way to conclude a contract and give a trader cost savings. The additional transaction costs would no longer apply: Businesses would not need to adapt their terms and conditions and IT platforms to take into account the laws of all Member States they trade with. This could provide an incentive to businesses to increase their online cross border sales (or in some cases to commence them). If there were an increase in the number of businesses who used this instrument to trade cross border, then compared to the BS, this option would help towards narrowing the gap between domestic and cross border online sales.

However, an instrument dedicated only to e-commerce could lead to increased legal complexity. Companies using distribution channels other than e-commerce would have to apply different legal rules depending on the distribution channel used. This would create a fragmentation of the market and distort competition. Furthermore, as mentioned by business representatives in their Green Paper consultation responses,³⁶⁸ it would not be technologically neutral and thus may generate legal uncertainty should new forms of distance sales occur in addition to e-commerce, for instance mobile telephony commerce. A scope limited to cross-border online sales only could however also create additional legal complexity for consumers who could be subject to different rules depending on whether they make a purchase online, at a distance using another method (i.e. post or telephone) or face-to-face.

³⁶⁵ The calculation of this impact can be found in Annex IV.

³⁶⁶ BEUC's response to the Green Paper, p.15.

³⁶⁷ Allen and Overy, Online Consumer Research, found that a relative majority of 46% of the surveyed consumers in the 6 largest MS would be more likely to buy online from another EU country if an EU-wide contract law was put in place.

³⁶⁸ Eurochambres response to the Green Paper, p.3, European Small Business Alliance response to the Green Paper, p.4.

IMPACT IF THIS OPTION IS APPLIED IN A DOMESTIC CONTRACT AS WELL AS CROSS BORDER

Domestic and cross border: An optional Common European Sales Law would facilitate the legal environment for businesses which trade both cross-border and domestically, if they chose to operate under the optional Common European Sales Law for all contracts. On the one hand, if the optional Common European Sales Law also applied in a domestic context it would go beyond what would be necessary to resolve the problem of additional transaction costs and legal complexity. It would therefore not be a proportionate solution to the problem. On the other hand, several respondents to the Green Paper favoured this scope.³⁶⁹ However as many respondents who favoured this scope, also favoured a cross border only scope. Therefore a more pragmatic solution may be to allow MS the choice as to whether they would also like the optional Common European Sales Law to apply in domestic contracts too.

Cross border only: Traders could use one contract law (the optional Common European Sales Law) for cross border trade with multiple MS (both in B2C and B2B transactions). Thus, they could reduce transaction costs and legal complexity. Businesses could continue to use their national contract laws for domestic trade, whilst at the same time they would also be able to export using the optional Common European Sales Law if they wish to do so. Therefore, business could save costs when trading cross border and continue to enjoy their current arrangements under domestic legislation. A cross border only scope is in accordance with the principle of proportionality as the instrument does not go beyond what is necessary to achieve the objectives. Several respondents to the Green Paper,³⁷⁰ who commented on this, favoured an instrument which was limited to cross border contracts (in some cases as a first step).

OVERALL ASSESSMENT

This option would not replace existing domestic regimes, but complement the national law of MS, as it would be inserted into their national laws as an optional set of contract law rules which could be used for trading across borders. It need only be chosen by parties voluntarily only when it suits their interests.

The main advantage of this option is that it would eliminate the transaction costs which are incurred by businesses when trading with more than one MS. On a relative scale in comparison to annual turnover, this advantage would benefit trade for businesses performing B2C contracts and those B2B contracts which are between SMEs. As it would also offer cost savings to large businesses which contract with other large businesses, this combination for the application of the scope of the optional Common European Sales Law should not be ruled out. It could be left to MS to decide upon. The decrease in costs would provide incentives to increase trade which would result in more competition in the internal market. The increase in trade and competition would benefit consumers by giving them more product choice at a lower price.

There could be some administrative costs which arise from the need for businesses to provide information to consumers not previously required. These costs are however by far outweighed by the savings and the potential savings which are made from not paying the additional transaction costs for when a business trades with more than 1 MS. This option would create opportunities for

369 Member States: EE, LT and NL. Stakeholders (business): BIPAR, EMOTA, UPSI, Eurochambres, EFBS, ICAEW, UEL, I.A.N.U.S., Allianz SE, Audi AG, LVMH, Nokia. Legal practitioners: CCBE, Bundesrechtsanwaltskammer, Scottish Law Commission, Ordre des Barreaux Francophones et Germonophone de Belgique, Deutscher Richterbund, Scottish Law Commission, Law Society of Scotland, Law Society of Ireland.

370 Member States: AT, BG, EL, FI, DE, PL. Stakeholders (business): AMICE, FEDSA, APCMA, BdB, EuroCommerce, FAEP, CCIP, Bundesverband der Deutschen Industrie. Legal practitioners: CLLS, CNUE, Bundesnotarkammer, Österreichische Notariatskammer, DBF, Association of Spanish Property and Commercial Registrars, ELRA, UNCC. Stakeholders (consumer): VZBV, Belgian Consumer Organisation.

legal practitioners to cater for new clients as law firms would experience an increase in demand by those expanding their cross-border trade and existing exporters wishing to use the optional Common European Sales Law.

Overall, this policy option meets the policy objectives as it reduces costs for businesses and offers a less complex legal environment for those who wish to trade cross border to more than one MS and at the same time it provides a high level of consumer protection, whilst simplifying the regulatory environment.

5. Policy option 5 and policy option 6³⁷¹

5.1. Policy option 5a: Full harmonisation Directive on a mandatory Common European Sales Law and policy option 6: Regulation establishing a mandatory Common European Sales Law

The end result of a full harmonisation Directive (once it has been implemented) and a Regulation replacing national laws would be very close in their outcome (although not exactly the same); therefore both these options are assessed together.³⁷² The instrument would allow businesses to use one set of rules in B2B and B2C contracts for both domestic and cross border trade³⁷³ irrespective of the number of countries they trade with in the EU. It would also remove the necessity for businesses to investigate, compare and possibly adapt to several foreign laws.

ECONOMIC IMPACTS

Transaction costs: The instrument would considerably increase costs as it would also affect companies which do not wish to trade cross border. Companies that trade only domestically (17,136,213 in B2B and 4,420,563 in B2C) would face a one off instant cost of implementation of €208.8 billion³⁷⁴ to use the new legislation. They would be required to pay these costs with no real financial gain, as the advantages would only be realised for those companies trading across a border.

All current exporters would face a one-off cost of implementation of €8.18 billion in order to use the new law.³⁷⁵ The estimate of transaction costs do not include the potential higher compliance costs for companies in some Member States where the level of consumer protection would increase. There would not be an additional cost if a business were to export to more than 1 MS.

The cost for a micro firm to enter the whole of the EU market would be on average only 6.5% of their turnover³⁷⁶ which would be the same as it would have cost to trade with only 1 MS in the BS. This option would result in costs savings for new exporters and for current exporters who would expand their cross-border sales to new countries. The annual savings for new exporters would be between €0.63-1.6 bn.³⁷⁷ In addition, similarly as under option 4 the current exporters that would start trading with additional countries would save at least between €3.7 billion and €4.3 billion.³⁷⁸ The potential benefits of this option would however not outweigh the initial one-off adaptation cost even over a longer time span.

371 The analysis takes account of several suggestions put forward by the majority of the respondents to the Green Paper concerning the scope of application and the material scope of an instrument, as well as other suggestions on scope including an instrument applicable in an online environment only and in a domestic and cross border setting.

372 For simplicity the Directive and Regulation are referred to collectively as the 'instrument'

373 Article 16 of the Charter of Fundamental Rights of the EU. See Annex IV.

374 Businesses who trade only domestically, multiplied by the relative individual one off costs for B2B and B2C.

375 All exporters in B2B and B2C multiplied by the respective costs. Per business this would be €9,100 for B2C (plus €2,900 for e-commerce oriented enterprises selling to consumers that face additional contract law related IT costs) and €9,800 for B2B as in the BS.

376 See section 2.3.2 on problem definition

377 Number of new exporters annually multiplied by the average saving – see Annex III

378 -See Annex III.

The reduction in transaction costs would also facilitate intra-EU trade by removing obstacles for those companies which currently experience difficulties in either conducting cross-border trade or transferring, for example, property by way of cross border sales and would therefore facilitate the exercise of these rights in line with Articles 16 (Freedom to conduct a business) and 17 (Right to property) of the Charter on Fundamental Rights of the EU, respectively.³⁷⁹

Administrative costs (these are included in the transaction costs above): The instrument would create an additional burden for all companies to adapt to the new legislation and would be especially costly for those companies that do not want to trade cross border but would have no choice but to apply the instrument to a domestic contract without any economic advantages or cost savings. The instrument would create an additional cost for 22 million companies (including for those who trade only domestically) in the EU with an average one-off cost per company amounting to €2,500 for those performing a B2C contract and €1,500 for those performing a B2B contract. Compared to the BS, to trade with 2 MS the cost saving per company would amount to €1,500.³⁸⁰

Competition in internal market and impact on consumer prices: The instrument would increase competition in the internal market and lead to a decrease in prices. For B2C contracts 40%³⁸¹ of the above mentioned businesses surveyed said that if they were able to choose a single Common European Sales Law they would increase their cross border trade in the internal market. For those performing B2B contracts, this figure was 34%.³⁸² These surveys have also indicated that 14% of those performing B2B contracts would trade with 6 or more additional countries if they were able to choose a single Common European Sales Law, 34% said they would trade with 3-5 new countries and 35% said they would trade with 1– 2 new countries.

For those performing B2C contracts these figures were: 18%, 32% and 32% respectively. An increase in cross border trade would lead to a rise in imports, which would be likely to increase the competition in the importing MS. The higher competition would encourage businesses to become more innovative and improve the quality of their products or to reduce prices in order to stay competitive. This would contribute towards the Commission policy on increasing competitiveness³⁸³ and would be of particular relevance in B2B transactions which include the manufacturing industry. Consumers would benefit from an increased choice of product at a lower price. The reduction for the average consumer price level would range between 0.14% - 0.28%.³⁸⁴

Impact on GDP: Overall EU GDP is expected to increase by €20- €40 billion (0.17-0.33%).³⁸⁵

Impact on third countries: Third countries trading with the EU would bear some one-off implementation costs, but could benefit from an easier access to the EU market as a whole in the long term. Third countries may be able to expand exports to more EU countries.

Impact on consumer protection The instrument would provide a high level of consumer protection (in line with Article 38 of the Charter of Fundamental Rights of the EU)³⁸⁶ and would also increase

379 See Annex VI.

380 See Annex VII for more details.

381 EB 321, p.36

382 EB 320, p.33

383 'An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage,' COM (2010) 614.

384 GTAP model, see Annex IV.

385 See Annex IV.

386 See Annex VI.

387 Allen and Overy, Online Consumer Research, found that a relative majority of 46% of the surveyed consumers in the 6 largest MS would be more likely to buy online from another EU country if an EU-wide contract law was put in place.

consumer certainty and therefore confidence, as consumers would have the same rights when shopping cross border.³⁸⁷ However, it would also replace national laws and could lead to changes to the level of protection consumers in certain MS enjoy. While the consumer would benefit from an increase in the protection for a number of provisions, some consumers could lose protection in specific cases compared to their existing national law as their national law would have to be changed.

Impact on SMEs: For businesses trading cross border, this impact would be the same as PO4. However the instrument would also place administrative costs on domestic businesses who do not wish to trade cross border. This would have a particular impact upon micro and small enterprises and comparative to their turnover, would weigh more heavily (compared to the BS). These SMEs would be required to pay these costs with no real financial gain, as this advantage would only be realised for those companies trading across a border.

Impact on law firms: There would be an increase in the demand for legal services, as more businesses would need to understand how to use the instrument even for those advising on domestic transactions. There would be training costs for law firms as they familiarise themselves with the changes in their national law. The concerns highlighted by legal stakeholders in the UK in PO4 are most relevant here as the contract laws among MS would be harmonised and comparative advantages of a specific law like common law as a popular option for choice of law would be fundamentally diminished.

Impact on Public authorities: Member States: The national laws of MS would be affected as this instrument would require a complete overhaul of the domestic legislation. MS would bear the costs which would accompany the implementation of EU legislation (such as consultation of stakeholders, printing of new legislation, educating the public about the new law, time and cost of legislative process, etc.) MS' governments are likely to find the instrument (to change domestic legislation for contract law in such a fundamental way) to be politically sensitive. In the Green Paper consultation, almost all MS responses to the Green Paper consultation rejected both options 5 and 6, stressing that to solve the problem of differences in contract laws, this type of instrument was not consistent with principle of subsidiarity or proportionality.

Judiciary: The judiciary of MS would need to familiarise themselves with the new instrument, this would mean a substantive financial cost for training. . A single body of rules would remove the necessity for judges to investigate foreign law and compare several laws. This would decrease litigation costs (compared to the BS) and could in time alleviate the administrative load on a MS judicial system.

European Court of Justice (ECJ): In the first instance national courts would rule upon cases and submit summaries which would be entered into the Commission created database. These summaries are likely to lead to a *de facto* convergence of rulings by national courts which national judges would be able to access when needing to refer to how provisions of the optional Common European Sales Law have been ruled upon. There may be a limited number of cases which may need to be referred to the ECJ,³⁸⁸ which would increase the caseload. There would be a financial cost of referral of a case which would need to be borne by the parties to the trial.

Analysis of provisions of instrument: The analysis of impacts of the main provisions of the instrument is described in Annex VIII.

SOCIAL IMPACTS

This option would help to facilitate cross border trade and as a result would be expected to increase

³⁸⁸ This increase of caseload would form a minor part of the ongoing overall institutional and budgetary discussion of the of the resources and responsibilities of the ECJ.

output and employment. The instrument is expected to create between 650,000 and 1.3 million new jobs.³⁸⁹ However this positive impact of job creation is likely to be counteracted by the costs incurred by all companies and may lead to some initial decrease in employment, which only at a later time would be compensated due to the positive effects on the economy stemming from the raise in intra-EU trade.

With regard to impacts on fundamental rights, this option would not lead to discrimination, as it would apply across the EU without any distinction on the basis of nationality, in line with Article 21(2) of the Charter of Fundamental Rights of the EU. It would be effective in removing the contract law related barriers, which may be a reason for the traders' practice of refusal to sell to consumers resident in other Member States. It may also contain a rule providing that contract terms which restrict privacy rights are unfair and therefore non-binding on the consumer (in line with Article 8 of the Charter).

ENVIRONMENTAL IMPACTS

This instrument would have an adverse impact upon the environment as an increase in trade would increase the use of transport for delivery. This would lead to an increase in CO₂ and other vehicle emissions and would increase the cost to control pollution due to the binding EU rules.

SIMPLIFICATION POTENTIAL

Compared to the BS, this instrument would simplify the regulatory environment as the differences between the contract laws of MS would be eliminated.

ONLINE ENVIRONMENT

If the instrument applied to an online cross border and domestic environment only, it would allow businesses applying the instrument to offer their products online and across the EU based on the same set of contract law rules. This would mean businesses would not need to adapt their terms and conditions and IT platforms (the latter to a great degree) to trade in another country – this could provide an incentive to businesses to increase their online domestic and cross border trade. Compared to the BS, this option could help towards narrowing the gap between domestic and cross border online sales as businesses would be encouraged by the use of one contract to offer their products in more MS.

However, an instrument dedicated to cross border and domestic e-commerce only may lead to increased legal complexity. Companies using distribution channels other than e-commerce would have to apply different legal rules depending on the distribution channel they use. Furthermore, it would not be technologically neutral and thus may generate distortion of competition should new forms of distance sales occur in addition to e-commerce, for instance ‘mobile telephony commerce’. Such a solution could also create additional legal complexity for consumers who could be subject to different rules depending on whether they make a purchase online, at a distance using another method (i.e. post or telephone) or face-to-face.

IMPACT IF THE INSTRUMENT IS APPLIED CROSS BORDER ONLY

Traders could use one contract law for cross border trade with multiple MS (both in B2C and B2B transactions) and reduce transaction costs. With a cross border scope only, the instrument would comply with the subsidiarity principle as the problem of additional transaction costs arises when businesses export.

However, the instrument would not comply with the proportionality principle as it would go beyond what is necessary to solve the problem. The instrument would replace all national contract laws in relation to cross border contracts. All exporting firms would *have* to use the instrument in their

³⁸⁹ See Annex IV, the GTAP model.

cross border contracts (rather than having a choice to). Those firms who are already exporting would mandatorily have to adapt their contracts to the new instrument – even if they have no desire to enter a new market - and incur once again the additional transaction costs. These transaction costs (€8.18 billion for all current exporters) above would apply to all exporting firms. In the Green Paper consultation, almost all MS responses to the Green Paper consultation rejected both options 5 and 6, stressing that to solve the problem of differences in contract laws, this type of instrument was not consistent with principle of subsidiarity or proportionality.

OVERALL ASSESSMENT

Compared to the BS, the instrument would remove obstacles to cross border trade in the internal market as the transaction costs for cross border trade would be diminished. The instrument would facilitate trade and could make it easier for businesses to expand across borders, as they would only need to use one set of rules. There would be an increase in the level of consumer protection allowing consumers to have more confidence to purchase across border and give them increased access to goods. In the longer term, legal practitioners would benefit as they would experience an increase in demand by new clients who would need to understand the instrument for domestic and cross-border contracts. However, it is likely to lead to a loss of income for UK law firms in the area of provision of legal advice on Common law to businesses if these companies chose to obtain legal advice in the United States.

The instrument would have very substantial costs attached to it: Although the transaction costs for cross border trade would no longer exist, businesses which only trade domestically would face a very substantial cost to use the new instrument without an added value. A cross border only scope would not be a proportionate solution as businesses who do not want to use it would have to adapt their contracts and incur transaction costs. MS would be likely to find this option politically very difficult to agree and to implement as it would eliminate domestic laws and legal traditions. The majority of MS who responded to the Green Paper consultation rejected this option outright. Overall, although the instrument would harmonise existing contract law legislation and eliminate transaction costs, it would create other substantive costs – which would not only be of monetary value. Therefore from a holistic perspective, taking all the costs (monetary or otherwise) into account, these costs outweigh by far the benefits of the instrument.

5.2. Policy option 5b: Minimum harmonisation Directive on a mandatory Common European Sales Law³⁹⁰

As this option is in the form of a minimum harmonisation Directive, MS would not have to implement it at the same time and could implement legislation beyond the consumer protection level of the Directive. The differences in timing of the implementation could restrict for some time the usability of the instrument. As experience with existing minimum harmonisation Directives shows, the level of implementation is likely to maintain a considerable number of differences in national contract laws.

ECONOMIC IMPACTS

Transaction costs: This option would increase costs as it would affect domestic companies who do

³⁹⁰ The analysis takes account of several suggestions put forward by the majority of the respondents to the Green Paper concerning the scope of application and the material scope of an instrument, as well as other suggestions on scope including an instrument applicable in an online environment only and in a domestic and cross border setting.

not wish to trade cross border. Companies that trade only domestically (17,136,213 in B2B and 4,420,563 in B2C) would face a one off cost of €208.8 billion³⁹¹ to use the new legislation. All current B2B exporters would have to pay the same costs set out in Policy Option 5a (PO5a) (€6.47 billion, per business this would be €9,800). Because of the minimum harmonisation character of the Directive, the levels of consumer protection would vary from MS to MS. To comply with the Directive, these differences would need to be researched by businesses that carry out B2C contracts. Therefore the costs for business that perform B2C contracts would be (at the very least those set out in the BS) between €4.6 billion and € 8.7 billion³⁹² (per business this would be €9,100 as in the BS). The exact costs would depend upon the extent to which a MS has implemented the Directive. The more changes that exist between MS laws the more the level of costs would increase to match the differences in existence between the MS.

The Directive could facilitate intra EU trade by removing obstacles for those companies which currently experience difficulties in either conducting cross-border trade or transferring, for example, property by way of cross border sales and would therefore facilitate the exercise of these rights in line with Articles 16 (Freedom to conduct a business) and 17 (Right to property) of the Charter on Fundamental Rights of the EU, respectively.³⁹³

Administrative costs (these are included in the transaction costs above): To a large extent the impact would be the same as PO5a, however because of the necessity to research the differences in national contract laws for B2C contracts, in addition to the costs set out in PO5a, the BS administrative costs for exporters would remain largely unchanged. See Annex VII for more details on how these costs are calculated.

Competition in internal market and impact on consumer prices: For B2B contracts the use of a Directive could increase trade (as set out in policy option 5a PO5a) as transactions costs would be eliminated. For B2C contracts, there may be a less of an increase in trade as the differences between the mandatory consumer protection rules of MS would still need to be researched and therefore the BS would apply. Where trade does increase, it would be likely to increase the competition in the importing MS. The higher competition would encourage businesses to become more innovative and improve the quality of their products or to reduce prices in order to stay competitive. This would contribute towards the Commission policy on increasing competitiveness³⁹⁴ and would be of particular relevance in B2B transactions which include the manufacturing industry. Consumers would benefit from an increase choice of product at a lower price. For this option, as the impact on consumer prices are dependent upon the extent of the implementation of the Directive they are difficult to quantify.

Impact on GDP: The actual impact upon EU GDP is difficult to quantify as transactions costs would still occur.

Impact on consumer protection: As per PO5a although the instrument would provide a high level of consumer protection (in line with Article 38 of the Charter of Fundamental Rights of the EU)³⁹⁵ it would also replace national laws and could lead to changes to the level of protection consumers in certain MS enjoy. While the consumer would benefit from an increase in the protection for a number of provisions, some consumers could lose protection in specific cases compared to their existing national law as their national law would have to be changed. In addition to this, because of the minimum harmonisation character of the Directive, the levels of consumer protection would vary from MS to MS. These differences could increase consumer uncertainty and decrease consumer

391 Businesses who trade only domestically, multiplied by the relative individual one off costs for B2B and B2C.

392 No of B2C exporters (184,670) multiplied by €9,100, multiplied by 2.7 and 5.1 (low and high estimates of average numbers of countries exported to. Further details of calculations can be found in Annex III.

393 See Annex VI.

394 'An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage' <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0614:FIN:EN:PDF> (last visited: June 2011)

395 See Annex VI.

confidence as the same situation as the BS would in effect still apply.

Impact on SMEs: For B2B cross border contracts this impact would be the same as PO4, for B2C cross border contracts this impact would be the same as the BS. However the Directive would also place administrative costs on domestic businesses who do not wish to trade cross border. This would have a particular impact upon micro and small enterprises and comparative to their turnover, would weigh more heavily (compared to the BS). These domestic trading SMEs would be required to pay these costs with no real financial gain, as this advantage would only be realised for those companies trading across a border.

Impact on law firms: There would be an increase in the demand for legal services, as more businesses would need to understand how to use the instrument even for those advising on domestic transactions. There would be training costs for law firms as they familiarise themselves with the changes in their national law. The concerns highlighted by legal stakeholders in the UK in PO4 are most relevant here as the contract laws among MS would be harmonised and comparative advantages of a specific law like common law as a popular option for choice of law would be fundamentally diminished.

Impact on Public authorities: Member States: The national laws of MS would be affected as this instrument would require a complete overhaul of the domestic legislation. MS would bear the costs which would accompany the implementation of EU legislation (such as consultation of stakeholders, printing of new legislation, educating the public about the new law, time and cost of legislative process, etc.) MS' governments are likely to find the instrument (to change domestic legislation for contract law in such a fundamental way) to be politically sensitive. In the Green Paper consultation, almost all MS responses to the Green Paper consultation rejected both options 5 and 6, stressing that to solve the problem of differences in contract laws, this type of instrument was not consistent with principle of subsidiarity or proportionality.

Judiciary: The judiciary of MS would need to familiarise themselves with the new instrument, this would mean a substantive financial cost for training. In the longer term, a consistent reference to a single body of rules would remove the necessity for judges to investigate foreign law and compare several laws. This would decrease litigation costs (compared to the BS) and could in time alleviate the administrative load on a MS judicial system.

European Court of Justice (ECJ): In the first instance national courts would rule upon cases and submit summaries which would be entered into the Commission created database. These summaries are likely to lead to a *de facto* convergence of rulings by national courts which national judges would be able to access when needing to refer to how provisions of the optional Common European Sales Law have been ruled upon. There may be a limited number of cases which may need to be referred to the ECJ,³⁹⁶ which would increase the caseload. There would be a financial cost of referral of a case which would need to be borne by the parties to the trial.

Analysis of provisions of instrument: The analysis of impacts of the main provisions of the instrument are described in Annex VIII.

SOCIAL IMPACTS

This option would help to facilitate cross border trade and its use would be expected to increase output and employment. The number of jobs created by this option is difficult to quantify (as it would depend upon the extent of the implementation of the Directive), one could expect an increase, although not as high as the increase for policy option 5a.

With regard to impacts on fundamental rights, this option would not lead to discrimination, as it would apply across the EU without any distinction on the basis of nationality, in line with Article 21(2) of the Charter of Fundamental Rights of the EU. It may also contain a rule providing that

³⁹⁶ This increase of caseload would form a minor part of the ongoing overall institutional and budgetary discussion of the of the resources and responsibilities of the ECJ.

contract terms which restrict privacy rights are unfair and therefore non-binding on the consumer (in line with Article 8 of the Charter).

ENVIRONMENTAL IMPACTS

This option would increase the use of transport. This would have an adverse impact upon the environment and would lead to an increase in CO₂ and other vehicle emissions and would increase the cost to control pollution due to the binding EU rules.

SIMPLIFICATION POTENTIAL

Compared to the BS this option would simplify the regulatory environment to a certain extent as a number of differences between the contract laws of MS would be eliminated. However, as MS would still have differing levels of implementation of the Directive, quite a number of differences between contract laws would remain.

ONLINE ENVIRONMENT

If the Directive applied to an online cross border and domestic environment only, it would allow businesses performing B2B contracts to offer their products online and across the EU based on the same set of contract law rules. This would mean these businesses would not need to adapt their terms and conditions and IT platforms (the latter to a great degree) to trade in another country – this could provide an incentive to businesses to increase their online domestic and cross border trade. Compared to the BS, this option could help towards narrowing the gap between domestic and cross border online sales as businesses would be encouraged by the use of one contract to offer their products in more MS.

However this would not be the case for businesses who perform B2C contracts and for them, the BS situation would largely remain the same. In addition, a Directive dedicated to cross border and domestic e-commerce only may lead to increased legal complexity. Companies using distribution channels other than e-commerce would have to apply different legal rules depending on the distribution channel they use. Furthermore, it would not be technologically neutral and thus may generate distortion of competition should new forms of distance sales occur in addition to e-commerce, for instance ‘mobile telephony commerce’. Such a solution could also create additional legal complexity for consumers who could be subject to different rules depending on whether they make a purchase online, at a distance using another method (i.e. post or telephone) or face-to-face.

IMPACT IF THIS OPTION IS APPLIED CROSS BORDER ONLY

Although businesses using B2B contracts would be able to use one contract law for cross border trade with multiple MS and reduce transaction costs, the same would not be true for those businesses who perform B2C contracts as they would still need to research where MS have gone beyond the mandatory consumer protection rules set out in the Directive – thereby incurring transaction costs.

In addition, the Directive would not comply with the proportionality principle as it would go beyond what is necessary to solve the problem. The Directive would replace all national contract laws in relation to cross border contracts. All exporting firms would *have* to use the Directive in their cross border contracts (rather than having a choice to). Those firms who are already exporting would mandatorily have to adapt their contracts to the new Directive – even if they have no desire to enter a new market - and incur once again the additional transaction costs. These transaction costs (€8.18 billion for all current exporters) above would apply to all exporting firms. In the Green Paper consultation, almost all MS responses to the Green Paper consultation rejected this option stressing that to solve the problem of differences in contract laws, this type of Directive was not consistent with principle of subsidiarity or proportionality.

OVERALL ASSESSMENT

Compared to the BS, this option would to a certain extent reduce transaction costs and increase the level of consumer protection. In the longer term, legal practitioners would benefit as they would experience an increase in demand by new clients who would need to understand the instrument for domestic and cross-border contracts. However, it could also lead to a loss of income for law firms in the area of provision of legal advice of a specific law if companies chose to obtain legal advice elsewhere.

However, as set out in options 5a and 6, there would be a very substantial one off cost borne by all traders (both domestic and cross border) as they would have to adapt their contracts to use the new law. This cost would affect all companies, irrespective of their desire to trade cross-border. A cross border only scope would not be a proportionate solution as businesses who do not want to use it would have to adapt their contracts and incur transaction costs.

In addition, due to the nature of minimum harmonisation, there would still be some extra costs for businesses when trading cross border to consumers, these would arise from the necessity to research the levels of consumer protection in other MS. Therefore, whilst there may be a worthwhile investment for B2B cross border transactions, those performing B2C cross border contracts as well as trading only domestically would have to pay very substantial additional costs without a clear added value. There would also be administrative costs which would arise from the need for businesses to comply with the Directive these costs would affect all companies. MS would be likely to find this option politically very difficult to agree and to implement as it would eliminate domestic laws and legal traditions. The majority of MS who responded to the Green Paper consultation rejected this option outright.

Overall, although this option would minimally harmonise existing contract law legislation and civil codes and reduce transaction costs for some traders, it would add to the issues set out in the problem definition as some costs for researching the law would still remain. Therefore from a holistic perspective, taking all the costs (monetary or otherwise) into account these costs outweigh by far the benefits of the instrument.

6. Effectiveness of policy options in meeting policy objectives

6.1. Policy option 1: Baseline Scenario

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
BUSINESS OBJECTIVES	
Reduce transaction costs for cross-border trade	The differences in national contract laws would remain, so would additional transaction costs for cross border trade.
Reduce legal complexity in cross-border trade	Companies would continue to deal with multiple national laws. In the absence of EU action, MS would be likely to continue to take initiatives in an uncoordinated manner (for example future implementation/transposition of contract law related concepts at the EU level would be different between MS). This would allow the legal complexity to further increase. However, the publication of the Expert Group work could facilitate some shared understanding of the commonalities between the EU legal systems (such a scenario has previously been demonstrated by the EP who have used the Draft Common Frame of Reference when making amendments to the CRD), but this would not occur in a coordinated and

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
	predictable manner. In addition, the work of the Expert Group could also be used by businesses when drafting their standard terms and conditions provided the rules developed by the Expert Group are not contradictory to the applicable law. Despite these possibilities, any convergence in national laws would appear in the long term as concepts to be agreed in future laws would take time to embed.
CONSUMER OBJECTIVES	
Reduce uncertainty about consumer rights in cross-border shopping	The BS includes the adoption of the CRD, which, due to its nature (full harmonisation) ensures that consumers have certain rights which are harmonised across the EU. However, a level of uncertainty would still exist as MS would be free to implement domestic legislation according to their own interpretations, this in turn would lead to some differences between the national laws. Because of these differences, in some cases consumers would be dissuaded from shopping cross-border.
Increased consumer protection	As set out above the adoption of the CRD ensures that consumers have certain rights which are harmonised across the EU. However there are some elements of consumer protection in contract law which are not covered by the CRD. With no EU action, these would remain.

6.2. Policy option 2

6.2.1. Policy option 2a: Toolbox as a Commission document

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
BUSINESS OBJECTIVES	
Reduce transaction costs for cross-border trade	This option could go a little way towards meeting this objective as in the longer term there could be some minimal reduction in transaction costs due to the convergence of certain contract law concepts, but the extent of this is unknown as we cannot predict when and how these concepts would be used.
Reduce legal complexity in cross-border trade	In the longer term, there is likely to be a small convergence in national legislation in the area of contract law. This would mean fewer differences between the contract law legislation in a trader's country compared to the country they intended to trade with and effectively reduce the level of complexity in cross border trade. However, despite this small convergence, this option would not prevent some differences in future contract law concepts/rules. At the EU level, the co-legislators could depart from the toolbox by amending Commission proposals in negotiations. At MS level this option would not ensure that MS adopt identical rules as set out in the toolbox when implementing Union legislation. As differences among national laws resulting from the transposition of Directives cannot be avoided, in comparison to the BS legal complexity currently experienced by businesses would not decrease to a great extent.
CONSUMER OBJECTIVES	
Reduce uncertainty about consumer rights in cross-	Compared to the BS, there is likely to be a small convergence in the area of Common European Sales Law in the longer term. Because of this convergence, this option would provide for some, albeit rather limited, improved legal certainty with regards to future contract law concepts.

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
border shopping	
Increased consumer protection	Compared to the BS, this option would only go a very small way to meeting this objective as the impact would be limited and only felt when all three institutions use the toolbox concepts when passing EU contract law related legislation.

6.2.2. Policy option 2b: Toolbox as an inter-institutional agreement

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
BUSINESS OBJECTIVES	
Reduce legal complexity in cross-border trade	The same concepts set out in PO2a would apply here, however the use of an inter institutional agreement (IIA) would commit the institutions to use the toolbox as a basis for future contract law concepts; therefore, unless there was a justified reason not to, the institutions would always use the toolbox for future contract law related concepts. This would lead to a greater convergence and coherence in future EU legislation and a greater reduction in complexity for businesses. However despite this increased level of convergence, this option cannot fully prevent the existence of differences in national contract law concepts in the future. This is because if there were justified reasons for the Council and EP to depart from the IIA they would be able to. If this happened then differences in contract law concepts between the three Institutions (as highlighted in PO2a) would be created. As described in PO2a, differences in legislation between MS could also remain because this option would not ensure that MS adopt identical rules as set out in the toolbox when implementing Union legislation. In the longer term, reduction in legal complexity is likely to be of a greater magnitude than in the case of PO2a, but still limited compared to the BS.
CONSUMER OBJECTIVES	
Reduce uncertainty about consumer rights in cross-border shopping	In the longer term, this option is likely to lead to some convergence in the area of Common European Sales Law, and as a result would provide greater legal certainty for consumers with regards to future contract law concepts compared to PO2a. However, as described under the 'business objectives,' despite this convergence, this option is likely to only remedy the current problem to a small extent.
Increased consumer protection	This option would go a small way to meeting this objective as the impacts felt would be of a greater magnitude because all three institutions would use the toolbox concepts when passing EU legislation.

6.3. Policy option 3: Recommendation on a Common European Sales Law

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
BUSINESS OBJECTIVES	
Reduce transaction costs for cross-border trade	Compared to the BS this option would only reduce transaction costs if MS who incorporate the Common European Sales Law entirely and without changes (scenario 2 under the relevant impact analysis). For B2C traders in MS who have not incorporated the Common European Sales Law as above, when trading with consumers from MS who have also not incorporated the Common European

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
	Sales Law, the differences in contract laws would remain and the BS transaction costs would still apply.
Reduce legal complexity in cross-border trade	As the Recommendation would not be legally binding, it would allow MS discretion on timing, method and extent of implementation. Therefore (unless many MS incorporate the Common European Sales Law at the same time, entirely and without changes as attached to the Recommendation) this option would allow for differences between contract laws of MS and the legal complexity experienced by traders would not change from the BS.
CONSUMER OBJECTIVES	
Reduce uncertainty about consumer rights in cross-border shopping	This option would not reduce the level of uncertainty that consumers experience about their rights as MS would have discretion on timing, method and extent of implementation thereby creating differences between the contract laws of MS. However, if many MS incorporated the Common European Sales Law at the same time, entirely and without changes as attached to the Recommendation then this option could also build confidence in consumers and increase their legal certainty as they would be subject to one similar core set of rules and would become familiar with a similar contract being used in their purchases which would not vary greatly between the MS who use it.
Increased consumer protection	Applicable to B2C contracts only and only where a MS has incorporated the provisions of the Common European Sales Law into its national laws. When compared to the BS, this option would meet this objective as the Common European Sales Law would provide for a high level of consumer protection (see annex VIII.).

6.4. Policy option 4: Regulation/Directive setting up an optional Common European Sales Law

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
BUSINESS OBJECTIVES	
Reduce transaction costs for cross-border trade	Compared to the BS (for B2B and B2C) this option would reduce additional transaction costs for those businesses that choose to use the optional Common European Sales Law for cross border trade with more than 1 MS.
Reduce legal complexity in cross-border trade	This option would reduce the legal complexity as it would offer businesses the choice of using one legal system for cross border trade across the whole of the EU instead of the current twenty six.
CONSUMER OBJECTIVES	
Reduce uncertainty about consumer rights in cross-border shopping	This option would build confidence in consumers and increase their certainty about their rights as they would be subject to one similar core set of rules for when they purchase cross border from traders who use the optional Common European Sales Law.

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
Increased consumer protection	Applicable to B2C contracts only. This option would meet this objective as the optional Common European Sales Law would provide a high level of consumer protection. See annex VIII for more details.

6.5. Policy option 5 and policy option 6

6.6. Policy option 5a: Full harmonisation Directive on a mandatory Common European Sales Law and policy option 6: Regulation establishing a mandatory Common European Sales Law

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
BUSINESS OBJECTIVES	
Reduce transaction costs for cross-border trade	Compared to the BS for B2B and B2C contracts, the instrument would meet this objective as it would eliminate transaction costs for those businesses that trade with more than 1 MS.
Reduce legal complexity in cross-border trade	The instrument would reduce legal complexity as the same system between the contract laws of the MS would exist.
CONSUMER OBJECTIVES	
Reduce level of uncertainty about consumer rights in cross-border shopping	The instrument would subject consumers to the same set of rules in their sales contracts across the EU. This would reduce the level of uncertainty consumers experience about their rights which in turn could increase their confidence when shopping cross border.
Increased consumer protection	Applicable to B2C contracts only. This objective would be met as the instrument would have a high level of consumer protection provisions (see Annex VIII for further details).

6.6.1. Policy option 5b: Minimum harmonisation Directive on a mandatory Common European Sales Law

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
BUSINESS OBJECTIVES	
Reduce transaction costs for cross-border trade	For B2B contracts this option would meet this objective. However for those traders who perform B2C contracts there would still be a necessity to research the mandatory consumer protection rules of a country as MS could transpose the Directive into their national laws beyond those rules which are minimally harmonised. Therefore transaction costs would remain.

Policy Objectives	Effectiveness in meeting the objectives/addressing the problems
Reduce legal complexity in cross-border trade	For B2B contracts this option would meet this objective. For B2C contracts there would be some reduction in legal complexity as a more consistent and convergent system between the contract laws of the MS would exist, however due to possible differences in consumer protection rules between MS, some legal complexity would remain.
CONSUMER OBJECTIVES	
Reduce uncertainty about consumer rights in cross-border shopping	This option would go some way towards meeting this objective as it would subject consumers to a more similar set of rules in their sales contracts. This would reduce the level of uncertainty consumers experience about their rights, which in turn could increase their confidence when shopping cross border.
Increased consumer protection	Applicable to B2C contracts only. This option would meet this objective as the Directive would have a high level of consumer protection provisions (see annex VIII for further details).

ANNEX VI: IMPACTS OF THE COMMON EUROPEAN SALES LAW ON FUNDAMENTAL RIGHTS

EU legislation must fully comply with the provisions of the EU Charter of Fundamental Rights, which has become legally binding following the entry into force of the Lisbon Treaty. All legislative proposals of the Commission are subject to a systematic check to ensure their compliance with the Charter.³⁹⁷ This annex assesses in detail the impact on the relevant fundamental rights embodied in the Charter. They include: Article 38 on consumer protection, Article 16 on the freedom to conduct a business, Article 17 on the right to property, Article 21(2) on non-discrimination on the basis of nationality and Article 8 on data protection.

Irrespective of the legal form it may take, the Common European Sales Law instrument would not have a negative impact on any of the abovementioned rights and would facilitate the exercise particularly of the freedom to conduct a business and consumer protection. It would also have a positive impact on the right to property (by facilitating the disposal thereof) and to non-discrimination of consumers on the basis of nationality.

The scale of the positive impact on fundamental rights may vary and is in some way connected to the effectiveness of specific policy options in achieving the policy objectives, as stated above. As discussed in the section on comparison of policy options in the impact assessment report, the most effective options in achieving the business and consumer objectives are the optional Common European Sales Law (policy option - PO 4), the full harmonisation Directive on a mandatory Common European Sales Law (PO 5a) and a Regulation establishing a mandatory Common European Sales Law (PO 6). The least effective ones are the toolbox (PO 2) and Recommendation on a Common European Sales Law (PO 3b).

- *Article 38 on consumer protection*³⁹⁸

The instrument of Common European Sales Law will contribute to ensuring a high level of consumer protection by the following means: Firstly, it will increase consumer protection in certain areas which are currently minimally harmonised (e.g. pre-contractual statements binding the seller, no hierarchy of sales remedies, increased warranty period). Secondly, it will create a high level of consumer protection in areas in which the Union has not previously acted (e.g. obligation of business to take back faulty products). Thirdly, it will take the fully harmonised provisions of the Consumer Rights Directive and the other minimum harmonisation provisions of the *acquis* as a benchmark.

A Common European Sales Law instrument, irrespective of the form, would have a positive impact on consumer protection, as it would ensure a high level of protection on a number of key consumer protection rules (examined in detail in Annex VIII). The positive impact of different policy options on consumer protection would differ, depending on the effect that the respective legal instruments would have on existing national laws.

The Recommendation introducing an optional Common European Sales Law (PO 3(b)) and a Regulation/ Directive introducing an optional Common European Sales Law (PO 4) would not deprive consumers of any rights they currently enjoy, as they would not replace or necessitate any changes in national laws. Therefore, consumers who wish to rely on their national law could continue to do so. Alternatively, those who are willing to accept an optional Common European Sales Law to govern their contracts could even gain more protection compared to their national law.

³⁹⁷ Communication from the Commission Strategy on the effective implementation of the Charter, COM(2010) 573 final, available at:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0573:FIN:EN:PDF>

³⁹⁸ Union policies must ensure a high level of consumer protection. The Explanations clarify that this right is based on Article 169 TFEU, according to which "the Union shall contribute to protecting the ... economic interests of consumers, as well as to promoting their right to information [and] education".

As illustrated by the analysis of impacts of key substantive consumer protection provisions (e.g. pre-contractual information, remedies for non-performance, burden of proof, damages) in Annex VIII, the level of protection ensured by the Common European Sales Law rules could overall be higher than the level of protection in most national laws of Member States.

On the other hand, the options of a full harmonisation Directive on a mandatory Common European Sales Law (PO 5a) and Regulation (PO 6) would replace national laws and could lead to changes to the level of protection consumers in certain Member States enjoy. While any Common European Sales Law instrument would ensure a high level of consumer protection, it would not be politically feasible to adopt an instrument which would take over all rules which ensure the highest level of protection out of the existing national laws of Member States. While the consumer would benefit from an increase in the protection for certain provisions, some consumers would be likely to lose protection in some specific cases compared to their existing national law. Therefore, the consumers in those Member States would lose protection for those selected provisions, as their national law would be changed. The same problem could occur in the case of a toolbox (PO 2), provided any of the rules it contains would be at a lower level than the respective rules in the national law of a given Member State.

- ***Article 16 on the freedom to conduct a business***

The instrument of Common European Sales Law would facilitate the exercise of the freedom to conduct business, in particular with regards to cross-border transactions in the EU. By creating a single set of contract law rules which businesses could choose to apply in transactions across the EU, it would remove obstacles for those companies which currently experience difficulties to conduct cross-border business. The instrument of Common European Sales Law contains no restrictions on the freedom of the parties to conclude contracts and to subject them to any applicable law.

The policy options of an optional Common European Sales Law (PO 4), a full harmonisation Directive (PO 5a) and a Regulation replacing national laws (PO 6) would be the most effective in facilitating the exercise of this right, particularly in a cross-border context. However, PO 5a and PO 6 would have the disadvantage of imposing costs on all (both domestic and exporting) companies (including those which are not interested in cross-border trade) in order to adapt to the changes in their national laws.

- ***Article 17 on the right to property***

The instrument of Common European Sales Law contains no restrictions on the freedom of the parties to exercise their property rights. Moreover, it can facilitate the exercise of this right as regards to the transfer of property by way of cross-border sales.

The policy options of an optional Common European Sales Law (PO 4), a full harmonisation Directive (PO 5a) and a Regulation (PO 6) would be most effective in facilitating the disposal of property by way of cross-border sales as they would introduce a set of uniform rules. While PO 5a and PO 6 would ensure that the same rules apply both domestically and cross-border, they would also have the disadvantage of generating costs for adaptations to the change in national law for those economic operators who are not interested in cross-border sales.

- ***Article 21(2) on non-discrimination on the basis of nationality***³⁹⁹

³⁹⁹ Article 21 of the Charter of Fundamental Rights does not create powers on the Union to enact anti-discrimination measures. It only addresses acts of discrimination by the institutions and bodies of the Union themselves, when exercising powers conferred under the Treaty. In particular, EU measures must not discriminate on the basis of nationality.

The instrument would not lead to discrimination, as it would apply across the EU without any distinction on the basis of nationality.⁴⁰⁰ Moreover, the content of the instrument is likely to diminish indirect discrimination on grounds of nationality by private parties. More specifically, it would diminish the practice of refusal of cross-border sales to consumers in certain Member States. Consumers in countries such as Romania, Bulgaria, Latvia, Belgium, Malta, Ireland and Poland are particularly affected.⁴⁰¹ This will be achieved by removing objective contract-law related obstacles, which pose obstacles to cross-border transactions for businesses.

The policy options of an optional Common European Sales Law (PO 4), a full harmonisation Directive (PO 5a) and a Regulation replacing national laws (PO 6) would be the most effective in reducing the number of consumers who experience the refusal to sell. These options would effectively remove the contract law related barriers, which may be a reason for the traders to refuse cross-border sales.

- ***Article 8 on data protection***

The instrument of Common European Sales Law does not contain specific provisions on data protection. However, it may contain a rule providing that contract terms which restrict privacy rights are unfair and therefore non-binding on the consumer. In contractual relations, personal data may be affected to the extent that they have to be exchanged during the conclusion of a contract (name address, credit card details). Particularly in e-commerce situations personal data may be put at risk, as it could be used for instance for commercial purposes without the person's consent. However, specific rules of Directive 95/46 on Data Protection provide adequate protection concerning the use of this information.

400 The only exception is the option 3b (a Commission Recommendation) under which the application may be limited only to the Member States which will follow the Recommendation and could therefore use the instrument.

401 Communication on Cross-Border Business to Consumer e-Commerce in the EU, COM (2009) 557 final, 22.10.2009, p.6.

ANNEX VII: ADMINISTRATIVE COSTS

1. Identification and classification of obligations requirements

Contract law covers both pre-contractual and contractual information requirements. Legal obligations to provide information will mostly refer to B2C contracts. The consumer contract acquis consists of a number of Directives. They are mostly based on the principle of minimum harmonisation and Member States are allowed to introduce more stringent provisions including additional information requirements. There are also contract law related information requirements that are not regulated at the EU level.

The contract law related information requirements could be classified as **non-labelling information**.

2. Identification of required actions

The information requirement involves the following actions:

Table 1: Identification of required actions

Action	Applicability
1. Familiarising with information obligations	Yes
2. Training members and employees	No
3. Retrieving relevant information from existing data	No
4. Adjusting existing data	No
5. Producing new data	No
6. Designing information material	Yes
7. Filling in forms	No
8. Holding meetings	No
9. Inspecting and checking	No
10. Copying	Yes
11. Submitting information to the relevant actor	Yes
12. Filing the form	No
13. Buying equipment and supplies	No
14. Other	No

In order to meet the information requirement companies wishing to trade cross-border have to familiarise themselves with information requirements of the foreign law (action 1), adapt their general terms and conditions or other information materials accordingly and submit it to the other contractual party (actions 6, 10 and 11).

3. Classification by legal origin and impact of different options

- Option 1- (baseline scenario)- information requirements for B2B transactions are due to national law. In B2C, information requirements are due to national and EU law. The Commission in the impact assessment on the Consumer Rights Directive (CRD IA) estimated that 25% of administrative costs stem from national legislation and the rest is due to EU law. This estimate has been taken forward in this impact assessment for B2C transactions. In B2B transactions 100% of the administrative costs result from national law.

- Option 2a and 2b - no impact on administrative costs- a toolbox does not directly impose an information requirement.
- Option 3 –impact on administrative costs depending upon whether and to what extent a Member State decides to apply the Commission Recommendation.
- Option 4- impact on administrative costs. An optional Common European Sales Law will contain a set of information requirements. In addition, all traders choosing the optional Common European Sales Law will need to inform consumers about this fact. This would generate additional administrative costs (compared to the baseline assumptions) concerning designing information materials.
- Option 5a and 5b / Option 6
 - o Option 5a (full harmonisation) and Option 6 (Regulation establishing a Common European Sales Law) – impact on administrative costs. These instruments will contain a set of information requirements. Traders would need to adapt to new information requirements.
 - o Option 5 b (minimum harmonisation) - the same impacts as option 5a. However, if the Directive is based on minimum harmonisation, Member States will be able to go beyond the minimum information requirements and there would be additional costs for companies trading cross-border (the baseline administrative costs for exporters would remain unchanged).

4. Identification of target groups

The administrative costs will be borne by businesses. The costs do not differ between small, medium and large enterprises.

5 Identification of the frequency of required actions

Contract law related administrative costs are mostly one-off costs- e.g. there is no need to adapt the general terms and conditions or a website until a major reform of contract law.

- Option 1- one-off costs per entering a Member State. Costs borne by companies wishing to trade cross-border.
- Option 3- one-off costs for entering Member States that applied the Recommendation with national adjustments due to possible differences in the way Member States applied it.
- Option 4- only one set of one-off costs for entering all Member States. Costs borne by companies wishing to trade cross-border.
- Option 5 (a and b) and Option 6- one-off costs for all EU companies and under sub-option b (minimum harmonisation) the additional administrative costs for companies trading cross-border (the same as under the baseline scenario)

6 Identification of cost parameters

Option 1

As described in section 2.3.1 of the main report, a company wishing to trade cross-border needs to hire a lawyer who is an expert in the contract law of each relevant country. The lawyer will need to check the relevant national laws and the company will need to design the information material accordingly.

The baseline transaction costs in BC2 for trading with one other Member State amounts to €8,695-€9,565 and in B2B transaction €9,000-€10,568. These costs include administrative costs and other costs to familiarise and comply with other non-information related requirements.

The Commission in the CRD IA estimated the cost of legal validation of information requirements per Member State amount to €2,500 i.e. 10 hours of work billed at €250 per hour. In addition, the CRD IA considers other one-off cost elements such as designing information material, copying and submitting the information. These additional costs have been estimated at €1,026 for a distance seller and €2,125 for a doorstep seller. The total baseline administrative costs for a distance seller selling cross-border to one Member State amount to €3,526 and for a doorstep seller to €4,625.

These costs are likely to go down once the CRD has been adopted. The CRD foresees full harmonisation of the pre-contractual information requirements but other information related requirements e.g. a form in which information is to be provided are likely to remain fragmented. Therefore, exporters would still need to familiarise and comply with some national provisions concerning the information requirements. It could be assumed that the time needed for legal validation of information requirements as estimated in the CRD IA would be shorter but other required costs (e.g. designing information materials, copying and submitting the information) would remain unchanged after the adoption of the CRD. The scope of the Directive is also likely to be limited to distance and off-premises sales meaning that the adoption of the CRD will not have any impact on administrative costs for exporters who sell by other methods (i.e. on-premises sales) or those which stem from provisions of general contract law. Therefore, for this impact assessment the average administrative cost per company exporting are estimated at €2,500 (average for all sales channels – doorstep, distance and on-premises sales) that will remain after the adoption of the CRD. This means that the administrative costs amount to around 25% of the transactions costs as estimated in section 2.3.1 of the report.

Difference between administrative and transaction costs

EU consumer protection rules require companies to provide certain information to consumers before and after the conclusion of a contract. The information requirements cover, for example: identity of the supplier, the main characteristics of the product, the arrangements of payment etc. These obligations are however regulated differently between Member States. In some countries, information must be provided in writing or in a specific form. Member States have also introduced additional information obligations.

Administrative costs refer to all the costs associated with compliance with these information requirements while transactions costs are a broader concept covering all the aspects of contract law.

For example, companies need to investigate the national rules according to which remedies may be invoked or national lists of unfair contract terms. These requirements do not impose any information obligations (i.e. companies do not have to provide information on available sales remedies in the

contract or before conclusion of the contract). These costs are however part of the transaction costs for business wishing to trade cross-border.

In addition, specific IT costs may be relevant for businesses selling to consumers in other Member States via e-commerce. These additional costs stem from the need to adapt a business's internet platform to the legal requirements of each Member States it directs its activity to. They include costs for adapting the web-site so that it can recognise the consumer's country of residence and retrieve the correct set of pages.⁴⁰² These additional transaction costs have been estimated at €2,916 per Member State and they are related to providing information (action 6 – designing information material).

In B2B transactions, companies are not faced with such strict information requirements as in B2C contracts. The national law may however contain some provisions related to information requirements. It is assumed that the legal validation of information requirements in B2B transactions and other related actions will take less time than for B2C transactions. It has been roughly assumed that administrative costs would amount to 15% of transactions costs for B2B sales as estimated in section 2.3.1 of the report (compared to 25% in B2C transactions).

To simplify calculations, it is further assumed that these administrative costs are split equally across all the identified actions.

Option 3

The impacts of this option would very much be dependent upon:

- Whether and how many MS decide to incorporate an optional Common European Sales Law and to what extent.
- How many businesses decide to use the Common European Sales Law.

On a qualitative basis the impacts would reduce the baseline administrative costs to some degree only. For those MS who decide to incorporate the Common European Sales Law completely without any changes and at the same time, the differences between national cross border laws would cease (similarly to option 4 and 5). Therefore if traders used the Common European Sales Law they would only incur the one off administrative cost to become familiar and comply with the information requirements, but this cost would not be borne again if the trader wished to expand trade to another MS that incorporated the Common European Sales Law.

Option 4

It is assumed that the one-off cost of adaptation to the optional Common European Sales Law equals the baseline administrative cost per company for entering one Member State under the baseline scenario i.e. €2,500. This is considered as a high estimate since the costs are likely to be lower than under the baseline scenario e.g. a company would not need to advise an expert in international law which is often be the case under the baseline scenario but rather a local lawyer.

The additional administrative cost for option 4 in B2C contracts concerns the need to inform consumers about the choice of the optional Common European Sales Law. This cost will be borne by all companies. For example, companies trading via e-commerce⁴⁰³ would need to create e.g. a pop window informing a consumer about the application of the European contract law and companies trading via post will need to add similar information in a brochure. This one-off cost is

402 Federation of Small Businesses (FSB) in the UK, Response to the Green Paper on policy options for progress towards a possible European contract law for consumers and businesses , p.3; see FSB Position Paper on Rome I, p.3 for detailed breakdown of costs.

403 It should be noted that under option 4, additional IT costs for companies trading via e-commerce would disappear as retailers would not be required to adapt their websites to recognise the consumer's country. They should use the same set of information for all the countries.

assumed to be around €500. Therefore the total one-off cost for a company using an optional Common European Sales Law would amount to €3,000.

Option 5 and Option 6

Option 5 a (full harmonisation Directive) and Option 6 (Regulation establishing a European contract law)

Similarly to option 4, it is assumed that the one-off cost of adaptation to the Directive/Regulation equals the baseline administrative cost per company for entering one Member State i.e. €2500. Similarly to option 4, this is considered as a high estimate since the costs are likely to be lower than under the baseline scenario e.g. a company would not need to seek advice from an expert in international law which is often the case under the baseline scenario but rather a local lawyer.

Option 5 b (minimum harmonisation Directive)

The same impact as option 5a. However, if the Directive is based on minimum harmonisation, Member States will be able to go beyond the minimum information requirements. In this case the baseline administrative costs for companies trading cross-border will remain unchanged.

7. Assessment of the number of entities concerned

Option 1

In B2C transactions all the exporting companies will need to bear administrative costs. In B2B transactions, the costs will be borne by companies exporting and applying the law of the other contractual party.

Table 2: Number of companies affected in Option 1

	Number of firms exporting ⁴⁰⁴ (a)	Share of firms exporting under law of partner country ⁴⁰⁵ (b)	Number of firms exporting under law of partner country (c) c= a*b
Agriculture (B2B)	28,771	14.6%	4,200
Manufacturing and mining (B2B)	363,353	14.6%	53,050
Wholesale (B2B)	268,430	14.6%	39,190
Retail (B2C)	184,670	-	184,670
Total	845,224	n/a	281,110

The number of companies in B2C that will incur additional IT costs amounts to 67,230.⁴⁰⁶

The costs grow proportionally to the number of countries with which enterprises trade. The number of required actions has therefore been multiplied by 4 (the average between the low and high estimate of the average number of EU countries companies export to, both in B2B and B2C).⁴⁰⁷

It should be noted that for Option 1 the administrative costs are calculated for the firms currently active. Notably, these are mainly sunk one-off costs, sunk by EU businesses which already entered

⁴⁰⁴ See annex III.

⁴⁰⁵ Flash Eurobarometer 299, European contract law in business-to-business transactions, not published.

⁴⁰⁶ See annex III, Calculation of opportunity and transaction costs.

⁴⁰⁷ See annex III, Calculation of opportunity and transaction costs.

cross-border trade. On the other hand, more administrative costs for the EU economy occur annually, as the new EU exporters (estimated at 14.6% yearly)⁴⁰⁸ pay transaction costs for entering cross-border trade.

Option 3

There are several variants of the incorporation of the Common European Sales Law under this option and its subsequent outcomes:

Scenario 1:

In the ideal scenario all MS would implement the Common European Sales Law completely, without changes and at the same time. There would be a one-off sunk cost for familiarisation of the Common European Sales Law when businesses first use it to trade with a business or consumer in one other MS. The impacts of this scenario would be the same as those listed under the analysis of impacts of policy option 4.

Scenario 2:

Some of the MS could decide to implement the Common European Sales Law completely, without changes and at the same time.

This scenario would be of benefit to traders who perform B2B contracts, because even where MS decided not to incorporate the Common European Sales Law, traders would have the freedom to decide on the law applicable to their contract (as the choice of using the law of a third country would still apply to them). This would mean that traders who performed B2B contracts would have the opportunity to reduce their administrative costs through the use of the Common European Sales Law (provided that at least 1 MS implemented the Recommendation) – even if their MS had not incorporated it. The same would be the case for B2C contracts, if both MS of the business' and the consumer's residence implemented the Common European Sales Law entirely and without changes. If not, scenario 3 would apply.

Scenario 3:

Some MS could decide to incorporate the Common European Sales Law not completely, with changes, not at the same time, or a combination of these factors.

Under this scenario, problems would arise similar to those set out under Scenario 2 and in some countries businesses would face higher administrative costs than in other countries. For B2B contracts the same situation as under scenario 2 would apply. For B2C contracts the situation would become even more complicated as businesses who wanted to use the Common European Sales Law could only approach and sell to consumers whose MS have incorporated the Recommendation and in doing so, businesses would have to research where MS have gone beyond the drafting of the Common European Sales Law with regards to mandatory consumer protection rules and where the level of domestic consumer protection is higher than that offered in the Common European Sales Law. However for those consumers whose MS have not implemented the Recommendation who approach a business in another country and want to use the Common European Sales Law, they would not be able to.⁴⁰⁹

Because of the piecemeal way in which the Common European Sales Law could be incorporated, it is difficult to estimate the precise number of companies potentially affected by additional administrative costs. The administrative costs are likely to remain on a similar level as under the baseline scenario.

408 The estimate of 14.6% does not take reflect that some of the new exporters may have already exported in the past and incurred the one-off transaction costs. However, this is partly balanced by the fact that this estimate does not include companies which already export and want to expand their operations to more EU countries. See annex III for further details.

409 See the main report, section 5.

Option 4

Option 4 is likely to affect the current exporters who would have the possibility to use the Common European Sales Law but also to encourage companies currently trading only domestically to extend their business cross-border.

- Current exporters

Companies wishing to trade cross-border would be able to choose optional Common European Sales Law and need to adapt their terms and conditions only once to trade with all EU countries. These are the companies that are affected by the baseline administrative costs (see table 2).

In the Eurobarometer surveys, 70% of the surveyed enterprises (B2B and B2C)⁴¹⁰ said that they would choose the jurisdiction of an EU contract law if it existed and this has been used as an assumption of the number of companies using the European contract law. However, considering that only a part of these respondents indicated an optional instrument as the preferred policy options (respectively 38% EB 320 (on B2B) and 37% in EB 321 (for B2C) this assumption is considered as a high estimate giving an indication of maximum costs to be borne by companies.

It could therefore be estimated that 156,272 companies currently exporting (129,626 in B2C and 26,643 in B2B) would use the optional instrument and would bear administrative costs.

Table 3: Number of exporters using optional instrument

	Number of firms affected by the baseline administrative costs ⁴¹¹ (a)	Share of firms likely to use Common European Sales Law(b)	Number of firms willing to use Common European Sales Law (c) = a*b
Agriculture (B2B)	4,200	70%	2,940
Manufacturing (B2B)	53,050	70%	37,135
Wholesale (B2B)	39,190	70%	27,433
Retail (B2C)	184,670	70%	129,629
Total	281,110		197,137

- New exporters

Option 4 is expected to encourage companies currently trading only domestically to extend their business cross-border.

- B2C transactions

The Eurobarometer survey found that 21% of retailers that do not make cross-border sales would expand their business across-borders if laws regulating transactions were the same across the EU.⁴¹²

410EB 320 on European contract law in business-to-business transactions, 2011; EB 321 on European contract law in consumer transactions. 2011- companies likely or very likely to use the European contract law in cross-border transactions for cross-border transactions.

411 See table 2.

412 Flash Eurobarometer 300. Business attitudes towards cross-border trade and consumer protection, p.25.

The sample of this Eurobarometer survey covers only companies of 10 employees and more. The study on Internalisation of SMEs shows that the bigger the company is the more likely it is to export. The share of exporters among micro enterprises amounts to 24% compared to 54% for medium size companies. It could be therefore assumed that the proportion of micro enterprises that would expand their business cross-border if an optional European contract law instrument was available would be 2,25 times lower than for larger companies i.e. 9.3%. Micro companies account for 95% of all retailers. It could be therefore estimated that 10% of all retailers would start cross-border operations under option 4.⁴¹³

Based on above, it has been estimated that 442,056 companies who trade B2C and who are currently only trading domestically would expand their operations cross-border.

- B2B transactions

In B2B transactions companies are free to choose the applicable law. It is therefore assumed that a considerably smaller proportion i.e. 5% of companies involved in B2B transactions will extend their operation cross-border compared to 10% of companies involved in B2C transactions. For the agriculture sector where the number of companies currently exporting is marginal i.e. 0.29% the potential effect will be minimal and therefore this sector is not included in the estimates below.

Based on the above, it has been estimated that 173,229 companies in B2B who are currently only trading domestically would expand their operations cross-border (99,043 in the manufacturing sector and 74,186 in the wholesale sector).

Table 4: Number of new exporters using the optional Common European Sales Law

	Number of non exporters ⁴¹⁴ (a)	Share of new exporters due to introduction of the Common European Sales Law (b)	Share of firms exporting under optional Common European Sales Law (c)	Number of new exporters exporting under optional Common European Sales Law(d) $d=a*b*c$
Manufacturing (B2B)	1,980,860	5%	100%	99,043
Wholesale (B2B)	1,483,724	5%	100%	74,186
Retail (B2C)	4,420,563	10%	100%	442,056
Total	7,885,147			615,285

Option 5

Full harmonisation Directive (option 5a) and Option 6

All firms including exporters and non- exporters will have to adapt contracts and the general terms and conditions.

Table 5: Number of companies affected in Option 5a and Option 6

	Number of firms ⁴¹⁵
Agriculture (B2B)	13,700,400
Manufacturing (B2B)	2,322,830

413 (95% of micro companies *8.4% + 5% (larger companies) x21%=9.99%.

414 See annex III, Calculation of opportunity and transaction costs.

415 See annex III, Calculation of opportunity and transaction costs.

Wholesale (B2B)	1,752,155
Retail (B2C)	4,605,233
Total	22,402,000

Minimum harmonisation Directive (option 5b)

All firms including non-exporters will have to adapt contracts and the general terms and conditions.

As this option is based on minimum harmonisation, the impact on administrative costs for current exporters will be minimal compared to the baseline scenario. Companies will need to familiarise themselves with national laws transposing the Directive and adapt their contracts accordingly. The administrative costs for companies trading cross-border will remain unchanged compared to the baseline.

8. Summary of estimates

B2C transactions

The table below shows the comparison of administrative costs of different options. The baseline administrative cost per company amount to €10,000.⁴¹⁶ The average administrative cost per company are the lowest under option 5 and 6 (€2,500) but this option is likely to impact many more companies than option 4 so the total administrative burden for the companies is much higher.

Table 6: Comparison of administrative costs in B2C transactions

	No of companies affected (a)	Average one-off cost per company (b)	Total administrative costs (in millions €) ⁴¹⁷ c=a*b
Option 1(baseline)	184,670 ⁴¹⁸	€10,000 ⁴¹⁹	1,847
E-commerce (additional costs)	67,230	€11,664 ⁴²⁰	784
Total cost			2,631
Option 4	571,685 ⁴²¹	€3,000	1,715
Option 5a (full harmonisation) and Option 6	4,605,233 ⁴²²	€2,500	11,513
Option 5b (minimum harmonisation)			
All companies	4,605,233	€2,500	11,513
Exporters (additional costs- as in the	184, 670	€10,000	1,847

⁴¹⁶ The baseline administrative cost per company per MS €2,500 * 4 the average number of EU countries companies export to.

⁴¹⁷ See also the SCM spreadsheets with administrative costs calculations.

⁴¹⁸ This number covers all current exporters. The annual administrative costs for the EU economy can be estimated based on the percentage of new exporters within the EU on a yearly basis, estimated at 15%. See table 2, column c.

⁴¹⁹ €2,500 (the baseline administrative cost per company per MS)* 4 (the average number of EU countries companies export to).

⁴²⁰ €2,916 (the baseline additional administrative costs in e-commerce)* 4 (the average number of EU countries companies export to).

⁴²¹ This number covers all the retailers that are likely to use an optional instrument: current exporters (129,619 –see table 3 column d) and new-exporters that will only expand their operations cross-border as the result of a new legal framework (442,056 – see .table 4 column d). This effect will not be immediate and is likely to take a number of years.

⁴²² See table 5.

baseline)	67,230	€11,664	784
Total costs			14,144

Option 4, option 5 and option 6 are likely to contribute to cost savings for companies trading to more than 1 MS compared to the baseline scenario. These savings grow proportionally to the number of Member States a company trades to. For example, if a company trades to 2 MS the cost saving of option 4 would amount to €1,500 and €2,500 under option 5 and 6. If a company trades in the whole EU, the cost saving per company under option 4 would amount to €62,000 and to €62,500 under option 5.

Table 7: Comparison of administrative costs per company in B2C transactions

	Option 1 (baseline)	Option 4	Option 5
Domestic traders only	0	0	€2,500
Trading with 1 MS	€2,500	€3,000	€2,500
Trading with 2 MS	€5,000	€3,000	€2,500
Trading with 3 MS	€7,500	€3,000	€2,500
Trading with 4 MS	€10,000	€3,000	€2,500
Trading with 26 MS (whole EU)	€65,000	€3,000	€2,500

B2B transactions

The table below shows the comparison of administrative costs of the different options. The baseline administrative cost per company amount to €6,000. The average administrative cost per company are the lowest under option 4, 5 and 6. However, option 5 and option 6 are likely to impact many more companies than option 4 so the total administrative burden for the companies is much higher.

Table 8: Comparison of administrative costs in B2B transactions

	No of companies affected (a)	Average cost per company (b)	Total administrative costs (in millions €) ⁴²³ c=a*b
Option 1 (baseline)	96,440 ⁴²⁴	€6,000 ⁴²⁵	579
Option 4	240,737 ⁴²⁶	€1,500	361
Option 5a (full harmonisation) and Option 6	17,775,385 ⁴²⁷	€1,500	26,695
Option 5b (minimum harmonisation)	17,775,385	€1,500	26,695
All companies			
Exporters (additional costs- as in the baseline)	96,440	€6,000	579
Total costs			27,274

Option 4, option 5 and option 6 are likely to contribute to cost savings for companies trading to more than 1 MS compared to the baseline scenario. These savings grow proportionally to the number of Member States a company trades to. For example, if a company trades to 2 MS the cost saving of option 4, 5 and 6 would amount to €1,500. If a company trades in the whole EU, the cost saving per company under option 4, 5 and 6 would amount to €37,500.

Table 9: Comparison of administrative costs per company in B2B transactions

	Option 1 (baseline)	Option 4	Option 5
Domestic traders only	0	0	1,500
Trading with 1 MS	€1,500	1,500	1,500
Trading with 2 MS	€3,000	1,500	1,500
Trading with 3 MS	€4,500	1,500	1,500
Trading with 4 MS	€6,000	1,500	1,500
Trading with 26 MS (whole EU)	€39,000	1,500	1,500

423 See also the SCM spreadsheets with administrative costs calculations.

424 See table d, column c (4,200+53,050+39,190).

425 €1,500 (the baseline administrative cost per company per MS)* 4 (the average number of EU countries companies export to).

426 This number covers all the retailers that are likely to use an optional instrument: current exporters (2940+37135+27433—see table 3, column d) and new-exporters that will only expand their operations cross-border as the result of a new legal framework (99,043+74,186—see table 4 column d). This effect will not be immediate and is likely to take a number of years.

427 See table 5. Total number of companies in B2B sector = 13,700, 400 (agriculture) + 2,322,830 (manufacturing) + 1,752,155 (wholesale).

Option 1: Administrative costs B2C transactions

Insert here the name and reference of the regulatory act assessed					Tariff (€ per hour)	Time (minutes)	Price (per action)	Freq (per entry) - ONE OFF COSTS	Nbr of entities	Total number of actions x 4MS	Equipment costs (per entity & per year)	Outsourcing costs (per entity & per year)	Total Administrative Costs	Business As Usual Costs (% of AC)	Total Administrative Burdens (AC - BAU)	Regulatory origin (%)	
If the act assessed is the transposition of one or several acts adopted at another level, insert here the name and reference of that or these 'original' acts																Int	EU
No.	Art.	Orig. Art.	Type of obligation	Description of required action(s)													
1			Non labelling information for third parties	Familiarising with the information obligation	Companies exporting	250	150	625	1	184.670	738.680			461.675.000	1	0	25%
3			Non labelling information for third parties	Copying	Companies exporting	250	150	625	1	184.670	738.680			461.675.000	1	0	25%
4			Non labelling information for third parties	Submitting information to the relevant actor	Companies exporting	250	150	625	1	184.670	738.680			461.675.000	1	0	25%
6			Non labelling information for third parties	Designing information material (leaflet conception...)	Companies exporting	250	150	625	1	184.670	738.680			461.675.000	1	0	25%
14			Non labelling information for third parties	Designing information material (leaflet conception...)	Companies exporting via e-commerce			2916	1	67.230	268.920			784.170.720	1	0	25%

657.717.680

Total administrative costs (€) 2.630.870.720
 Total administrative burden (€) 2.630.870.720
 Administrative costs by origin (€) 0
 Average cost per company 10.000
 Average cost per company per MS 2.500
 Average cost for a company exporting via e-commerce 12.916

Option 1: Administrative costs B2B transactions

Insert here the name and reference of the regulatory act assessed					Tariff (€ per hour)	Time (minutes)	Price (per action)	Freq (per entry) - ONE OFF COSTS	Nbr of entities	Total number of actions x 4 MS	Equipment costs (per entity & per year)	Outsourcing costs (per entity & per year)	Total Administrative Costs	Business As Usual Costs (% of AC)	Total Administrative Burdens (AC - BAU)	Regulatory origin (%)			
If the act assessed is the transposition of one or several acts adopted at another level, insert here the name and reference of that or these 'original' acts																Int	EU	Nat	Reg
No.	Art.	Orig. Art.	Type of obligation	Description of required action(s)															
1			Non labelling information for third parties	Familiarising with the information obligation	Companies exporting	250	90	375	1	96.440	385760			144660000	1	0	25%	75%	
3			Non labelling information for third parties	Copying	Companies exporting	250	90	375	1	96.440	385760			144660000	1	0	25%	75%	
4			Non labelling information for third parties	Submitting information to the relevant actor	Companies exporting	250	90	375	1	96.440	385760			144660000	1	0	25%	75%	
6			Non labelling information for third parties	Designing information material (leaflet conception...)	Companies exporting	250	90	375	1	96.440	385760			144660000	1	0	25%	75%	

144.660.000 433.980.000

Total administrative costs (€) 578.640.000
 Total administrative burden (€) 578.640.000
 Average cost per company 6.000
 Average cost per company per MS 1.500

Option 4: Administrative costs B2C transactions

Insert here the name and reference of the regulatory act assessed					Tariff (€ per hour)	Time (minutes)	Price (per action)	Freq (per entry) - ONE OFF COSTS	Nbr of entities	Total number of actions	Equipment costs (per entity & per year)	Outsourcing costs (per entity & per year)	Total Administrative Costs	Business As Usual Costs (% of AC)	Total Administrative Burdens (AC - BAU)	Regulatory origin (%)			
If the act assessed is the transposition of one or several acts adopted at another level, insert here the name and reference of that or these 'original' acts																Int	EU	Nat	Reg
No.	Art.	Orig. Art.	Type of obligation	Description of required action(s)															
1			Non labelling information for third parties	Familiarising with the information obligation	Companies exporting	250	150	625	1	571.688	571688			357303125	1	0	100%		
3			Non labelling information for third parties	Copying	Companies exporting	250	150	625	1	571.688	571688			357303125	1	0	100%		
4			Non labelling information for third parties	Submitting information to the relevant actor	Companies exporting	250	150	625	1	571.688	571688			357303125	1	0	100%		
6			Non labelling information for third parties	Designing information material (leaflet conception...)	Companies exporting	250	150	625	1	571.688	571688			357303125	1	0	100%		
14			Information about the choice of EDL	Designing information material (leaflet conception...)	Companies exporting			500	1	571.688	571688			285842500	1	0	100%		

1.715.055.000 0

Total administrative costs (€) 1.715.055.000
 Total administrative burden (€) 1.715.055.000
 Administrative costs by origin (€) 0
 Average cost per company 3.000
 Average cost per company per MS n/a

Option 4: Administrative costs B2B transactions

Insert here the name and reference of the regulatory act assessed					Tariff (€/per hour)	Time (minutes)	Price (per action)	Freq (per entry) - ONE OFF COSTS	Nbr of entities	Total number of actions	Equipment costs (per entity & per year)	Outsourcing costs (per entity & per year)	Total Administrative Costs	Business As Usual Costs (% of AC)	Total Administrative Burdens (AC - BAU)	Regulatory origin (%)			
If the act assessed is the transposition of one or several acts adopted at another level, insert here the name and reference of that or these 'original' acts																Int	EU	Nat	Reg
No.	Art.	Orig. Art.	Type of obligation	Description of required action(s)															
1			Non labelling information for third parties	Familiarising with the information obligation	Companies exporting	250	90	375	1	240737	240737			90276375		0	100%	0%	OK
3			Non labelling information for third parties	Copying	Companies exporting	250	90	375	1	240737	240737			90276375		0	100%	0%	OK
4			Non labelling information for third parties	Submitting information to the relevant actor	Companies exporting	250	90	375	1	240737	240737			90276375		0	100%	0%	OK
6			Non labelling information for third parties	Designing information material (leaflet conception...)	Companies exporting	250	90	375	1	240737	240737			90276375		0	100%	0%	OK

Total administrative costs (€) 361.105.500
 Total administrative burden (€) 361.105.500
 Administrative costs by origin (€) 0
 Average cost per company 1.500
 Average cost per company per MS n/a

Option 5 a (full harmonisation) : Administrative costs B2C transactions

Insert here the name and reference of the regulatory act assessed					Tariff (€/per hour)	Time (minutes)	Price (per action)	Freq (per entry) - ONE OFF COSTS	Nbr of entities	Total number of actions	Equipment costs (per entity & per year)	Outsourcing costs (per entity & per year)	Total Administrative Costs	Business As Usual Costs (% of AC)	Total Administrative Burdens (AC - BAU)	Regulatory origin (%)			
If the act assessed is the transposition of one or several acts adopted at another level, insert here the name and reference of that or these 'original' acts																Int	EU	Nat	Reg
No.	Art.	Orig. Art.	Type of obligation	Description of required action(s)															
1			Non labelling information for third parties	Familiarising with the information obligation	all companies	250	150	625	1	4.605.233	4605233			2878270625	1	0	100%		OK
3			Non labelling information for third parties	Copying	all companies	250	150	625	1	4.605.233	4605233			2878270625	1	0	100%		OK
4			Non labelling information for third parties	Submitting information to the relevant actor	all companies	250	150	625	1	4.605.233	4605233			2878270625	1	0	100%		OK
6			Non labelling information for third parties	Designing information material (leaflet conception...)	all companies	250	150	625	1	4.605.233	4605233			2878270625	1	0	100%		OK

11.513.082.500 0

Total administrative costs (€) 11.513.082.500
 Total administrative burden (€) 11.513.082.500
 Administrative costs by origin (€) 11.513.082.500
 Average cost per company 2.500

Option 5 a (full harmonisation) : Administrative costs B2B transactions

Insert here the name and reference of the regulatory act assessed					Tariff (€/per hour)	Time (minutes)	Price (per action)	Freq (per entry) - ONE OFF COSTS	Nbr of entities	Total number of actions	Equipment costs (per entity & per year)	Outsourcing costs (per entity & per year)	Total Administrative Costs	Business As Usual Costs (% of AC)	Total Administrative Burdens (AC - BAU)	Regulatory origin (%)			
If the act assessed is the transposition of one or several acts adopted at another level, insert here the name and reference of that or these 'original' acts																Int	EU	Nat	Reg
No.	Art.	Orig. Art.	Type of obligation	Description of required action(s)															
1			Non labelling information for third parties	Familiarising with the information obligation	all companies	250	90	375	1	17796767	17796767			6673787625	1	0	100%	0%	OK
3			Non labelling information for third parties	Copying	all companies	250	90	375	1	17796767	17796767			6673787625	1	0	100%	0%	OK
4			Non labelling information for third parties	Submitting information to the relevant actor	all companies	250	90	375	1	17796767	17796767			6673787625	1	0	100%	0%	OK
6			Non labelling information for third parties	Designing information material (leaflet conception...)	all companies	250	90	375	1	17796767	17796767			6673787625	1	0	100%	0%	OK

Total administrative costs (€) 26.695.150.500
 Total administrative burden (€) 26.695.150.500
 Administrative costs by origin (€) 26.695.150.500
 Average cost per company 1.500
 Average cost per company per MS n/a

Option 5 b (minimum harmonisation): Administrative costs B2C transactions

Insert here the name and reference of the regulatory act assessed					Tariff (€/per hour)	Time (minutes)	Price (per action)	Freq (per entry) - ONE OFF COSTS	Nbr of entities	Total number of actions	Equipment costs (per entity & per year)	Outsourcing costs (per entity & per year)	Total Administrative Costs	Business As Usual Costs (% of AC)	Total Administrative Burdens (AC - BAU)	Regulatory origin (%)			
If the act assessed is the transposition of one or several acts adopted at another level, insert here the name and reference of that or these 'original' acts																Int	EU	Nat	Reg
No.	Act	Orig. Act	Type of obligation	Description of required action(s)															
1			Non labelling information for third parties	Familiarising with the information obligation	all companies	250	150	625	1	4.605.233	4605233		2878270629	1	0	100%			
3			Non labelling information for third parties	Copying	all companies	250	150	625	1	4.605.233	4605233		2878270629	1	0	100%			
4			Non labelling information for third parties	Submitting information to the relevant actor	all companies	250	150	625	1	4.605.233	4605233		2878270629	1	0	100%			
6			Non labelling information for third parties	Designing information material (leaflet conception...)	all companies	250	150	625	1	4.605.233	4605233		2878270629	1	0	100%			
8			Non labelling information for third parties	Familiarising with the information obligation	Companies exporting	250	150	625	1	184.670	738.680		461.675.000	1	0	100%			
9			Non labelling information for third parties	Copying	Companies exporting	250	150	625	1	184.670	738.680		461.675.000	1	0	100%			
11			Non labelling information for third parties	Submitting information to the relevant actor	Companies exporting	250	150	625	1	184.670	738.680		461.675.000	1	0	100%			
12			Non labelling information for third parties	Designing information material (leaflet conception...)	Companies exporting	250	150	625	1	184.670	738.680		461.675.000	1	0	100%			
14			Non labelling information for third parties	Designing information material (leaflet conception...)	Companies exporting via e-commerce			2916	1	67.230	268.920		784.170.720	1	0	100%			

***** 0

Total administrative costs (€) 14.143.953.220
 Total administrative burden (€) 14.143.953.220
 Administrative costs by origin (€) 14.143.953.220
 Average cost per company trading domestically 2.500
 Average cost per company exporting 10.000

Option 5b minimum harmonisation): Administrative costs B2B transactions

Insert here the name and reference of the regulatory act assessed					Tariff (€/per hour)	Time (minutes)	Price (per action)	Freq (per entry) - ONE OFF COSTS	Nbr of entities	Total number of actions	Equipment costs (per entity & per year)	Outsourcing costs (per entity & per year)	Total Administrative Costs	Business As Usual Costs (% of AC)	Total Administrative Burdens (AC - BAU)	Regulatory origin (%)			
If the act assessed is the transposition of one or several acts adopted at another level, insert here the name and reference of that or these 'original' acts																Int	EU	Nat	Reg
No.	Act	Orig. Act	Type of obligation	Description of required action(s)															
1			Non labelling information for third parties	Familiarising with the information obligation	all companies	250	90	375	1	17775385	17775385		6665769375	1	0	100%	0%		
3			Non labelling information for third parties	Copying	all companies	250	90	375	1	17775385	17775385		6665769375	1	0	100%	0%		
4			Non labelling information for third parties	Submitting information to the relevant actor	all companies	250	90	375	1	17775385	17775385		6665769375	1	0	100%	0%		
6			Non labelling information for third parties	Designing information material (leaflet conception...)	all companies	250	90	375	1	17775385	17775385		6665769375	1	0	100%	0%		
8			Non labelling information for third parties	Familiarising with the information obligation	Companies exporting	250	90	375	1	96.440	385760		144660000	1	0	25%	75%		
10			Non labelling information for third parties	Copying	Companies exporting	250	90	375	1	96.440	385760		144660000	1	0	25%	75%		
12			Non labelling information for third parties	Submitting information to the relevant actor	Companies exporting	250	90	375	1	96.440	385760		144660000	1	0	25%	75%		
14			Non labelling information for third parties	Designing information material (leaflet conception...)	Companies exporting	250	90	375	1	96.440	385760		144660000	1	0	25%	75%		

Total administrative costs (€) 27.241.717.500
 Total administrative burden (€) 27.241.717.500
 Administrative costs by origin (€) 27.241.717.500
 Average cost per company trading domestically 1.500
 Average cost per company exporting 6.000

ANNEX VIII: ANALYSIS OF IMPACTS OF MAJOR SUBSTANTIVE PROVISIONS OF A COMMON EUROPEAN SALES LAW

METHODOLOGY

A Common European Sales Law would comprise of a number of provisions, however, not each provision is likely to have a direct impact of the same magnitude on stakeholders. There are some rules, for instance the consumer protection provisions, which have received particular attention by both businesses and consumer stakeholders. For example, business representatives have pointed out that a Common European Sales Law should have a balanced level of consumer protection,⁴²⁸ and consumer representatives have insisted that any new regulatory or non-regulatory tool in the field of consumer policy should have a clear added value for consumers.⁴²⁹

Quite a number of the provisions arise from the existing EU acquis or the the Consumer Rights Directive (CRD) which has been recently adopted. As a result, these provisions would have to be integrated and have already been impact assessed.

For the purpose of this impact assessment report a number of provisions have been selected for a detailed impact analysis. They include the rules which could be potentially burdensome on business or important for consumer confidence. They exclude provisions arising from existing EU acquis or the CRD. For each of the former provisions, the legal comparison and the assessment of impacts are carried out.

Legal analysis

The legal comparison sets out the draft provisions of a Common European Sales Law and compares it to the level of protection provided in the legal systems of a representative selection of Member States. It concludes with the impact such a provision would have on the level of protection in these Member States.

The sample of Member States (for most of the provisions) include: Austria, Belgium, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Romania, Spain and United Kingdom. This selection ensures a good geographical coverage (representation of EU15 and EU12 Member States) as well as coverage of different legal systems and traditions.

Assessment of impacts

For each provision the costs and benefits for the main stakeholders groups i.e. consumers and businesses are analysed.⁴³⁰ These analyses are mostly of a qualitative nature. However, where reliable assumptions could be made and there was enough reliable information, the impacts are also monetised.

428 See for instance responses to the European Commission Green Paper consultation on Policy Options towards a European contract law for consumer and businesses by: Eurocommerce, p.4; Emota, p.2; UEAPME, p.3

429 See for instance response to the European Commission Green Paper consultation on Policy Options towards a European contract law for consumer and businesses by BEUC, p.9

430 These analyses are mostly of a qualitative nature. However, where reliable assumptions could be made and there was enough reliable information, the impacts are also monetised.

B2C TRANSACTIONS

Pre-contractual information:

Remedies for breach of information duty

Issue:

In the existing consumer acquis, there is only an obligation imposed on Member States to ensure adequate and effective means exist to ensure compliance with the pre-contractual requirements provided by Directives in the interests of consumers. For example Art. 11 (1) Directive 97/7/EC of the European Parliament and of the Council of 20 May 1997 on the protection of consumers in respect of distance contracts. This Directive also states that where the business does not provide pre-contractual information to the consumer, then the withdrawal period of seven days is extended. However, the *acquis* does not provide any right for damages.

A Common European Sales Law would introduce the following additional remedies in case of breach of pre-contractual information duties (if there was no information provided or the information provided was not correct): Where the business has not fulfilled his pre-contractual information duty and, as result a contract has been concluded which the other party would not have concluded, or would not have concluded on the same terms, the business would be liable for damages. This would be a mandatory rule for B2C contracts.

- Where the business has not fulfilled his pre-contractual information duty and a contract has been concluded, the other party may, under certain conditions, avoid the contract under the 'mistake' or 'fraud' provisions.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
BE	<p>- Distance contracts: The Belgian Act of 6 April 2010 on Market Practices and Consumer Protection contains most of the national provisions implementing EU consumer contract law directives, does not provide for a specific right to damages or a right to enforce the obligation. It has been defended that a consumer who does not exercise his right of withdrawal can claim damages for any loss incurred by the omission of the information on the basis of the general Art. 1382 Civil Code on extra-contractual liability. No case law is known.</p> <p>- Off-Premises contracts: Off-premises sales contracts must mandatorily be in writing. The absence of a written contract leads to the nullity of the contract. It is disputed whether this nullity is of public order (in which case it has to be raised ex officio by the judge). Normally courts do not recognise a right for the trader to claim any compensation in case of nullity of the off- premises sales contract (except where the consumer acted in bad faith). Like for distance contracts it would seem that the consumer in an off-premises contract would also have the right to claim damages under tort law for any loss caused by the absence of the information.</p> <p>- In Belgian law it is generally accepted that a contract is concluded on the basis of the expressed will of the parties rather than on their intended will. Thus where a party could legitimately rely on the other party's declaration, that declaration will prevail over the real will of that party and the parties will be deemed to have agreed on that basis.</p>	+

DE	- Damages follow from §§ 280, 311 (1), 241 (2) BGB.	=
EE	- In the breach of information duties the consumer will have a right to damages under general information duties rule (no special regulation).	=
ES	<p>- Distance sales: Administrative sanctions for breach of obligations regarding information and documentation [Sections 49.2.b) and 50.2 Act 1/2007, of 16th November, that passes the codified text of the General Law for the Defence of Consumers and Users and other complementary laws, henceforth TRLGDCU]. Reference to the TRLGDCU general provisions for B2C contracts and the Spanish Civil Code general contractual provisions:</p> <p>→ TRLGDCU: There are no special provisions on damages regarding breach of information duties. According to Section 65, consumers' contracts that do not include relevant pre-contractual information will be completed in favour of consumers, according to the good faith principle.</p> <p>→ Civil Code: There are no special provisions on damages regarding breach of information duties. Consumers will have a right to damages based on pre-contractual liability or culpa in contrahendo (Sections 7.1, and 1902 of the Civil Code). Contracts in which the failure to provide information amounts to –essential- mistake (error esencial) or fraud (dolo omisivo o reticencia dolosa), the lack of information can make the contract void (Sections 1266, 1269, 1270, and 1300 and ff. of the Civil Code), and can eventually also lead to damages. In cases of fraud (including for lack of information) case law of the Spanish Supreme Court allows the innocent party to use the remedies in the contract (essentially full damages and/or rescission, but there has been one case in which specific performance was granted) instead of avoidance and the accompanying damages.</p> <p>- Doorstep/off-premises sales: Consumers will have a right to damages based on precontractual liability or culpa in contrahendo (Sections 7.1 and 1902 of the Civil Code). Contracts can be made void (Art. 112 TRLGDCU) if consumers have not been informed about their right to withdraw from them (Sections 69 and 111 TRLGDCU).</p>	=
FI	<p>- Consumers may have the right to damages if there is a breach of pre-contractual information duties. Right to remedies is not automatic but depends on how essential the breach has been. These are general principles which apply for all kind of (consumer) contracts.</p> <p>- Consumer Protection Act Chapter Section 20 — Failure to provide information (1072/2000):</p> <p>(1) If the door-to-door selling document or the confirmation (...) has not been supplied to the consumer, the contract shall not be binding on him/her. If the consumer wishes to invoke this remedy, he shall notify the business within one year of the conclusion of the contract.</p> <p>(2) If the business supplies the door-to-door selling document or the confirmation before the consumer has invoked the non-bindingness of the contract, the consumer shall be entitled to withdraw from the contract, in door-to-door selling ... and in distance selling ... as from the receipt of the document or the confirmation.</p> <p>(3) If the contract lapses owing to the consumer having invoked its non-bindingness, the business shall without delay and in any event within 30 days of the notification refund the payments received and compensate the consumer for the costs of returning the goods or other performances.</p>	=

FR	The pre-contractual information duties for doorstep and off-premises sales are provided by Art. L. 121-18 of the consumer code. Distance sales are dealt with in Art. L. 121-18 of the consumer code. No specific remedies are provided by French law more than the Directives allow. However application of general rules about damages and interpretation would lead to the same remedies mentioned above in the introductory paragraph.	=
HU	- Regarding distance contracts, there are no specific remedies providing for damages for the non-compliance with the information requirements (see: Arts. (3) and (4) of the Government Decree of 17/1999 on distance contracts. - Regarding off-premises contracts, under Art. 3 (1) of the Government Decree of 213/2008 on off-premises contracts if the seller does not fulfil its information duties the contract shall be null and void.	+
IT	- There are no special provisions on damages regarding breach of information duties, but the general provisions on damages apply. (Arts. 1337, 1218 of the Civil Code; see also, Cass. S.U. 26724/07).	=
LU	- Distance contracts: In the absence of confirmation of the imposed pre-contractual information duties (latest at the delivery of the goods or supply of services), the withdrawal right is extended by a further 3 months (Art. L. 222-5 Code Consommation). - Off-premises: If the consumer has not been properly informed in writing about his/her withdrawal right, the contract is void and this avoidance may be invoked by the consumer whatever the time lapsed since delivery of the goods or execution of the service (Art. 10 loi concernant le colportage, la vente ambulante, l'étalage de marchandises et la sollicitation de commandes).	+
NL	- Under current Dutch law there would be liability in damages only in the cases where the failure to provide the information would amount to an unfair commercial practice (see Art. 6:193j BW) or to a common tort, where fault would have to be established (6:162 BW).	+
PL	- There is no special provision on damages regarding breach of information duties, but the general provisions on damages (Arts. 471 and 415 of the Civil Code) would apply.	=
PT	Same protection regarding the right to damages.	=
RO	In Romanian consumers protection legislation, failure to inform the consumer prior to the conclusion of a distance agreement, insofar as it concerns certain specific matters (e.g. the essential characteristics of the product/service/tariff, consumer's right to have the agreement terminated for convenience, price) constitutes a minor offence and is sanctioned by an administrative fine ranging between (approx.) €250 and €1,000. No right to damages is expressly conveyed to the consumer under the specific legislation for cases where business defaults on its information duties. However, where it may be proven that damage has been caused, the consumers may obtain proper reparation based on the Romanian Civil Code provisions relating to tort. If the business fails to inform the consumer of his/her right to terminate the agreement for convenience, or such information is incomplete or mistakenly transmitted, the consumer's right to terminate the agreement for convenience is extended from 7-10 days to 60-90 days.	=
UK	- No provisions on damages.	+

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	No costs for consumers.
Benefits for consumers	Pre-contractual information requirements are one of the most important instruments for consumer protection. However at present, in a number of Member States, companies are not liable for damages if a consumer concludes a contract as a result of the incorrect information or in the absence of information (e.g. BE, HU, LU, UK). Consumers could under certain conditions also avoid the contract under the 'mistake' or 'fraud' provisions (see section 2.2 and 2.3). Consumers would benefit from receiving more accurate information which would enable them to take well informed purchasing decisions.
Costs and benefits for businesses	
Costs for businesses	Businesses would be liable for information requirements and damages if they fail to provide information or provide incorrect information. The additional costs related to any potential claims for damages would affect traders who do not currently fulfill their obligations to provide full or correct pre- contractual information to consumers. In many Member States, the general provisions regarding the rights to damages already apply (e.g. DE, ES, EE, FI, FR, IT, PL, PT, RO). In these countries, the Common European Sales Law would confirm or further clarify these obligations but not create any additional obligations.
Benefits for businesses	Businesses would benefit from clearer rules and increased consumer confidence.

Duty to ensure information supplied is correct

Issue:

In addition to the general duty to disclose information about goods and services, a Common European Sales Law could introduce a duty for the party who supplies information before or at the time a contract is made, to take reasonable care to ensure that the information supplied is correct and is not misleading. In case of breach of this duty the aggrieved party has the remedies for breach of information duties (see point 2.1.1 above).

Country	Provision comparison	Impact on the level of consumer protection
BE	- Art. 4 of the Law of 6 April 2010 on Market Practices and Consumer Protection (MPCPA ⁴³¹) contains a general information duty of businesses vis-à-vis consumers: at the latest at the moment of convening the contract, the business shall give in good faith the consumer appropriate and useful information with regards to the most important characteristics of the product and concerning the sale conditions, taking into account the need for information expressed by the consumer and taking into account the expressed use or the reasonable foreseeable use by the consumer.	=

⁴³¹ Law of 6 April 2010 concerning 'market practices' and consumer protection, BS 12 April 2010.

	<p>- Under general contract law giving incorrect or misleading information is considered fraud ('vice du consentement'; 1116 Civil Code). Four conditions must be fulfilled: (1) the use of artifices; (2) the fraud must be committed by the other contracting party; (3) the party that commits fraud must have the intention to deceive or to mislead the other party and finally (4) the fraud must be of an overriding importance. Only if the latter condition is fulfilled, will fraud ('principal fraud') lead to the avoidance of the contract (at the request of the party that is victim of the fraud). If the fraud is not of an overriding importance and has not led the other party to enter into the contract (but could have led him or her only to enter into the contract under different conditions, e.g. a lower price) the fraud is 'incidental'. In the latter case, only damages can be claimed on the basis of a pre-contractual fault (tort liability: Art. 1382 of the Civil Code). The first condition (artifices) will be fulfilled: 1) If the information provided is incorrect, incomplete or misleading, (through lies, misleading declarations or overstatements); or 2) If there is an omission to provide information; in this case fraud will only be accepted if there is a special duty to inform and if the contracting party deliberately conceals this information. This special duty to speak can come forth of special legislation (e.g. Art. 4 MPCPA). Thus, in B2C situations it is also very likely that an omission to give information can constitute fraud.</p> <p>- All violations of the MPCPA, can give rise to an action for injunctive relief, although in the case of Art. 4 that sanction does not seem to be obvious. In addition, violation in bad faith of that provision is a criminal offense (fines: €500-€20000). In many cases of violation of Art. 4 MPCPA the consumer will have the possibility to rely on the remedies of general contract law: pre-contractual liability (culpa in contrahendo: Art. 1382-1383 of the Civil Code (damages)) and the sanction of avoidance for a defect of consent (mistake or fraud). But no right to enforce an obligation on which the consumer reasonably believed was due to the breach of information duty.</p>	+ Regarding remedies
EE ⁴³²	Estonian Law of Obligations Act (1.07.2002) provides (§ 14. Pre-contractual negotiations): Persons who engage in pre-contractual negotiations or other preparations for entering into a contract shall take reasonable account of one another's interests and rights. Information exchanged by the persons in the course of preparation for entering into the contract shall be accurate. There are no special remedies provided for in the Art. itself, but all remedies mentioned above are available (LOA § 101 (1)).	=
ES	No similar provision exists in Act 1/2007, of 16 th November, that passes the codified text of the General Law for the Defence of Consumers and Users and other complementary laws (TRLGDCU). Nevertheless, Section 60 TRLGDCU establishes that, before a contract is made, businesses must give relevant, truthful and sufficient information about the main features of the contract to consumers (see the same provision in Section 97 TRLGDCU for distance contracts). The general remedies in Spanish Contract Law (TRLGDCU) would be available and are roughly similar.	Slightly +
FI	No such duty in Finnish law. But if the party supplies wrong information and the goods do not correspond to that information, the goods are defective (Consumer Protection Act, Chapter 5, Section 13).	+

432 ESTONIA: The responses are based on the Law of Obligations Act (LOA, 2002) which contains all relevant mandatory provisions for B2C and B2B contracts, General Part of Civil Code Act (2002) and Consumer Protection Act (1995).

IT	<p>There is no such provision under Italian law. The Italian Consumer Code however has extended the meaning of unfair commercial practises also to misleading negotiation practises (Art. 21-23 Consumer Code).</p> <p>According to Art. 20 of the Consumer Code, the victim of misleading information is entitled to claim for damages under general rules on torts (Art. 2043 of the Civil Code).</p>	<p>= for the duty</p> <p>+ for remedies</p>
LU	<p>The business' obligation not to supply false or misleading information derives from the implementation of the UCPD (Code de la consommation L.122-2).</p> <p>Consumer may invoke avoidance of any contract clause(s) which infringe L.122-2 – see L. 122-8 (2) of the Consumer Code.</p>	<p>= for the duty</p> <p>+ for remedies</p>
PL	<p>There is no such special provision and no such remedies under Polish Law.</p>	<p>+</p>
PT	<p>- In general: Art. 227 para 1 of the Civil Code which provide a general duty of good faith in pre-contractual relations, from which the courts derive a duty to ensure the information is not misleading. Art. 8, para 1, of the Consumer Protection Act (CPA – Law 23/96, from the 31st July 1996), provides the same rule.</p> <p>- The remedies in general are damages; in contracts with consumers, there can also be the possibility for the consumer to withdraw from the contract; but no right to enforce an obligation on which the consumer reasonably believed was due to the breach of the information duty.</p>	<p>=</p> <p>+ for remedies</p>
UK	<p>England and Wales: The rules governing misrepresentation, including Misrepresentation Act 1967, s 2(1) apply in principle only where there has been a misstatement of fact, but the courts are ready to find that a statement that literally may be true but which is misleading amounts to a false statement. Right to avoid if misrepresentation is serious; right to damages unless the person giving incorrect information shows that they had reasonable grounds for belief.</p> <p>Scotland: No such duty is directly imposed in Scottish law. However, there will often be remedies via the rules on error or damages for fraud or negligent misrepresentation. Also information may have to be given to avoid liability for non-conformity.</p>	<p>Slightly +</p>

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	No costs for consumers.
Benefits for consumers	Information requirements are one of the most important instruments for consumer protection. Proper information about goods and services enable consumers to make an informed purchasing decision and facilitate product comparison. Consumers are only enabled to do this if the information on goods and services provided to them is correct and not misleading. In the case of a breach of information obligations, consumers would benefit from remedies (see assessment in point 2.1.3)
Costs and benefits for businesses	
Costs for businesses	Businesses would have some additional costs to ensure that the information supplied is correct and is not misleading. However, these costs are considered as minor as the

	required standard would correspond to normal business practice. In many Member States, the rules on available remedies in the case of a breach of information requirements are less protective (e.g. PT, UK, LU, IT, ES, BE) and businesses might incur some additional costs if consumers make use of these remedies (see assessment in point 2.1.3)
Benefits for businesses	Businesses would benefit from increased consumer confidence and from more clear rules concerning their rights and obligations.

Mistake

Issue:

In the existing consumer acquis there are no contract law rules on a mistake and its consequences.

A Common European Sales Law would introduce a right of each party to avoid a contract for a mistake if the party, but for the mistake, would not have concluded the contract and if the other party: (1) caused the mistake; or (2) knew or could be expected to have known of the mistake and caused the contract to be concluded under a mistake by not pointing out the relevant information, provided that good faith and fair dealing would have required the party aware of the mistake to point it out; or (3) caused the contract to be concluded in mistake by failing to comply with his pre-contractual information duty; or (4) made the same mistake.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
AT	§ 871 (1) ABGB: Avoidance if the mistake is fundamental and caused by the other party or the other party should have been aware according to circumstances. No particular reference to good faith and fair dealing. There is also a right of avoidance if the other party made the same mistake, but no black letter rule.	=
DE	Broader right of avoidance under § 119 BGB (insofar one could say better protection in German law).	-
EE	Same as in the General Part of Civil Code Act § 92.	=
ES	Under Section 1266 of the Civil Code, 'for error to invalidate consent, it must be about the substance of the thing which constituted the subject matter of the contract, or about the conditions thereof which should have been the main reason to enter into it. Error concerning the person shall only invalidate the contract where consideration for such person should have been the main cause thereof. A simple error in counting shall give rise only to its correction'. According to case law regarding Section 1266 of the Civil Code, a mistake is fundamental and therefore there is a right of avoidance (Sections 1300 and ff. of the Civil Code) when: - the mistake affects the conditions that have been a decisive cause of conclusion of the contract so the party, but for the mistake, would not have concluded it or would have done so only on fundamentally different terms. - the mistake has been caused -not necessarily by fraud-by the other party	=

	<p>or at least the other party knew of the mistake.</p> <ul style="list-style-type: none"> - the mistake cannot be avoided with ordinary diligence. -the other party made the same mistake. 	
FI	Section 33 in Contract Law: A transaction that would otherwise be binding shall not be enforceable if it was entered into under circumstances that would make it incompatible with honour and good faith for anyone knowing of those circumstances to invoke the transaction and the person to whom the transaction was directed must be presumed to have known of the circumstances. Concerning the mistake of both parties, there is no such provision.	+
FR	A mistake is regulated by Art. 1110, of the Civil Code and case law: A contract may be void if the mistake is provoked by the other party or if that other party makes the same mistake (e.g. Cass. civ. 1re, 17 sept. 2003, Bull. civ. I n° 183). In French Law, a mistake (even on a minor subject) always avoids the contract when this mistake is due to fraud of the other party (Cass. civ. 3e, 21 févr. 2001, Bull. civ. III, n° 20).	Slightly +
HU	Under Art. 210 (1) and (3) of the Civil Code the party acting under a misapprehension regarding any essential circumstance at the time of the conclusion of the contract is entitled to challenge his contract statement if his mistake had been caused or could have been recognised by the other party. If the parties had the same mistaken assumption at the time of the conclusion of the contract, either of them may challenge the validity of the contract.	=
IT	Under Art. 1428 of the Civil Code a right of avoidance exists when the mistake is essential and recognisable by the other party. Italian case law under this Art. admits a right of avoidance also without the required condition of recognisability when the same mistake is made by the other party. There is no provision about the right to claim for damages against the party who caused the mistake.	+
LU	Same protection (i.e. Art. 1110 of the Civil Code).	=
NL	Level of protection more or less the same (Art. 6:228 BW).	=
PL	Under Art. 84 of the Civil Code, where a declaration of will containing a mistake is made to another person, the mistake must be caused by that person (even without fault) or must be on which was known or should be known or could be easy have been noticed by that person. Under Polish law there is no provision about the other's party making the same mistake.	Slightly +
PT	<ul style="list-style-type: none"> - Avoidance for mistake depends on the condition that other party has known or should have known that the mistake concerned an element that was essential to the mistaken party. - Mutual mistake can lead to right of avoidance if it relates to the basis of contract (fundamental presuppositions of both parties). - Simple causation of the mistake gives no right of avoidance (Arts. 247, 251 and 252 of the Civil Code). However, in B2C contracts if the mistake was caused by violation of the duty to inform by the business and it affects adequate usage of the good or service, the consumer can rescind the contract within a short delay of 7 days (Art. 8, para 4 of the Consumer Protection Act [CPA]). 	Slightly +
RO	In accordance with the provisions of the Romanian Civil Code, the error is capable of invalidating the consent when it bears to the substance of the essential things or matters falling within the scope of the agreement or to the person in whose consideration the agreement has been	+

	concluded with.	
UK	<ul style="list-style-type: none"> - Avoidance in the case of a mistake caused by the other party falls under the rubric of misrepresentation or, in Scotland, induced error. - Concerning the latter case that the other party knew or could be expected to know the mistake and was required to point it out, there is no provision. - Mistake by both parties gives the right of avoidance only under very restrictive conditions, almost requiring that the contract was in fact impossible to perform, Scottish law takes a slightly less restrictive approach. 	+

⁺ means an increase, ⁻ means a reduction and ⁼ means no change in the level of consumer protection

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	No costs for consumers.
Benefits for consumers	Consumers would be able to claim damages for mistakes in well defined situations. At present, many national laws foresee the possibility for the consumer to avoid a contract only for some of these defined situations (e.g. UK, PT, IT, PL, FR, FI). Under a Common European Sales Law, consumers in these Member States would benefit from strengthened rules. In other Member States, where the current rules offer the same level of protection, consumers could gain some clarity as the rules on mistakes would list specific situations in which a party could avoid a contract for a mistake (e.g. HU, LU, NL, EE, ES).
Costs and benefits for businesses	
Costs for businesses	Some businesses might face some increase of costs as the result of strengthened rules concerning the situations in which a contract might be avoided and in which consumers may potentially claim damages (e.g. UK, PT, IT, PL, FR, FI). However, the costs are considered to be minor as they would mostly impact on the small number of traders who act in contrary to fair trading principles and conclude a contract not pointing out a mistake.
Benefits for businesses	Businesses would benefit from more clear rules concerning their rights and obligations.

Fraud

Issue:

In the existing consumer acquis there is no contract law rule on fraud and its consequences. A Common European Sales Law could introduce a right of each party to avoid a contract for fraud. Fraud can take place orally, by conduct or by fraudulent non-disclosure of information which good faith, fair dealing or any pre-contractual information duty require the other party to be informed about.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
AT	Not explicitly said in the rule on fraud (§ 870 ABGB). But requirement included in § 871. Also: § 928 handles liability for fraudulent silence on a defect.	=
BE	The right of avoidance for fraud requires that the fraud is committed by the other party. Keeping silent about certain information constitutes fraud where the party not disclosing the information has an obligation to provide information. That obligation may result from a specific legal provision (e.g. Art. 4 Market Practices Act: the general duty / obligation of information) or the special responsibility or competence of that party, e.g. a specialised business and a consumer who could reasonably not obtain the information but from the business.	=
DE	German law provides a similar protection: under case law on § 123 BGB.	=
EE	Estonian law provides a similar protection: under the General Part of the Civil Code, Act § 94 (2).	=
ES	Spanish law offers a similar protection: Under Section 1269 of the Civil Code, 'Fraudulent misrepresentation exists where, with insidious words or machinations on the part of one of the contracting parties, the other party is induced to enter into a contract which he would not have done without them'. Although Section 1269 of the Civil Code does not foresee the right to avoidance by fraudulent non-disclosure of any information which good faith or any pre-contractual information duty required that party to disclose, it is inferred from case law regarding this Section.	=
FR	French jurisprudence offers a similar protection: fraud because of non disclosure of information (Cass. civ. 3e, 15 janv. 1971, Bull. civ. III, n° 38), by application of Art. 1116 of the Civil Code dealing with fraud.	=
HU	Hungarian law provides the same protection based on the interpretation of Art. 4 (1) and 210 (1) of the Civil Code.	=
IT	According to Italian case law under Art. 1439 of the Civil Code, the notion of fraud includes fraudulent non-disclosure of any information and false representation.	=
LU	Luxembourgish law provides the same protection: under Art. 1116 of the Civil Code.	=
NL	The level of consumer protection under fraud in Dutch Law (Art. 3:44 BW) is more or less the same. However, in practice, it is almost impossible to prove fraud under Dutch law where the fraud is said to be constituted by keeping silent in breach of good faith and fair dealing, as the Supreme Court has determined that the consumer (as the trader's counterpart) bears the burden of proof that the trader has concealed the relevant fact - i.e. acted on purpose – and that where the trader has 'merely forgotten' to mention the relevant facts does not give ground to a claim for fraud (see HR 2 May 1969, NJ 1969, 344 (Beukinga/Van der Linden)).	+
PL	There is no general duty of disclosure under a regulation of fraud (Art. 86 of the Civil Code) – Under the circumstances such a duty could arise from the good faith and fair dealing rule.	+

PT	Portuguese law offers the same protection according to Arts. 227 para 1 and 253, para 2, of the Civil Code.	=
RO	Under the Romanian Civil Code, the fraud constitutes a cause for invalidating an agreement if the fraudulent means used by a party leaves no room for interpretation that the other party would have not entered into the agreement had he been aware of them. However, there is no protection for fraud committed in the pre-contractual phase except for remedies based on the Romanian Civil Code provisions relating to tort.	=
UK	No such rule (unless the parties are in a relationship of trust and confidence).	+

⁺ means an increase, ⁻ means a reduction and ⁼ means no change in the level of consumer protection

Assessment of impacts

Costs and benefits for consumers		
Costs for consumers	No costs for consumers.	
Benefits for consumers	At present, in most Member States there are general rules in case law that ensure a similar level of consumer protection (e.g. AT, BE, DE, ES, FR, HU, IT, PT, RO) Nevertheless, in these countries consumers would benefit from having more clear and specific rules. Consumer confidence would increase, as it would be easier to assert the consumers right in case of a fraud.	
Costs and benefits for businesses		
Costs for businesses	No additional costs for businesses as in most Member States the current rules provide for avoidance of a contract for fraud. Any potential costs would only arise for rogue businesses which use fraudulent practices, possibly in countries where the present rules are not so clear (e.g. UK, PL).	
Benefits for businesses	Legitimate businesses would gain a competitive advantage as clear rules against fraud would eliminate rogue traders using fraudulent practices. In the case of concluding a contract based on the consumer's fraudulent non-disclosure of information, it would be easier for businesses to avoid such a contract.	

Unfair exploitation

Issue:

In the existing consumer acquis, there is no contract law rule regarding unfair exploitation.

A Common European Sales Law could introduce a right for a party to avoid a contract if, at the time of the conclusion of the contract:

- the party was dependant on or had a relationship of trust with the other party, was in economic distress or had urgent needs, was improvident, ignorant, inexperienced or lacking in bargaining skill; and

- the other party knew or could be expected to have known this and took an excessive benefit or unfair advantage

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
AT	Same provisions: covered by § 879 (2) 4 ABGB. Invalidity of	=

	contracts contra <i>bonos mores</i> .	
BE	There is no general principle or rule in Belgian law that a contract is avoidable in case of unfair exploitation. The avoidance of unfair terms in consumer contracts is seen as a <i>lex specialis</i> . There is also a special provision in the Civil Code on loans for interest that gives the judge the power to reduce the borrower's obligation to reimburse the loan and/or to pay interests where the lender has exploited the weakness, the passion or the ignorance of the borrower by charging an interest that is manifestly excessive. (Art. 1907 of the Civil Code).	+
DE	German law contains similar provisions, under § 138 BGB and case law; this case is constructed not as a right of avoidance, but as a nullity of the contract or juridical act.	=
EE	Estonian law contains similar provisions in the General Part of its Civil Code Act § 96.	=
ES	Under Spanish law, there is no general possibility of avoiding the contract for unfair advantage except where: (i) there is duress; (ii) there is some quantitative disadvantage in very specific cases involving minors and similarly situated persons, and no other remedy is available; (iii) in certain Spanish regions -Cataluña, Navarra- where the traditional rescission by seller for <i>laesio enormis</i> is applicable.	+
FI	Finnish law provides a similar protection: Section 31 in the Contracts Act provides that if anyone, taking advantage of another's distress, lack of understanding, imprudence or position of dependence on him/her, has acquired or exacted a benefit which is obviously disproportionate to what he/she has given or promised or for which there is to be no consideration, the transaction thus effected shall not bind the party so abused.	=
FR	Art. L. 122-8 of the Consumer Code prohibits ' <i>abus de faiblesse</i> ' (weakness abuse) through criminal prosecution. As a civil sanction mistake could make the contract void. Case law has also developed the idea of ' <i>contrainte économique</i> ' (economic constraint) on the basis of threat (Art. 1112, of the Civil Code) which is a cause of avoidance (Cass. civ. 1re, 30 mai 2000, Bull. civ. I, n° 169. - 3 avr. 2002, Bull. civ. I, n° 108).	=
HU	Under Art. 202 of the Civil Code if a contracting party has stipulated an unreasonably disproportionate advantage at the conclusion of the contract by exploiting the other party's situation, the contract shall be null and void.	=
IT	Under Art. 1448 of the Civil Code the party is entitled to avoid the contract when there are specific conditions such as: a) 'ultra dimidium' disproportion among the reciprocal obligations; b) the party had urgent needs; c) the other party exploited the first party's situation by taking an excessive benefit or an unfair advantage.	=
LU	Luxembourgish law provides a similar protection: Art. 1118 Code Civil.	=
NL	Dutch law offers a similar protection: under 'abuse of circumstances' in Art. 3:44 BW.	=
PL	Polish law offers a similar protection: under Art. 388 of the Civil Code in a case of unfair exploitation, a party may demand a reduction of its own performance or an increase in the performance due it and in the event that one or the other would be excessively difficult, it may demand that the contract be declared invalid.	=

PT	Portuguese law offers a similar protection: under Art. 282 of the Civil Code, if the other party has drawn excessive or unjustified benefits of the exploitation. This Art. also applies to other conditions, namely the exploitation of dependency, weakness of character or mental state of the other party.	=
RO	Romanian Civil Code provides the possibility to invalidate the agreement on grounds of lesion for the minors and other incapacitated persons. Under Romanian consumer protection legislation, the unfair exploitation may be inferred from any clause which was not negotiated with the consumer and which created in the detriment of the consumer (between the rights granted and the obligations undertaken) and contrary to the good faith principle, a significant imbalance.	=
UK	English law provides a similar protection if either the parties have a relationship of trust and confidence or one of them is a 'poor and ignorant person', who acts without advice. In Scotland there can be avoidance for; facility and circumvention;. This is not limited to cases of necessity or ignorance but requires some mental weakness, some lesion and some element of deceit or dishonesty on the part of the exploiting person.	Slightly +

⁺ means an increase, ⁻ means a reduction and ⁼ means no change in the level of consumer protection

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	No costs for consumers.
Benefits for consumers	Consumers would benefit from having clear protection against unfair exploitation e.g. they would be able to avoid a contract if they were in economic distress, or had urgent needs, were improvident, ignorant, inexperienced or lacking of bargaining skill and the other party knew this and took an excessive benefit from it. Consumers would particularly benefit in the small minority of countries where at present the rules are less specific (e.g. BE, ES, UK).
Costs and benefits for businesses	
Costs for businesses	No additional costs for businesses as in most Member States (e.g. AT, DE, FI, IT, RO, PL, PT, NL, LU, FR, HU, EE) the current rules provide for the similar level of consumer protection against unfair exploitation. Any increase in costs would affect only rogue traders that currently benefit from less strict rules on unfair exploitation in a few Member States (e.g. UK, ES, BE)
Benefits for businesses	Businesses would benefit from relying on one set of clear rules concerning unfair exploitation.

Interpretation in favour of consumers

Issue:

According to the existing consumer acquis, where there is doubt about the meaning of a contractual term which has not been individually negotiated the interpretation most favourable to the consumer shall prevail (Art. 5 of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts).

A Common European Sales Law could possibly extend this interpretation rule to all contractual terms whether they are individually negotiated or not, unless the term was supplied by the consumer.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
AT	General 'unclearness rule': An unclear statement is interpreted to the detriment of the party who used it (§ 915 ABGB).	Slightly +
BE	In case of doubt about the meaning of a contract term in a contract between a business and a consumer, whether supplied by the consumer or not (the law does not make a distinction here), the interpretation that is most favourable to the consumer prevails (Art. 40, § 2, Market Practices Act).	=
DE	Interpretation rule in favour of consumers (§ 305c (2) BGB) does not apply for individually negotiated terms.	+
EE	The Estonian law does not contain such provision. This could be taken into account under the rules of objective interpretation but not as an obligation (LOA § 29 (4)). Special rule on interpretation of standard terms contracts in favour of the other party (LOA § 39).	+
ES	In case of doubt about the meaning of standard terms, interpretation most favourable to consumer prevails (Section 80.2 TRLGDCU).	+
FI	According to the Consumer Protection Act Chapter 4 Section 3 and 4: If a term in a contract referred to in this Act has been drafted in advance without the consumer having been able to influence its contents and if uncertainty arises as to the significance of the term, the term shall be interpreted in favour of the consumer. If a dispute arises as to whether a term referred to in sections 2 and 3 has been drafted in advance, the burden of proof of this shall lay on the business.	+
FR	Art. L. 133-2 of Consumer Code provides this solution. The general rules are on Art. 1162 of Civil Code; according to case law the contract is interpreted against the party who has drafted it (Cass. Civ. 1re, 22 oct. 1974, Bull. civ. I, n° 271).	=
HU	Same solution according to Art. 207 (2) of the Civil Code: in general, in the event of a dispute, the parties shall, in light of the presumed intent of the person issuing the statement and the circumstances of the case, construe statements in accordance with the general accepted meaning of the words. However, in consumer contracts the national law creates an exception: according to the referred Art. of the Civil Code, if the contents of a consumer contract cannot be clearly established, the interpretation that is more favourable to the consumer shall be authoritative.	=
IT	Italian law provides the same protection (Art. 35 co. 2 Consumer Code; Art. 1370 of the Civil Code).	=
LU	Luxembourgish law offers the same protection (Art. L.211-2 (2) Code Consommation)	=
MT	Art. 1009 of the Civil Code: In case of doubt, the agreement shall be interpreted against the obligee and in favour of the obligor. In addition, Art. 47(2) of the Consumer Affairs Act provides that 'where any term is ambivalent or any doubt arises about the meaning of a term, the interpretation most favourable to the consumer shall prevail'.	=

NL	A general rule to this extent does not exist in Dutch law; <i>contra proferentem</i> may at most be one of the factors to be taken into account. The <i>contra proferentem</i> rule applies as a rule only with regard to not-individually negotiated terms in consumer contracts, see Art. 6:238(2) of the Dutch Civil Code, introduced in order to implement Art. 5 of the Unfair Terms Directive.	+
PL	Under Art. 385 §2 of the Civil Code interpretation <i>contra proferentem</i> is recognised for standard terms in consumer contracts (without limitation of terms supplied by consumer).	+
PT	Portuguese law does not contain such provision.	+
RO	Under the Romanian legislation, in case of doubt about the meaning of standard terms, the interpretation which is most favourable to consumers prevails.	+
UK	No such a rule. However, courts do seem to interpret contracts in favour of the consumer. In England, Wales and Scotland <i>contra proferentem</i> rule might lead to this result, but not confined to consumers.	+

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Assessment of impacts:

Costs and benefits for consumers	
Costs for consumers	No costs for consumers.
Benefits for consumers	Consumers would benefit in case there is doubt about the meaning of a contractual term, negotiated or not, as the interpretation most favourable to the consumer shall prevail in this case. In many Member States, the interpretation in favour of consumers apply only to standard terms and individually negotiated terms are excluded (e.g. DE, RO, PL, NL, FI, ES). As businesses would try to avoid any potential doubts as to the interpretation of the contractual terms, consumers might also benefit from having more clear contracts.
Costs and benefits for businesses	
Costs for businesses	There could be some additional costs for companies in case of doubts about the meaning of a contractual term which has not been individually negotiated as the interpretation most favourable to the consumer is also likely to be more costly for businesses. These additional costs are expected to be rather minor as they would only occur in case of doubts as to the interpretation and businesses would be interested in avoiding such situations by making sure that the contractual terms do not raise any doubts. For companies in a number of Member States (e.g. IT, LU, MT, HU) there would be no change as the current rules provide for similar levels of protection as a Common European Sales Law.
Benefits for businesses	Businesses might gain indirectly from having more clear terms in contracts which do not leave scope for divergent interpretation.

Terms unfair as not sufficiently drawn to the consumer's attention

Issue:

A Common European Sales Law could protect against standard terms of which the party not supplying the terms could not be aware: contract terms supplied by one party and not individually negotiated may be invoked against the other party only if the other party was aware of them, or if the party supplying them took reasonable steps to draw the other party's attention to them, before or when the contract was concluded.

Moreover, a term could be considered as not sufficiently brought to the consumer's attention by the mere reference to it in a contract document, even if the consumer signs the document.

Country	Provision comparison	Impact on the level of consumer protection
BE	<p>Under Belgian law, the control of unfair contract terms in B2C relations extends to terms that have been individually negotiated. Although there is no such provision in Belgian law, with regard to B2C contracts, Art. 74(26°) MPCPA states that the following term is in all circumstances unlawful: a term which determines irrefutably the consent of the consumer with stipulations of which the consumer actually could not be aware of is sanctioned with nullity according to Art. 75, §1 MPCPA (Black listed).</p> <p>It should be noted that under general contract law not individually negotiated terms will not be deemed to be accepted (and will therefore not constitute a part of the contract) unless the other party has – at the latest at the moment when the contract was concluded – knowledge of those terms or could have obtained knowledge of those terms and has accepted those terms.</p> <p>- Regarding the mere reference to the term in a contract document: there is no express provision in Belgian law to that effect. Case law is not uniform in relation to the acceptance of standard-terms. However, generally the courts rule that the mere reference to their existence or that the standard terms can be consulted somewhere will not suffice. It is generally held that the business has a duty to make standard contract terms available to the consumer. General clauses are preferably written on the front side of the contract and if they are provided for on the back, there must be a clear reference to them on the front side of the document.</p>	=
EE	<p>- Estonian law provides this principle as part of the fairness control: § 37-Standard terms as part of contract: (1) Standard terms are part of a contract if the party supplying the standard terms clearly refers to them as part of the contract before entering into the contract or while entering into the contract and the other party has the opportunity to examine their contents. Standard terms are also part of a contract if their existence could be presumed from the manner in which the contract was entered into and the other party was given the opportunity to examine their contents. (2) The parties may (...) agree in advance that standard terms apply to certain types of contracts.</p> <p>- Regarding the mere reference to the term in a contract document: no such rule exists in Estonian law.</p>	= +
ES	<p>- A provision in Section 5 of the Standard Form Terms Act (Ley 7/1998, de 13 de abril, LCG) determines that a standard term will not be incorporated to the contract if the supplier of the term did not effectively ensure that the other party knew of the existence and content of the term. In B2C, according to Section 80 TRLGDCU, terms supplied by one party and not individually negotiated must fulfil the following conditions: (i) have precise, clear and simple writing; (ii) be accessible and legible in order to let consumers know the existence and content of the contract before its celebration.</p>	= Slightly +

	- Regarding the mere reference to the term in a contract document: No similar provision exists in TRLGDCU, but it is clear from the above rules just mentioned. A clearer rule such as the one envisaged would provide a slightly higher protection.	
IT	<p>- There is no such provision under Italian law. Nevertheless, Art. 34 co. 5 Consumer Code provides the general rule by which the business bears the burden of proving that it has provided all the information required. Moreover, the general clause stated by Art. 35 co.1 Consumer Code provides a duty of plain and intelligible language in the drafting of written terms.</p> <p>- Regarding the mere reference to the term in a contract document: there is no such provision under Italian law. However, Art. 34 co. 4 – 5 Consumer Code on the duty of plain and intelligible language can be interpreted as to reach a similar result. According to Italian case law under the above mentioned Art. (Cass. 8.6.2007, n. 13377; Cass.26.9.2008, n. 24262), terms are not sufficiently brought to the consumer’s attention by a mere reference to them in a contract document, even if the consumer signs the document.</p>	+ =
HU	<p>- No such specific provision in the national law. However, Art. 205/B (1) of the Civil Code provides that standard terms become part of a contract only if they have previously been made available to the other party for perusal and if the other party has accepted the terms explicitly or through conduct that implies acceptance. Finally, according to Art. 209 (4) of the Civil Code, a standard contract condition or a contractual term of a consumer contract which has not been individually negotiated shall be regarded as unfair if they are not drafted in plain, intelligible language.</p> <p>- Regarding the mere reference to the term in a contract document: no such provision in the national law.</p>	= +
LU	<p>- L.211-1 Consumer Code refers to compliance with Art. 1135-1 Civil Code (' Les conditions générales d'un contrat préétablies par l'une des parties ne s'imposent à l'autre partie que si celle-ci a été en mesure de les connaître lors de la signature du contrat et si elle doit, selon les circonstances, être considérée comme les ayant acceptées'). Such terms cannot be enforced (inopposabilité)</p> <p>- Regarding the mere reference to the term in a contract document: the Consumer Code blacklists the following clause which pursues a similar objective : 'Les clauses qui constatent de manière irréfragable l'adhésion du consommateur à des clauses dont il n'a pas eu, effectivement, l'occasion de prendre connaissance avant la conclusion du contrat' – L.211-3 (23)).</p>	=
PL	<p>- There is a provision in the grey list of unfair contract terms under which a term is presumed to be unfair if the consumer was not aware of them (Art. 3853 (4) of the Civil Code).</p> <p>- Regarding the mere reference to the term in a contract document: there is no such special provision.</p>	+
PT	- Terms are excluded from a contract if the party supplying the terms did not fulfil the duty of communication or the duties of information to the other party about the terms– Arts. 5, 6 and 8 of the Decree-Law 446/85, from the 25th of October 1986. When the other party was not aware of the terms, they are also automatically excluded if there was a lack of communication or information or if, by their context, title or presentation, the said terms would not be noticed by a normal	=

businesses	benefit from avoiding potential disputes with consumers if they bring all the contractual terms to consumers' attention.
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Merger clauses

Issue:

In the existing consumer acquis there are no contract law rules on merger clauses.

A Common European Sales Law would introduce a provision on merger clauses as follows: where a contract document contains a 'merger clause' stating that the document embodies all the terms of the contract then any prior statements, undertakings or agreements which are not embodied in the document, do not form part of the contract. However, a consumer would not be bound by such a merger clause.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
AT	§ 10(3) KschG stipulates that the legal validity of formless declarations of the company cannot be excluded by contract to the detriment of the consumer.	=
BE	No such provision in Belgian law.	+
DE	German law offers a slightly lower protection: it follows case law on the general clause for unfairness controls of standard contracts, § 307 BGB.	+
ES	No specific provision on merger clauses for consumer contracts.	+
FI	There is no special provision in Finnish law. If such clauses were used, they would probably be considered as unreasonable.	+
FR	No provision and no case law.	+
HU	There is no specific provision on this issue in national law.	+
IT	Italian law offers the same protection: according to case law under Art. 34 co. 4 of the Consumer Code, merger clauses do not demonstrate the existence of an individual negotiation. (Cass. 13890/05).	=
LU	Luxembourgish law offers the same protection, even if not explicitly laid down.	=
NL	A comparable rule does not exist in Dutch law. However, a merger clause which is not individually negotiated is presumed to be unfair if the clause would fundamentally limit the content of the trader's obligations that the consumer could otherwise reasonably have expected (see Art. 6:237(b) of the Dutch Civil Code). In such a case, the trader bears the burden to prove that the clause is nevertheless fair.	+
PL	Under Polish law there is no express regulation on a merger clause.	+
PT	No such general provision under Portuguese law.	+
RO	There are no specific provisions on merger clauses in consumer contracts.	+
UK	No such provision under English law.	+

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Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	No costs for consumers.

Benefits for consumers	Consumers would benefit as in most Member States the use of merger clauses is not prohibited as such (e.g. BE, ES, UK, PL, RO, PT, FR, HU). In several Member States, this issue is dealt within the context of the Unfair Contract Terms legislation (e.g. DE, NL). Consumers would gain more confidence as they would be able to rely on the clear invalidity of merger clauses attempting to reduce the obligation of the business following from prior statements, undertakings or agreements which are not embodied in the contract document.
Costs and benefits for businesses	
Costs for businesses	Businesses would need to adapt their contracts to eliminate any merger clauses. Any potential costs are likely to be one-off and affect only companies that are at present using such merger clauses. Business would also have to be aware that some prior statements, undertakings or agreements not embodied in the contract document may still bind them in their relationship with the consumer. However, the impact of this is likely to be minor as pre-contractual information required by the CRD and taken over by the Common European Sales Law for distance and off-premises contracts forms in any case an integral part of the contract.
Benefits for businesses	Businesses might gain indirectly from increased purchases by consumers who are able to rely on prior statements by businesses even if they are not explicitly mentioned in the contract.

Method of payment

Issue:

A Common European Sales Law could introduce a rule that, unless indications about the means of payment are made by the seller, the buyer may use any form of payment. Consequently, a seller is obliged to accept all types of payment (e.g. cash, bank transfer or all types of debit or credit cards) when he or she did not make any previous indications about the method of payment, provided that the method of payment is one used in the ordinary course of business at the place of payment (i.e. the business' place of business) and is appropriate to the nature of the transaction.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
DE	There is no specific provision on method of payment. According to jurisprudence, payment by card or bank transfer must be (at least implicitly) agreed by the parties - (Münchener Kommentar BGB, § 362 Rn. 20 f., 364 Rn. 1.)	+
EE	LOA § 91 - Manner of performance of monetary obligations (1) provides: 'A monetary obligation may be performed in cash. A monetary obligation may also be performed in some other form if so agreed by the parties or if such form is used in the ordinary course of business at the place of payment.'	=
ES	Art. 1170 of the Spanish Civil Code provides that payment must be made in the agreed way and, if not possible, in money that is legal tender in Spain. No similar provision exists in TRLGDCU.	+
FI	In Finland there is no longer in force a rule which always obliges to accept payment in cash. If the consumer is offered the opportunity to pay with any available bank account debit card, this is usually considered as a	+

	sufficient alternative to payment in cash. Cash payment is any case the basic method of payment. If the seller does not accept cash or a debit card, the consumer must be informed separately already in the early marketing stage, so that he can take such information into account in his purchasing decisions. If the credit payment is the only payment method accepted by the seller, the consumer must be informed in advance.	
FR	There is no specific provision on method of payment in French consumer law.	+
HU	There are no such rules in the Civil Code (Ptk) at present. Currently businesses can and effectively do limit the form of payment (the type of cards) irrespective of the actual possibility of usage, for both face-to-face and distance sales. In the case of e-commerce it is quite frequent that the only possible form of payment is cash payment at the time of delivery, although contracting would be easier with the use of different cards.	+
IT	There is no specific provision on method of payment in Italian law. According to Art. 52 co. 2 lett. e) Consumer Code on distance sales and Art. 67-sexies co. 1 lett. f) Consumer Code on distance financial services, payment may be made by the methods established by the business and previously communicated to consumers. Specific provisions regarding payments with credit card for distance contracts can be found in Art. 56 co. 1 of the Consumer Code.	+
NL	The Dutch Civil Code decrees that payment is made in current money (Art. 6:112 of the Civil Code). Unless otherwise decreed by the creditor, payment can also take place via transfer to his bank account (Art. 6:114).	+
PL	Polish law obliges the trader to put – in the place of business – clear information which methods of electronic payment are accepted (Art. 11 of Ustawa z dn. 12 września 2002 r. o elektronicznych instrumentach płatniczych). It does not, however, oblige the seller to accept all types of payment cards in case he or she failed to determine the method of payment.	+
PT	There is no special provision on method of payment.	+
UK	England and Wales: No specific rule. The court is likely to reach this result as a matter of interpretation of the contract. Scotland: No such rule but same result is likely to be reached in practice.	Slightly +

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	Businesses would be able to indicate the most convenient methods of payment and avoid any potential compliance costs stemming from the obligation to accept more costly methods of payment e.g. credit cards. Therefore, there are likely to be no costs for consumers.
Benefits for consumers	If the means of payment are not indicated by a trader a consumer would benefit from the possibility of choosing the payment method which suits him best among these which are used in the ordinary course of business and are appropriate to the nature of the transaction. Businesses wishing to receive the payments by certain methods would need to indicate them to consumers. A consumer could therefore not be surprised by a unilateral restriction on the methods of payment imposed by the business, which would currently be possible under the national law of most of Member States. This would be the case for example in FR, DE, HU, IT, ES, PT, PL, NL, IT where there are no specific provisions on methods of payment in the national contract laws. Under

	these laws traders can force consumers without prior information to make a payment by a particular method which may be more costly and less convenient for them.
Costs and benefits for businesses	
Costs for businesses	Businesses would avoid any additional compliance costs as they would have the possibility to indicate the accepted methods of payment to consumers. Any potential costs would affect only traders who do not provide this information. In this case, they would be obliged to accept all types of payments which are used in the ordinary course of business and are appropriate to the nature of the transactions. As a consequence their margin could be reduced if consumers choose e.g. credit card payments. However, in practice most of the traders are very likely to indicate the accepted methods of payment thereby avoiding any additional compliance costs.
Benefits for businesses	Retailers would profit from an increase in both the buyer's confidence and easiness when performing a purchase.

Place of delivery

Issue:

The current acquis does not contain a provision regarding the place of delivery of goods in a consumer contract of sales. A Common European Sales Law could provide a specific default rule stating that, where the place of delivery cannot be otherwise determined, the place of delivery is in distance and off-premises contracts, or in contracts where the seller has undertaken to arrange carriage to the buyer, the consumer's place of residence at the time of the conclusion of the contract.

Country	Provision comparison	Impact on the level of consumer protection
BE	There is no specific provision concerning the place of delivery in consumer sales and distance and off-premises contracts. However, general sales law (Art. 1609 of the Civil Code) determines that in the absence of an agreement, the place of delivery is the place where the good was at the time of the sale. Regarding the hypothesis 'where the seller has undertaken to arrange the carriage to the buyer', it could be considered as being an agreement on the place of delivery, but the text is more protective in that it clearly points out that the good must be delivered at the consumer's place of residence at the time of the conclusion of the contract.	+
EE	There is no such special provision under Estonian law.	+
ES	No similar provision exists in TRLGDCU.	+
HU	According to Art. 278 of the Civil Code the place of performance is the domicile or registered place of business of the obligor, unless: a) it is otherwise provided by legal regulation, b) the object or purpose of the service suggests otherwise, c) the object of the service is at a different location, which is known to the parties. If the object of a service is to be sent to a place other than the domicile or registered place of business of the obligor, and if such a place or an intermediate location has not been stipulated as the place of delivery, performance shall be deemed accomplished when the obligor delivers the object of service to the beneficiary, a shipping agent, or a carrier.	+

	In the case of consumer contracts, performance shall be deemed effected upon handing over to the consumer. If the obligor delivers the thing by its own means of transportation or through its representative, the place of performance shall be the domicile or registered place of business of the latter. For distance and off-premises contracts: the same rule applies.	
IT	There is no such provision under Italian law.	+
LU	No such rule in the Consumer Code.	+
PL	There is no such special provision under Polish law.	+
PT	There is no such provision in Portuguese law. According to the general rules of the Civil Code, the place of delivery will normally be the place where the good was at the time of the conclusion of contract (Art. 773, para 1).	+
UK	England and Wales: No clear rule but a court might well reach this result as a matter of interpretation of the contract. Scotland: No such express rule.	+

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	No costs for consumers as a place of consumer's residence is in most cases the most convenient place of delivery.
Benefits for consumers	Consumers would benefit from having the goods delivered to their place of residence in distance and off-premises contracts or in contracts where the seller has undertaken to arrange carriage to the buyer (if the place of delivery cannot be otherwise determined). The delivery of goods to a consumer's place of residence would be very convenient for consumers. Consumers would not have to bear any costs of transportation of the goods from the place where the good was at the time of the conclusion of contract which is a default place of delivery at present in some Member States (e.g. PT, BE).
Costs and benefits for businesses	
Costs for businesses	Businesses in distance and off-premises contracts or in contracts where the seller has undertaken to arrange carriage to the buyer would have additional costs for delivering the goods to the consumer's place of residence at the time of the conclusion of the contract. These additional costs would depend on the delivery distance and might affect companies in most Member States where at present the rules are less protective for consumers (e.g. UK, PT, PL, LU, IT, HU, EE, ES). These costs would however occur only where the place of delivery cannot be otherwise determined e.g. was not agreed with a consumer.
Benefits for businesses	In many Member States there are no specific rules concerning the default place of delivery (e.g. PL, LU, IT, EE, ES). In these Member States, businesses could benefit from having clear rules on default place of delivery where the place of delivery cannot be otherwise determined.

Right to damages for non-performance

Issue:

The current acquis does not provide for rules on damages for non-performance, but defers the matter to national laws.

A Common European Sales Law could provide a right to damages for non-performance of contractual obligations, unless the non-performance is excused.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
BE	There is a right to damages under general law of obligations (See Art. 1649 quinquies § 1 C.C.)	=
DE	According to German law, there is a right to damages.	=
EE	Remedies are available for all kinds of non-performance.	=
ES	Damages for non-performance would be covered by general rules of the Spanish Civil Code: liability will depend on the proof of effective damages caused by non-performance and/or the existence of an accepted offer -particularly in those cases where a binding offer is required by law.	=
FR	French consumer sales law provides for legal warranty of conformity. Nevertheless, a claim under the legal warranty does not preclude the consumer from using the rights he derives from general contract law for performance (Art. L 211-13 of the Consumer Code). According to Art. 1184 of the Civil Code the party faced with non-performance of his contracting partner may either require specific performance or resolve the contract without prejudice of damages according to Art. 1147 of the Civil Code. For the consumer it is always possible to claim the damages in case of non-performance.	=
HU	According to Art. 310 of the Civil Code, apart from guarantee rights, consumers are entitled to damages resulting from lack of conformity under the rules of indemnification. If the consumer suffers damages because of a faulty performance, he can ask for reimbursement of his damages according to the indemnification rules. This in practice means that the consumer can only receive reimbursement through a litigation process if the business is not willing voluntarily to give such a reimbursement.	=
IT	Italian consumer sales law provides for legal warranty of conformity. Nevertheless, a claim under the legal warranty does not preclude the consumer from using the rights he derives from general contract law. There is a general right to damages for non-conformity unless the seller has ignored them without fault (Art.1494 of the Civil Code) The party faced with non-performance of his contracting partner may either require specific performance or terminate the contract without prejudice of damages (including actual damages and loss of profit, but not punitive damages).	=
MT	Maltese law has general rules about damages for non-performance (Art. 1125 of the Civil Code: 'Where any person fails to discharge an obligation which he has contracted, he shall be liable in damages').	=
NL	Under Art. 6:74 BW, any failure to fulfil an obligation shall require the debtor to compensate the creditor for the damages he suffered due to the non-performance, unless the non-performance is excused.	=

PL	Polish law has general rules about damages for non- performance (Art. 471 of the Civil Code).	=
RO	The consumers are entitled to damages arising out of the lack of conformity of the products ascertained within the warranty period. The consumers are entitled to damages according to the general provisions of the Romanian Civil Code.	=
UK	Under English law, there is a right to damages.	=

Assessment of impacts

Costs and benefits for consumers		
Costs for consumers	No costs for consumers.	
Benefits for consumers	At present, most Member States have general rights to damages for non-performance (e.g. BE, EE, ES MT, HU, NL, HU, IT, PL,FR, RO, UK). The level of consumer protection would not change. Consumers would be able to claim compensation for non-performance of a business's obligations.	
Costs and benefits for businesses		
Costs for businesses	No additional costs for businesses as in most Member States the current rules provide for damages for non-performance.	
Benefits for businesses	Businesses would benefit from relying on one set of clear rules on damages for non-performance. Businesses performing their obligations diligently may gain additional customers.	

Length of the prescription periods

Issue:

In the current acquis (Consumer Sales Directive 1999/44/EC), the business is liable for the lack of conformity of the goods which becomes manifest during 2 years from the moment the goods are delivered to the consumer.

A Common European Sales Law would not contain such a fixed liability period during which the consumer could still claim lack of conformity. Instead the general rules on prescription would apply. A prescription period would run for 2 years from the moment the consumer has knowledge of the defect, but no later than for 10 years from the moment the goods were delivered. In practice, the result would be comparable to the existing acquis. While the starting point would be slightly later, i.e. knowledge of the defect extent of delivery, the period would be slightly shorter as contrary to the substantive period of the Consumer Sales Directive, the consumer would need to undertake the necessary steps before the end of the prescription period in order to prevent its effects.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
BE	No longer than 2 years.	=
DE	Prescription after 2 years (except for building materials), cf. § 438 BGB.	=
EE	No longer than 2 years.	=

ES	<p>Under Spanish Law – Art. 123 RD 1/2007 – the seller responds for the lack of conformity of the product for 2 years after the delivery. If the product is second hand, this period could be reduced to a minimum of 1 year.</p> <p>However, general rules on breach of contract may be used, and here the limitation period is very generous (15 years).</p>	=
FR	<p>Under the French Consumer Code, the action resulting from lack of conformity lapses two years after delivery of the product.</p> <p>However, it must be noted that a claim under the Consumer code does not preclude the consumer from using the rights deriving from general sales law of the Civil Code. Then according to those general rules (Articles 1641 and following) the buyer has 2 years to bring a claim after having discovered the defect (Civ. Code, Art. 1648, para. 1). This means that the guarantee is prescribed by the general prescription duration (5 years, under Art. 2224 of Civ. Code: 'personal or movable actions prescribe in 5 years from the date on which the holder of a right knew or should have know of the facts to enable him to exercise it').</p> <p>However, the buyer must be particularly vigilant when taking delivery of the product because many decisions have considered that the silence of the buyer when faced on delivery with a product which had an apparent vice or was not conform to what had been contractually agreed upon could be interpreted as a tacit acceptance of the non-conformity, thus depriving the buyer of any future claim for non-performance of the obligation of conform delivery relating to the said non-conformity.</p>	-
HU	<p>In general the time limit is 2 years, but if the consumer is unable to enforce his claim for an excusable reason, particularly if lack of conformity, owing to its character or the nature of the goods, is not apparent within the 2-year time limit, in the case of goods designated for long-term use the consumer may enforce his rights within 3 years of delivery. If the statutory use period exceeds 3 years, this time limit shall apply to the enforcement of such a claim (Art. 308 and 308/A of the Civil Code). This extended (long) guarantee period can only be found in 2 current regulations: the first is a Common Decree from 1985, which states that the statutory use date in case of building materials is 5 years or in certain cases 10 years (e.g. walls, balusters). The second is the Government Decree of 151/2003 on the obligatory express warranty regarding goods designed for long-term use.</p>	=
IT	<p>The seller is liable if the defect occurs within 2 years after delivery (Art. 132 Consumer Code). It must be noted that a claim under the legal warranty does not preclude the consumer from using the rights he derives from sales law as a buyer and from general contractual rules. According to Art. 135 Consumer Code, consumers' rights under other statutory instruments shall not be limited or repealed by the provisions relating to the legal warranty. In principle, the consumer can also recover the damages according to the conditions of Italian sales law (Art. 1494 of the Civil Code). In this last case the ordinary limitation period (10 years – Art. 2946 of the Civil Code) applies.</p>	=
LU	<p>Consumers may invoke the hidden defects (vices cachés) provision of Art. 1641 sequ. Code Civil which is not limited in time. This is a mandatory right for B2C contracts (Art. 1645 of the Civil Code).</p>	-
NL	<p>NL law does not contain a fixed liability period after which the consumer can no longer claim lack of conformity with the contract (see Art. 7:21-23 BW). Whether or not a consumer can still claim lack of conformity</p>	=

	depends on which expectations he could reasonably have, given the circumstances of the case.	
PL	There is no such provision in Polish law. Under Art. 10 (1) of the Consumer Sales Act, the seller is liable where the lack of conformity becomes apparent within 2 years from the delivery of the goods, unless the seller knew about the lack of conformity at the time of conclusion of the contract and did not inform the consumer.	=
RO	The seller's liability is engaged for lack of conformity if the defect becomes apparent within 2 years of the delivery of the good (in second-hand goods, within 1 year).	=
UK	The UK has not introduced the 2-year time limit for business liability (from the time of delivery of the goods). UK law relies on the general limitation period for commencing a legal action for a breach of contract, from the date of the contract (the Limitations Act 1980 allows a consumer to claim for up to 6 years after the date of purchase). Once the defect is discovered, then the consumer may lose his right to terminate the contract because of the rules on acceptance.	-

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	In a small number of countries e.g. the FR and the UK where the current liability period during which the consumer can still claim lack of conformity is more favorable to consumers (the UK law allows a consumer to make claims regarding non-conformity up to 6 years after the date of purchase and in FR, the business would be liable 5 years from the moment the consumer has knowledge of the defect) the consumer might be slightly disadvantaged. However, considering that most failures are likely to occur once the consumer starts operating the product after buying, the costs for consumers are likely to be minor.
Benefits for consumers	Consumers would be able to assert their rights over a 2- year period from the moment the consumer has knowledge of the defect, but no later than 10 years from the moment the goods were delivered. This would increase the level of consumer protection in e.g. PL, RO and HU.
Costs and benefits for businesses	
Costs for businesses	No major additional costs for businesses as in practice the current 2-year substantive period which applies in most MS at present and the proposed 2-year prescription period provide for a similar result as regards level of consumer protection. This is because most defects appear once the consumer starts operating the product after the purchase and the consumer would still need to undertake the necessary steps before the end of the 2-year prescription period in order to prevent its effects.
Benefits for businesses	There would be some minor benefits for businesses from e.g. UK and FR where at present consumers can claim lack of conformity for the longer period of time. Retailers in general would benefit from increased consumer confidence.

Period for notifying the seller of non-conformity in B2C contracts

Issue:

Under the acquis, Member States may provide that, in order to benefit from his right, the consumer must inform the seller of the lack of conformity within a period of 2 months from the date on which he detected such lack of conformity. 17 Member States have implemented such a limitation⁴³³. A Common European Sales Law could introduce a rule that the consumer does not have to give notice to the seller of a lack of conformity within a certain period after which the consumer discovered it. The lack of notice within a certain time would therefore not deprive the consumer of his remedies based on the lack of conformity.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
DE	There is no 2-month-rule.	=
EE	The obligation to notify is limited to reasonable time.	+
ES	Under Spanish law – Art. 123.5 RD 1/2007 – the consumer must notify the seller of the non-conformity within 2 months. In case of failure to notify within 2 months, the consumer loses his right to damages but does not lose his substantive remedies for non-conformity.	Slightly +
FI	Section 16 – Notice of defect (16/1994) (1) The notice of defect may always be given within 2 months of the buyer’s discovery of the defect; it may also be given to the business that has sold the goods on behalf of the seller or assumed liability for the characteristics of the goods.	+
FR	There is no rule in French law compelling consumer to notify non conformity within 2 months. Under the general sales rules of the Civil Code, Art. 1648, the consumer has to bring his legal action within 2 years of the discovery of the defect.	=
HU	The general rule is that the trader must be informed of any lack of conformity within the shortest time permitted by the prevailing circumstances. However, according to Art. 307 (2) of the Civil Code in the case of consumer contracts, if notification of the lack of conformity is made within 2 months of the time it is detected, it shall be deemed that notification was made in due time. Any agreement of the parties to the contrary shall be null and void.	+
IT	The consumer loses the rights to claim for the legal warranty if he does not inform the seller of the lack of conformity by no later than 2 months after the date on which he discovered it. This notification shall not be required only in case the seller has acknowledged the existence of the lack of conformity, or has concealed it.	+
LU	There is no rule in Luxembourgish law with such a time limit to notify the defect.	=
MT	Art 79. 1 of the Consumer Affairs Act provides a 2 month time limit to notify the defect.	+
NL	Under Art. 7:23 BW, the consumer loses his rights if he does not inform the seller of the discovery of the defect within a reasonable time. In case of a B2C contract a notification within 2 months is considered to be reasonable.	+

⁴³³ Consumer Law Compendium, http://www.eu-consumer-law.org/directives_en.cfm

PL	Under Art. 9 (1) of the Consumer Sales Act the consumer must inform the seller of the lack of conformity within period of 2 months from the date on which he detected it, unless the seller knew about the non-conformity with the contract and did not inform the consumer (Art. 10 (4)).	+
PT	The consumer must notify the seller of a non-conformity within 2 months of when he detected it for movable goods and within one year for immovable goods.	+
RO	Obligation to notify within 2 months	=
UK	There is no such provision under UK law.	=

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	No costs for consumers.
Benefits for consumers	Consumers in the 17 Member States (i.e. BG, CY, DK, EE, ES, FI, HU, IT, LT, MT, NL, PL, SL, PT, RO, SL, SE) where currently the notification within a given deadline is a precondition for the exercise of their right to remedies in case of lack of conformity would find themselves in a more advantageous position. They could rely on the remedies for the lack of conformity irrespective of the notification given. Thus, consumers who would not have been able to exercise their right to remedies because of missing the notification deadline would not lose their rights.
Costs and benefits for businesses	
Costs for businesses	The number of consumers now legitimately relying on the lack of conformity claims for remedies made later than 2 months after the consumers discovered the lack of conformity for these MS with a notification period is likely to increase only marginally (e.g. defects that seemed to be fixed, but then reappearing etc.). In 10 Member States where at present such a period is not set, businesses would not bear any additional costs. Business operating costs would increase (especially if the order of remedies will be freely chosen by consumer- see point 2.17), but the increase is likely to be insignificant. The risk of consumers discovering faults and claiming redress after the previous deadline of 2 months is not high, considering that most faults are likely to occur once the consumer starts operating the product after buying it.
Benefits for businesses	Businesses would benefit from the increased consumer confidence.

Remedies in case of lack of conformity

Issue:

Current EU consumer protection rules provide a hierarchy in which remedies can be invoked. According to Art. 3(3) of Directive 1999/44/EC, the consumer is obliged in the first instance to claim repair or replacement before being able to terminate the contract and return the faulty product. Termination of the contract or reduction in price can only be invoked if repair and replacement are impossible, or if repair or replacement could not be completed within a reasonable time or without significant inconvenience to the consumer. Art. 3(6) of Directive 1999/44/EC provides that consumers cannot rescind the contract, if the lack of conformity is minor.

Member States however, are still allowed to regulate differently in favour of consumers; several countries have not adopted the two-stage hierarchy of remedies and made all four remedies available

to the consumer. The harmonised rules on hierarchy of sales remedies have been introduced in the CRD (chapter IV). However, the final version to be adopted very soon does not contain Chapters IV and V anymore.

A Common European Sales Law could provide:

- no hierarchy of sales remedies: consumers could freely choose a remedy in the case of a faulty product.
- possibility to terminate the contract in the case of any lack of conformity of the goods purchased, unless the lack of conformity is insignificant.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
AT	There is a hierarchy of remedies. The buyer must first ask for repair or replacement, unless repair/replacement is impossible or too big a burden for the seller (§ 932(2) ABGB). § 8 KschG contains an additional rule on the way the repair should be done. The buyer can then ask for a reduction of price or, if not a minor defect, termination of the contract ('Wandlung'). - Right to terminate by notice (§ 918 ABGB).	+
BE	The Civil Code follows the hierarchy of the Directive.	+
DE	Hierarchy of remedies in place.	+
EE	Hierarchy of remedies in place.	+
ES	According to Sections 119.1 and 121 TRLGDCU, there is a hierarchy of remedies. The termination of a contract is not possible in the case of minor faults. Furthermore, Spanish Civil Code and case law make a clear difference between minor faults that give rise to a reduction of price and greater faults that entitle the purchaser to terminate the contract. If a termination of contract is not accepted by the business, the consumer must ask the court to declare it (case law is not always unanimous as far as how termination of contract due to non compliance of the other party must be executed. However most courts will require a court's decision if termination is contested).	+
FI	There is a hierarchy of remedies. Consumer Protection Act Chapter 5 Section 9 — Cancellation of the contract: (1) The buyer may cancel the contract on account of the seller's delay if the breach of contract is essential. Chapter 5 Section 19 — Reduction of price and cancellation of contract If rectification of the defect or the delivery of a non-defective good is not possible or if it has not been performed (...) the buyer shall have the right to: (1) demand a price reduction proportionate to the defect; or (2) cancel the contract, except if the defect is of minor significance.	+
FR	If the consumer makes a claim under the legal warranty provided by the Consumer Code (Art. L 211-1 et seq.), he shall be faced with a hierarchy of remedies: he must first settle for repair or replacement, and if such remedies are impossible, he may terminate the contract (return the goods	=

	<p>and obtain restitution of the price) or obtain a price reduction while keeping the goods.</p> <p>Art. L 211-10 of the Consumer Code provides a delay between consumer demand and the resolution: if the repair or replacement cannot be implemented within one month following the claim of the buyer, he may rescind the contract.</p> <p>In addition, termination may be required if the repair or replacement of a specific good may give rise to a major damage to the consumer.</p> <p>In any case the right of termination cannot be performed in case the lack of conformity is minor.</p> <p>However, under the general provision of the Civil Code (Art. 1641 s), there is no hierarchy of rights (right to rescind the contract immediately).</p>	
HU	<p>In general, under Art. 306 (1) and (2) of the Civil Code there is a hierarchy of remedies (repair, replacement, price reduction and termination of the contract). Consumers may, in the first place, be entitled to choose either repair or replacement unless this is impossible or it results in disproportionate expenses on the part of the seller as compared to the alternative remedy, taking into account the value the goods would have if there had been no lack of conformity, the significance of the lack of conformity, and whether the alternative remedy could be completed without significant inconvenience to the consumer. Any repair or replacement must be completed within a reasonable time and without any significant inconvenience to the consumer, taking account of the nature of the goods and the purpose for which the consumer required the goods. If the consumer is entitled to neither repair nor replacement or if the seller refuses to provide repair or replacement or is unable to meet the conditions mentioned above, the consumer may require an appropriate reduction of the price or have the contract terminated.</p>	+
IE	<p>Ireland has a hierarchy of remedies: Regulation 7(2) and 7(3) EC Sales Regulations 2003 (repair or replacement first; then reduction of price or rescission of the contract).</p>	+
IT	<p>If the consumer claims the legal guarantee of conformity provided by the Consumer Code (Art. 128 seq.), he shall be faced with a hierarchy of remedies: He must first settle for repair or replacement, and if such remedies are impossible, he may obtain restitution. Art. 130, par. 7 of the Consumer Code provides three different cases in which the consumer can demand the termination of the contract: 1) if repair or replacement are impossible or disproportionate 2) if the seller has not completed the remedy within a reasonable time or replaced the goods within the appropriate time 3) if the replacement or repair carried out previously caused significant inconvenience to the consumer.</p> <p>In any case the right of termination cannot be performed in case the lack of conformity is minor (Art. 130, par. 10).</p>	+
LU	<p>Luxembourgish law has a hierarchy fixed by Directive 1999/44 but contains one addition, namely that the repair or replacement of the goods is done within 1 month. Afterwards, the consumer is entitled to rescind the contract or claim a price reduction (Art. L.212-5 Code consommation). However, under the general provision of the Civil Code (Art. 1641 s), there is no hierarchy of rights (right to rescind the contract immediately).</p>	=
MT	<p>Art. 74 of the Consumer Affairs Act provide a hierarchy (repair or replacement first; reduction of price or rescission of the contract).</p>	+

NL	Under Dutch law, there is a hierarchy: buyers are generally obliged to first ask for the faulty product to be repaired / replaced (7:21 BW). Among the secondary remedies (termination of the contract, reduction of price), however, no hierarchy exists.	+
PT	There is no hierarchy of remedies (Art. 4 Decree-Law 67/2003).	=
PL	There is a hierarchy of remedies: buyers are generally obliged to first ask for the faulty product to be repaired/replaced. For secondary remedies, the buyer can require an appropriate reduction of the price or the contract to be rescinded, unless the lack of conformity in the latter is minor. (Art. 8 of Ustawa z dn. 27 lipca 2002 r. o szczególnych warunkach sprzedaży konsumenckiej). In Polish law specific performance remains the primary content of the obligation. Although there is no special provision, the principle of specific performance was strongly emphasised. However, currently, one can observe that importance of specific performance has decreased.	+
RO	Under Romanian consumer protection legislation, when products do not conform to the contract, consumers can choose among their reparation or replacement unless one of these options is impossible objectively or disproportionate. Reduction of price and termination of contract will be used when consumers cannot ask for reparation or replacement or when they have not been satisfied in a reasonable period of time or without inconvenience for consumers.	+
UK	A hierarchy of remedies is in place (complying with Directive 1999/44), but these provisions operate alongside the existing rules which i.e. grant a consumer a right to terminate the contract if he does so within a reasonable period of delivery (consumers have the choice between invoking remedies under the national legislation transposing Art. 3 Dir. 99/44 or to rely on the remedies available under general sale of goods legislation).	+

⁺ means an increase, ⁻ means a reduction and ⁼ means no change in the level of consumer protection

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	Consumer prices may rise in particular for complex products with a high failure rate.
Benefits for consumers	Consumer protection would be increased in the EU countries where at present less favourable rules on the order of remedies are in place (i.e. AT, BE, DE, EE, ES, FI, HU, IE, IT, LU, MT, NL, PL, RO). The study on 'sales remedies' ⁴³⁴ shows that the preferred order of remedies is influenced by the type of product, as well as its age. For consumable items including foodstuffs, clothes, shoes, accessories and cosmetics as well as smaller durable items such as CDs, DVDs, games, mp3 players and jewellery, most respondents would like to be offered sales remedies in the following order: replacement then termination of the contract. In some instances consumers may opt for a termination as the first option, especially in situations where they have lost trust in a brand, product or the seller. For recently purchased (less than 6 months ago) larger durable items such as cars, large home appliances and furniture, most respondents would like to be offered sales remedies in the following order: replacement, repair, termination. If the larger durable item has already been used for 'a while', consumers would accept the order: repair,

⁴³⁴ EB Qualitative study on sales remedies, December 2009 http://ec.europa.eu/consumers/rights/docs/aggregate%20report_dec2009_en.pdf

	<p>replacement, termination.</p> <p>Where items have been purchased cross-border, the order in which consumers would like to be offered sales remedies remains largely the same as for domestic purchases. However consumers appear to be more likely to think carefully about whether or not replacement is worth the trouble and possible cost involved in returning the product. As a result, the number of consumers opting for a refund in the case of cross-border purchases tends to be higher.</p> <p>Consumer confidence would increase significantly in particular in countries where at present 'the hierarchy of remedies' is in place (e.g. AT, BE, DE, EE, ES, FI, HU, IE, IT, LU, MT, NL, PL, RO).</p> <p>The boost in confidence would result not only in an effective increase in the level of protection but also from having uniform rules across the EU. Consumers losing their trust in a trader would have the opportunity to terminate the contract, while potentially also benefiting from having the opportunity to use the refund for a better and/or cheaper alternative available on the market.</p>
Costs and benefits for businesses	
Costs for businesses	<p>The cost to businesses in the Member States currently employing a two-level structure (hierarchy of remedies) could increase slightly, due to increased requests from consumers to rescind the contract and refund the price. In case of refund after termination of the contract, the loss is the sale price (plus returns handling) minus the remaining value of the good returned. The loss in case of replacement is considered to be the production cost of the replacement good concerned (plus returns management) minus the remaining value of the goods returned. However, for certain goods e.g. cars, where the value of a new car diminishes significantly on the first day of use, the loss in case of replacement could be also significant.</p> <p>As confirmed by the study on sales remedies consumers are aware that the need to offer sales remedies has implications for traders and there was recognition that, in some instances, repair is the 'fairer' option for the trader. Hence, it is likely that consumers would continue to ask for a replacement of consumable goods and replacement or repair in case of larger durable goods and therefore minimise the potential burden on businesses compared to the baseline scenario.</p> <p>SMEs which currently rely on (multiple) repair can be more disadvantaged and may be more cautious to sell abroad using a European Common Sales , as distance consumers might be more likely to ask for a termination of the contract resulting in a refund (not accepting the inconvenience of lengthy repairs or waiting for a replacement).</p>
Benefits for businesses	Retailers would benefit from increased consumer confidence.

Digital content products

Issue:

Digital content products are excluded from the scope of the Sale of Consumer Goods and Guarantees Directive. The CRD however covers digital content products. It should be noted nevertheless, that the material scope of the Directive will be limited to withdrawal rights and pre-contractual information obligations.

The European Commission conducted a study called 'Digital Content Services for Consumers: Assessment of Problems Experienced by Consumers - LOT 1.'⁴³⁵ The objective of the study was to provide an evidence-based analysis of:

⁴³⁵ Not yet published.

- the possible problems consumers are experiencing with digital services; and
- the cause of these problems.

The study shows the growing popularity of digital content products, problems suffered by consumers and related detriment. The combined value of financial losses and the value of lost time resulting from problems encountered in the previous 12 months with the digital content services was estimated at approximately €64 billion for the online population in the EU27. The financial loss and value of lost time across the eight digital product types examined ranged between €1 billion and €23 billion. The box below shows the key data from the study.

Usage of digital content products

From the eight digital product types covered in the survey (email, music, social networking sites (SNS), anti-virus software (AVS), games, positioning and navigation services (PNS), e-learning and ringtones) email music and SNS are the most popular product types used (93%, 79% and 67% respectively).

Games and anti-virus software, while not as popular as email, music and SNA, were still relatively popular with approximately 60% of respondents citing that they had used these products over the previous 12 months. E-learning and ringtones were the least popular with only 12% to 14% of people using these types of products.

Occurrence of problems

While most people (57% to 71%) had not experienced a problem over the last 12 months, up to 36% of users of the eight products had. The actual figures, may be higher as 8% to 9% of respondents did not know or were unable to recall whether they had had a problem or not.

Type of problems

Overall, access was by far the most common type of problem experienced followed by lack of information and unclear/complex information. Access problems were most common for email, lack of information problems were most common for ringtones, while unclear/complex information problems were much more evenly spread across service type. The proportion of problems that related to privacy (0% to 4%) and unfair terms and conditions (1% to 6%) was the smallest across all service types.

Of the information respondents expect to receive, ‘user instructions’ and ‘terms of use’ were the most common across all service types. These were also the two types of information in which the gap between expectations and outcomes (i.e. what was actually received) were the smallest. Even in these cases, however, up to a third of respondents across service types did not have their expectations realised.

Impacts of problems

The most dominant types of impacts experienced as a result of the problems encountered were anger, annoyance, loss of time and inconvenience. The proportion of respondents that suffered a financial loss was small compared with the other types of impacts suffered (2% to 5%). Ringtones were the exception, as a much higher proportion of problems with that service type resulted in a financial loss (18%).

Although problems associated with ringtones were those most likely to have resulted in financial loss, the actual value of the financial losses per person from problems experienced with this service was the lowest across the service types (on average €87 per person/problem that resulted in a financial loss), particularly when compared to email and SNS (average from €519 to €563). Time lost in addressing problems tended to be much larger for problems related to email, antivirus software and ringtones and more generally for digital services accessed through CD/DVD/blu-ray and TV.

For those that had experienced problems, only a very small minority (i.e. up to 6%) had received compensation, financial or otherwise.

Consumer detriment

The consumer detriment for digital content products was estimated at approximately €64 billion for the online population in the EU27. The financial loss and value of lost time across the eight individual services ranged between €1 billion and €23 billion with the highest detriment for e-mails, followed by music and social networking sites.

Service type	Gross loss (€m)
Music	9,952
Games	7,850
SNS	8,631
Ringtones	2,224
Email	23,276
AVS	7,578
PNS	3,700
E-learning	1,244
Total for the EU 27	64,454

The most detrimental type of problem was the lack of information which accounted for one third of the total consumer detriment with digital products (€18.7 billion), followed by unclear/ complex information (€15 billion) and access (€10 billion).

Service type	Value of lost time (€m)
Lack of information	18,775
Unclear/ complex information	15,042
Quality	7,498
Access	10,273
Unfair terms and conditions	1,969
Privacy	376
Security	9,277
Total for the EU 27	63.211

The scale of the problem with digital services has also been confirmed by ECC-NET which receives numerous consumer complaints about the sector concerning functionality, safety and user rights.

The European Consumer Centres have indicated that the main areas of concern regarding the digital market in 2008 and 2009 were the following:⁴³⁶

Intellectual property and copyright

The legitimate use, copying and distribution of intellectual property and copyrights appeared to be one of the most problematic issues for consumers. Traders very often tend to apply overly restrictive

⁴³⁶ http://www.consumenteninformatiepunt.nl/bin/binaries/13-102-ecc_brochure2010-final-lage-resolutie--2-.pdf

provisions in contract terms when it comes to the regulation of legitimate copying and/or playing of the digital content to be purchased.

Unclear information provided to consumers

One cause of cross-border consumer disputes when purchasing digital content is very often unclear or lacking information on terms and conditions, price, withdrawal or contact information for the traders.

Withdrawal based on the regulations regarding distance-selling

While regulations for distance selling allow consumers a cooling-off period during which they can withdraw from the contract, traders may seek to restrict consumers' withdrawal rights when purchasing digital content.

Privacy- and data protection of consumers

There are an increasing number of problems related to the privacy and data protection of consumers in the digital world. The ability to protect, particularly from third parties, the information one reveals on the internet is a growing area of concern. The general experience is that consumers tend to be less cautious when giving out their personal data (for example when registering on websites), but then object to the unauthorised usage of their personal data.

Non-functioning digital content/ Digital content restricted to some hardware

The problem is that it is unclear what, if any, remedies are available to consumers in cases of non functioning digital content products. Traders at times restrict the usage of digital content contrary to the consumers' expectations. In other words, some business models restrict the usage of digital content to specific hardware.

Given the problems mentioned above, digital content products could be included in the scope of a European Common Sales and could provide for issues included by the legislator in the fully harmonised CRD and in addition for instance

Coverage of 'cost-free' products; a Common European Sales Law could cover digital content products not only those which are offered for remuneration, but also those which are 'cost-free'. In practice, this means that the consumer will have the same remedies whether he gives remuneration in exchange for a digital content products, or some other benefit (such as personal data).

Sales remedies for digital content products; clear rights to consumers in case a digital content product is defective, irrespective of the way it has been supplied (online or for instance by means of a CD or DVD). If a European Common Sales also covered the sales of digital products, the classification under service or sales contracts in certain national laws would not be relevant.

Conformity in long-term contracts; insofar as the digital content is not provided on a one-time permanent basis, the trader must ensure that the digital content remains in conformity with the contract throughout the contract period. This is relevant for example where updates of software contain bugs. This provision ensures that the consumer has a right to remedies for non performance for each defective update.

The analysis of the above provisions is provided separately:

'Cost-free' products

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
DE	There is no specific consumer law pertaining to digital content products. German courts have applied sales law to digital products. According to § 480 of the Civil Code the provisions on sales apply to barter as well.	+
FR	There is no specific provision on cost-free products in French law.	+
HU	At present there is no such regulation in Hungary. Currently it is only possible to act against a cost-free product provider if the product has caused damage.	+
IT	There is no specific provision on cost-free products in Italian law. The consumer sales law protection cannot be invoked for cost-free products.	+
NL	Art. 7:1 BW defines sales in relation to a price in money but also apply to barter (Art. 7:50 BW), thus in case of any other benefit than payment.	+
PL	The Consumer Sales Act applies only to the sale of tangible goods between a professional seller and a consumer (Art. 1 of Ustawa o szczególnych warunkach sprzedaży konsumenckiej). The provision has to be interpreted strictly; it does not apply to other (non-sale) contracts on the basis of which the consumer becomes an owner of a good or to sale contracts of digital content products. Contracts that have no monetary consideration but where the parties exchange one service or privilege for another (barter) are not defined in the Civil Code.	+

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	Consumers may be adversely affected by a decrease in the number of 'cost-free' products available on the market.
Benefits for consumers	At present, in most Member States there are no specific provisions for 'cost-free' products (DE, FR, IT, PL) and the consumer sales law cannot be invoked for 'cost-free' products as the law applies only to tangible goods or there is no monetary value of the product. The provision would result in an increase in consumer protection as the consumer would be entitled to certain rights, for instance in case of lack of conformity. According to ECC-NET (2010) ⁴³⁷ , there are numerous consumer complaints about 'cost-free' products. The 'free' product might also contain dangerous bugs that can damage a consumer's hardware. In such a case, a consumer would be able to seek remedies asking for compensation.
Costs and benefits for businesses	
Costs for	Businesses providing 'cost-free' products would have additional costs as at present

⁴³⁷ http://www.consumenteninformatiepunt.nl/bin/binaries/13-102-ecc_brochure2010-final-lage-resolutie--2-.pdf

businesses	there are no obligations to provide remedies in cases of defective 'cost-free' products. An increase in costs associated with offering 'cost-free' digital products could lead to a decrease in the number of 'cost-free' product providers especially in small countries where the market is not large enough to provide profits from other sources (media, advertisement).
Benefits for businesses	Retailers would benefit from the increased consumer confidence. More consumers could download 'cost-free' products and as a result businesses would increase their profits (e.g. advertisements linked with cost-free products).

Sales remedies for digital content products

Issue:

The current *acquis* does not deal with the rights of a buyer if a digital product contains a defect. One of the reasons is the uncertainty regarding the qualification of contracts concerning digital content products. Depending on the national laws and the circumstances of a case, those contracts might be qualified as a contract of sale or a service contract.

Most legal systems apply rules on consumer sales law in the case where a consumer purchases a piece of software on a DVD and the DVD fails to function in his computer as a consequence of a defect in the software on the DVD. However, this is not the case for instance in Finland and in Scotland, and it is still uncertain in France. In the scenario where the software was downloaded through an online (automated) update service or a real-time (remote) software support service, the contract is most likely classified as a sales contract for instance in Germany, Italy and in the UK, but as a service contract in other countries (e.g. Finland). For instance in Hungary and Spain, the contract will possibly be classified as a service contract, but sales rules may be applied by way of analogy. In any case, in many of the national legal systems, the classification of the contract – and thus the question of which legal rules apply to the contract – is far from settled.

Under most legal systems, irrespective of the classification of the contract, the remedies of repair and replacement, termination and price reduction are available to the dissatisfied consumer, as well as a claim for damages. In most of these legal systems, the hierarchy of these remedies stemming from the Consumer Sales Directive applies as well, with the exception of France (in so far as remedies under general contract law may be applied), Italy (with regard to tailor-made software) and Poland. In the UK, only the remedies of termination and damages are available if the contract is not classified as a consumer sales contract. If the contract may be classified as a consumer sales contract, the consumer may also resort to the regime of the *vices cachés* (hidden defects) in France or to the right to reject the 'goods' in the UK.

A possible European Common European Sales Law could provide clear rights to consumers if a digital content product is defective, irrespective of the way it has been supplied (online or for instance by means of a CD or DVD). If a European Common Sales also covered the sales of digital products, the classification under service or sales contract in certain national laws would not be relevant.

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection

<p>DE</p>	<p>No specific consumer law pertaining to digital content services has been developed in Germany. German courts have applied sales law to digital products on hardware since the mid-1980s and Germany has, in principle, extended the sales law to contracts concerning the sale of other than movable tangible products, such as intangible products, in 2002. Thus, the sale of software comes under sales law – if the contract is a sales contract and not any different type of contract, such as a contract on works and services, a licensing contract or a rental contract.</p> <p>According to § 435 BGB the provisions on the purchase of goods apply with the necessary modifications to the purchase of rights and other objects. This was explicitly meant to apply to software in tangible form, i.e. on a computer or a CD ROM, amongst others. For software that was transmitted online, courts have applied sales law in many instances with certain modifications. However, the scope of application of the specific consumer sales rules has been restricted to 'tangible movable items'. Despite this, some legal doctrine sources endorse its application to the online purchase of software.</p> <p>In case of defectiveness of the software on a CD/DVD a consumer can take recourse to consumer sales law. When the defective software was transmitted online the contract will be treated in accordance with the rules for contracts for the sale of goods. Thus, the rules on conformity and the remedies of the Consumer Sales Directive 1999/44/EC apply. The German legislator has maintained the hierarchy of remedies as provided for in Art. 3 of the Directive. However, case law as to whether the rules of §§ 474 ff. BGB that are reserved to consumer sales contracts and which are mandatory and contain some specific provisions, e.g. the reversal of the burden of proof, apply, is not yet available.</p> <p>In case of non-performance the normal remedies of the general law of obligations apply. The purchaser may rescind the contract after having set a reasonable additional period for performance (§ 323 para. 1 BGB) or claim damages (§ 280 para. 1 BGB). He can also do both: rescind the contract and claim damages (see § 325 BGB). The hierarchy of consumer sales law does not apply since the consumer sales law remedies do not apply to non-performance.</p>	<p>+</p>
<p>ES</p>	<p>Except in some very particular cases (e.g. Art. 102 TR-LGDCU, LSSICE), Spanish legislation does not have any specific rules governing digital content services. The provisions of the Civil Code may be applied to a contract for services (e.g. the provision of information services), contract for work (services of streaming, video on demand, etc.), lease of goods and sale contracts. The same can be said of the sale of consumer goods (Arts. 114-127 TR-LGDCU), especially considering the broad definition of 'product' adopted in Art. 6 TR-LGDCU of 2007 (movable good or chattel in the general sense of Art. 335 CC. and not just a 'tangible movable item' of Directive 99/44/EC), although the question is disputed. Also applicable are the TRLPI provisions of intellectual property in relation to the user license (music downloads, video software, and any other digital content susceptible to being filed on durable medium, etc.).</p> <p>Software and hardware on a CD or DVD are independent items from each other, but constitute a single asset or product (never a service). Despite this, its acquisition will not be treated as an instance of sale,</p>	<p>+</p>

	<p>but as a licensing agreement for a non-customised use of a computer program, as the real property of the whole is not acquired. The license terms will govern the rights and duties of the user and, as for the topics not foreseen in the contract terms, the general provisions of the Civil Code regarding contracts will apply.</p> <p>In relation to the existence of any software malfunctioning as a consequence of an error not attributable to the hardware or medium (CD, DVD), the provisions on the contract of sale will not be applied but a series of regulations that are not just applicable to this (mainly the TR-LGDCU in relation to the liability for defective products and in relation to lack of conformity), but also to any form of distribution of market assets (including the licensing contract for use of software). The same applies when software is transmitted online.</p> <p>In accordance with the provisions in Art. 119 TRLGDCU the consumer may claim specific performance. Such a remedy, regulated by Arts. 119 and 120 TRLGDCU will enable consumers to choose between repair and replacement of the product provided that the choice is not impossible or disproportionate. Furthermore, if the seller refuses to abide by the consumer requirement, the latter may exercise the corresponding remedies through a third party at their own expense. In cases where after repair or replacement the digital content does not function properly, the consumer may choose (Art. 121 TR-LGDCU), between termination or a price reduction of the product. Moreover, under (Art. 117 TR-LGDCU) the consumer may use the civil law legislation (specifically Arts. 1101 of the Civil Code. and related provisions) in order to obtain damages.</p> <p>Under general contract law, there is no hierarchy between the remedies that the consumer may invoke in the case of non-performance by the provider of the digital content service. In the case of synallagmatic obligations (Art. 1124 of the Civil Code), the consumer may choose between specific performance and termination of the contract, with compensation for damages and payment of interests in both cases.</p>	
<p>FI</p>	<p>In Finland no specific consumer protection rules pertaining to digital content services exist. The provisions on consumer sales, included in the Consumer Protection Act (Chapter 5, Sale of Consumer Goods, 16/1994), apply to the sale of goods: services fall outside this Chapter and therefore cannot apply directly to digital content services. The physical platform (CD/DVD) can be regarded as goods but the main subject matter of the purchase is treated as a service. If the CD fails to function because of defective software the consumer sales provisions cannot be applied. Instead the provisions of the EULA (End-User License Agreement) will be applicable as far as they cannot be regarded as unfair.</p> <p>In Finland no specific remedies of non-performance have been developed in relation to digital content services. This issue has not been discussed in the literature and there is no relevant case law in relation to this issue. A specific hierarchy between the remedies in the case of non-performance of digital content services has not been developed in Finland. If digital content services were classified as goods (which is not the case in Finland), the hierarchy of remedies indicated in the Consumer Sales Directive would apply.</p>	<p>+</p>

<p>FR</p>	<p>In French law, the qualification of a contract determines the legal regime which is applicable. The qualification of the purchase of a CD or DVD containing software is not envisaged by French law, and case law as well as legal doctrine diverge on the matter. Some decisions and authors consider the operation to be a sales contract, while others see it as a variant of a contract of hiring, and yet others consider it to be a sui generis operation. As for the purchase of software on material support, the question of the purchase of software through purely immaterial means has not been envisaged by French law.</p> <p>If the contract is qualified as a sales contract, the buyer has several legal actions available under sales contract law and consumer sales law in case of a defect of the sold product. The legal actions are available for consumers who buy software on a CD or DVD. When the software is downloaded, the buyer can take the above mentioned actions as well as additional ones (general sales law, automatic liability in e-commerce contracts and, if he is a consumer, the automatic liability in distance contracts):</p> <ul style="list-style-type: none"> - Sales contract law; claim for non conformity: Arts. 1603 et seq of the French Civil Code require the seller to deliver a product which conforms to what has been agreed upon contractually and is exempt of any apparent defects. If this is not the case, the seller will be considered to have violated his obligation of conformed delivery. The buyer will have all the remedies in general contract law for non-performance. - Warranty against hidden defects: Arts. 1641 et seq of the Civil Code protects the buyer against a hidden defect in the good provided three conditions are met: 1) the defect must be hidden, 2) it must exist prior to the sale and 3) must render the good unfit for its normal use, insofar as the defect must be of a certain gravity. The buyer has an option between keeping the good and asking for a price reduction or returning the good and asking for a refund. If the seller knew of the defect, , he may owe damages to the buyer (the professional seller is irrefutably presumed to be of bad faith). - Automatic liability (responsabilité de plein droit) in e-commerce contracts: Art. 15, I of the LCEN foresees that any natural or legal person offers or guarantees at a distance and through electronic means the supply of goods or services, is automatically liable towards the buyer for the correct execution of the obligations resulting from the contract. - Consumer sales law: Legal warranty of conformity. This warranty only applies to tangible goods. It is thus improbable it would apply to defect in software. When software is placed on a CD or DVD, French case law distinguishes between the sale of the support and the sale of the software. If Arts. L. 211-1 et seq. of the Consumer Code are strictly applied, it is necessary to determine if the defect is due to the support or to the software. As the support is a tangible good, the legal warranty of conformity can be invoked. Conversely, if the defect is due to the software, the legal warranty of conformity should not be used. <p>If the consumer makes a claim under his legal warranty, he shall be faced with a hierarchy of remedies: he must first settle for repair or replacement, and if such remedies are impossible, he main obtain</p>	<p>+</p>
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	<p>restitution.</p> <p>- Automatic liability in distance contracts: Art. 15, II of the LCEN inserted two end paragraphs to Art. L. 121-20-3 of the Consumer Code to provide automatic liability of the professional towards the consumer. Its regime is almost identical to that of Art. 15, I, except it applies to distance contracts in general, and not only those concluded through electronic means.</p> <p>In general contract law in the case of non-performance, a party has several options: withhold performance, require specific performance or resolve the contract without prejudice of damages.</p>	
<p>HU</p>	<p>Hungarian law does not contain a specified 'digital content services' regulation.</p> <p>Software as a product protected by copyright law, cannot be sold, only a right of use can be acquired. The right to use and the special contract for use of copyright products are governed in the Act no. LXXVI of 1999 on Copyright (Copyright Act) and as a secondary rule, the Civil Code of Hungary, Act no. IV of 1959, as amended (Civil Code).</p> <p>If the software on the CD or DCD is faulty, it is a simple breach of contract, and the obligor, in this case the seller, who sold the CD /DVD is obliged to repair and replace or bound by other remedies under the general rules of the Civil Code. The European Consumer Sales Directive has been incorporated into the Hungarian contract law in such a way that the consumer protection provisions of the said Directive are applicable to a variety of contracts and are not limited to sale and purchase contracts. Due to this legislation, Hungarian contract law has an extensive consumer protection character which applies to all contracts entered into by consumers. Under the Civil Code, the subject of the consumer contract can be 'movable property' (chattel). However, the 'consumer contract' can be applied for other goods as well, including intangible assets. This view is supported by the former practice of the Supreme Court. Based on this legal regime, a software license agreement can also be considered as a consumer contract and the general rules on consumer contract of the Civil Code are applicable. No case has been published yet where a software licence agreement was qualified as a consumer contract.</p> <p>The method and way of the contracting does not challenge the qualification of the contract itself. Should the contract be entered into by an online update service or real-time software support service, this contract cannot be qualified as sale and purchase.</p> <p>If the software is defective the consumer may seek remedies under the general rules of the contract law (Civil Code).</p> <p>Irrespective of the special rules for consumer contracts, the remedies of the Civil Code can apply, as follows: repair or replacement; repair of the goods by the customer themselves or have the goods repaired by others at the expense of the obligor; price (fee) reduction; rescission from the contract; seeking damages, if any. Section 306 (5) states that any deviation from the law of the statutory guarantee (implied warranty) is null and void in consumer contracts which differs from the hierarchy of these rights. The list of the rights is a hierarchy, but the beneficiary has a right to select first between repair or replacement, after that he has a right to switch from the remedy he has selected to the alternative remedy. The costs of the switch shall be</p>	<p>+</p>

	reimbursed by the obligor unless it was made necessary by the obligor's conduct or for other reasons (Section 306/A of the Civil Code).	
IT	<p>No specific set of rules / specific remedies have been developed in Italy for contracts of digital services.</p> <p>Currently, on some occasions, the Civil Code section on Sales (Art. 1470 ff) will apply, on others the contract of Services (Appalto) rules (Art. 1650 ff). There is little case law, because these contracts mainly involve small transactions, which are most of the time settled out of court.</p> <p>The sale of software, according to courts, falls within the notion of a tangible good intended for the consumer. Therefore, the purchaser has to report the lack of conformity of the software within 2 months from the date of the discovery of the defect (Art. 1519 of the Civil Code, now in Title III of the Consumers' Code). This rule, however, should not apply where the object is the arrangement of some specific application software for the production of data bases. In such cases, there would be a tailored service which would be excluded from consumer regulation. The Court of Appeal of Rome has clarified, on the point, that the contract for the provision of electronic services shall be qualified as a contract of services (contratto di appalto), rather than sale of tangible goods, when the required services do not concern the transfer of a 'pre packaged' digital product, but rather the arrangement of a specific application software for the production of database therefore, being a provision of works, and not the transfer of a good already made according to standard procedures, Art. 1667.II of the Civil Code shall be applied, instead of Art. 1495 of the Civil Code.</p> <p>According to some legal scholars, reference should be made to the rules on lease contracts (1578-1579-1581 of the Civil Code), since the transfer of software is defined as a licence agreement. In this case, if at the moment of the delivery the leased good is affected by defects that considerably decrease the suitability for the use agreed upon, the consumer can request the cancellation of the contract or a reduction of the price, unless the consumer was aware or could have easily been aware of the defects. The provider has to compensate the lessee for the loss resulting from the defects of the good, unless he proves that he was not aware of the defects at the moment of delivery, without any fault on his part.</p> <p>The rules on e-commerce can be applied where the parties enter into a digital contract, which was concluded by means of contractual statements sent by electronic means and in a context of standardised negotiation (point and click modality). The software's failure due to defects or bugs will allow the consumer to invoke the consumer sales law protection. In a formalistic approach, sometimes adopted by a few Italian courts, the contract can be seen as a service contract but this would prevent the consumer to benefit from the more effective remedies of consumer law. Although at present there is no significant case law involving a consumer as a plaintiff, it is unlikely that in the future the courts will reduce the broad scope of consumer law protection.</p> <p>Under general contract law: the consumer can invoke the execution or the termination of the contract, as well as claim for damages (Art.</p>	+

	1453 of the Civil Code). If the professional fails to fulfil his own obligations arising from the contract, the consumer can always refuse the fulfilment of his obligation.	
NL	<p>No specific consumer or contract law regarding digital content services.</p> <p>In the case of standard software on a CD or DVD that is offered for sale in retail shops, consumer sales law is applicable, irrespective whether the failure to function is caused by a defect in the CD/DVD itself or by a defect in the software. This seems to be the prevailing opinion in legal doctrine. In a recent judgment, which questioned whether the producer of software could still invoke its copyright against the (professional) buyer of software, the District Court of Dordrecht confirmed this view by indicating that sales law applies to the contract whereby not only computers but (also) the (much more valuable) installed software were transferred.</p> <p>Others regard standard software contained on a CD or DVD as ‘rights’ Art. 3:6 BW. This implies that to such contracts, by virtue of Art. 7:47 BW, sales law is applied ‘to the extent that this conforms to the nature of the right’. There is no established authority indicating whether, if this view were followed, this would mean that the specific provisions on consumer sales law would or would not apply as mandatory law.</p> <p>According to a minority view in legal doctrine, contracts where standard software is contained on a CD or DVD cannot be considered as sales contracts because of the applicability of copyright law. In a recent judgment, the court of Appeal of Amsterdam, in a case in which the software failed to function properly as a consequence of a defect in the software, not in the CD/DVD itself, underlined (in accordance with the common opinion in the Netherlands) the fact that the software was not a good in the sense of Art. 3:2 BW. The court continued that sales law nevertheless applied by virtue of the provision of Art. 7:47 BW. However, as the case concerned two professional parties, the court was not asked whether or not the specific protective provisions of consumer sales law would apply.</p> <p>Where software is downloaded over the internet, sales law may only be applied by way of analogy or by qualifying the standard software as rights in the sense of Art. 3:6 BW, to which by virtue of Art. 7:47 BW sales law applies as well. In both these views, contracts concluded through distance selling would be qualified as sales contracts.</p> <p>However, a minority view in Dutch legal doctrine rejects the qualification of the purchase of standard software as a sales contract, which would imply that the contract would be qualified as a (specific type of) service contract, to which consumer sales law would not apply. If the contract could not be qualified as a sales contract, the question arises which type of service it is. It would seem that qualification as a contract for work (Art. 7:750 BW) is not possible, as that would require the creation of tangible work. However, if the digital content could be considered as tangible work, the contract would have been qualified as a sales contract. This implies that if sales law is not applicable to the contract, the contract for the supply of digital content would have to be qualified as a service contract in</p>	+

	<p>the sense of Art. 7:400 BW. The provisions that apply to such contracts, however, are largely of a default nature.</p> <p>If consumer sales law is applied by analogy to digital content services, Arts. 7:21 and 7:22 BW establish a hierarchy of remedies. According to Art. 7:21(1)(b) BW the consumer may claim that the digital content services must be repaired or according to Art. 7:21(1)(c) BW that the digital content service must be replaced. These claims only apply if the digital content service did not perform as it should have (in accordance with Art. 7:18 BW). Another option is dissolution of the contract in pursuance of Art. 7:22(1)(a) BW in situations in which the good is not in compliance with the contract. The ability to dissolve the contract only exists if repair or replacement is impossible (7:22(2) BW) and if dissolution of the contract is not disproportional (7:22(1)(a) BW).</p> <p>If the contract is not qualified as a sale of goods, but as a sale of rights under Art. 7:47 BW, it is not certain that the consumer sales provisions would be applicable. If this is not the case, the hierarchy of remedies, embodied in Art. 7:22(2) BW would not apply.</p> <p>If the contract is qualified as a service contract, the general contract law (Book 6 BW) provisions are applicable: a consumer has the right to compensation for damages that was caused by the non-performance of the service, unless the failure in performance cannot be attributed to the service provider (Art. 6:75 BW). Moreover, the consumer may terminate the contract if the failure of the digital content justifies such termination (Art. 6:265 BW).</p>	
<p>PL</p>	<p>There are no specific rules of consumer law established for digital content services in Poland. As far as specific rules of contract law are concerned there is the Law of 18 July 2002 on Provision of Services through Electronic Means (Ustawa o świadczeniu usług drogą elektroniczną, Dz.U.02.144.1204) which implements the E-Commerce Directive in Poland. Consumer sales law application is limited by Art. 1 of the Law of 5 September 2002 on Special Conditions of the Consumer Sale (Ustawa o szczególnych warunkach sprzedaży konsumenckiej, Dz.U.02.141.1176) pursuant to which this law applies only to sale of a tangible good (movables) between a professional seller and a consumer. In the Polish legal doctrine this provision has been interpreted strictly: the law should not be applied either to other (non-sale) contracts on the basis of which a consumer becomes an owner of a good or to sale contracts of intangible good (which means it could be applicable only to digital content saved/stored on a tangible good, like CD/DVD and then it would apply to the sale of that CD/DVD and not to the sale of the digital content). Therefore general contract law regulation of sales contracts would be applicable: Art. 535-581 of the Polish Civil Code (Kodeks cywilny) since it applies to the sale of either tangible or intangible goods as well as to the sale of rights. Moreover, some implemented provisions of the E-Commerce Directive and the Distance Selling Directive could be applicable to digital content service.</p> <p>Most legal scholars endorse that the purchase of software may be treated as a contract for the consumer sale of goods, if the software is contained on a tangible good (CD/DVD). However, in this case the CD/DVD is the subject of the sales contract and not the software itself. This means that the recourse to consumer sales law is</p>	<p>+</p>

	<p>unavailable, in case there is a defect in the software. Recourse may be made to general liability rules for faults in goods bought: Arts. 556-576 of the Civil Code, as well as to general rules on non-performance Art. 471 and sub from the Civil Code. In many cases, such a purchase of software will be combined with the purchase of license to exploit that software (service contract). The grounds for liability for faults in the software could then be found only in the contractual relationship between the parties.</p> <p>The defect of software which was transmitted online will not fall under the definition of consumer sales in Polish law which means that no recourse in consumer sales law will be available. The purchase of software may be treated as a contract for the sale of goods, however, in most cases, it will be combined with the purchase of license to exploit that software (service contract). The grounds for liability, in case the purchase of license is involved, could be found only in the contractual relationship between the parties. The legal character of such a purchase has not yet been clearly defined in Poland. Besides the concept of it being a sales contract, it might be declared a purchase of license, or a contract transferring ownership of a copy, or a contract of access. Presently it is unclear which rules actually are applied to digital content not stored on a DVD/CD.</p>	
<p>UK</p>	<p>In contracts for the sale or supply of goods, there are implied terms to the effect that if the goods are sold by description, they comply with the description; that they are of satisfactory quality; and that they are fit for any particular purpose expressly or implicitly made known. These are 'strict liability' or 'outcome based' standards. In contracts for the supply of a service, there is an implied term that the supplier will carry out the service with 'reasonable care and skill'. This is a 'fault based' standard.</p> <p>Where a consumer purchases a piece of software on a CD or a DVD: the basic legal nature of the supply is in question. A physical vector such as a CD or DVD is a good, and if such a vector (or any computer hardware) is supplied along with software under a single contract this has been held (in the English Court of Appeal) to be a contract for the sale of goods. If this is the case, then the statutory implied terms as to description, quality and fitness will apply.</p> <p>There is also equivalent Scottish authority to the effect that such a contract should not be viewed as one for the sale of goods; but, rather, as a contract sui generis. If this is the case, then the courts would use common law to imply similar outcome based standards to those that would be applicable under the SGA or SGSA. These would require the hardware and software package as a whole to be reasonably fit for its intended purpose.</p> <p>Such contracts do not seem to be viewed as service contracts (a classification that would cause the fault based standard from SGSA, s. 13 to apply). Whether or not such contracts are technically viewed as being for goods or as sui generis, outcome based standards seem to apply.</p> <p>Where a consumer purchases a piece of software through an online (automated) update service or a real-time (remote) software support service: there is a lack of certainty as to how judges will treat this question. Again, the basic legal nature of the supply is in question. Where the software has been transferred without any durable medium</p>	<p>+</p>

	<p>being involved, the definition of ‘software’ in a particular contract has been held to mean that goods are being supplied; although if the software is being licensed and not sold (as is typically the case) the contract would be viewed as one for the supply (rather than sale) of goods. This would mean that the (outcome based) statutory implied terms as to description, quality and fitness from SGSA, Part 1 would apply.</p> <p>At the same time, one view is that there is neither a sale nor a supply of goods in any case where only software is being supplied. This would mean that the statutory implied terms as to the description, quality and fitness of the goods would not apply. However, it does not seem that such a contract will necessarily be treated as being a contract for a service either. So, the fault based implied term as to reasonable care may not apply. Pure software contracts may be treated as contracts sui generis. This being the case, it is possible that the courts would imply similar outcome based implied terms to those applicable under the SGA or SGSA to goods; i.e. essentially to the effect that the software is reasonably capable of achieving its intended purpose.</p> <p>The above cases deal with business to business, not business to consumer contracts. It is very hard to predict exactly what will be decided in relation to the latter.</p> <p>There are no remedies specific to digital services. If the contract is qualified as a contract of sale of goods: the buyer will have a right for damages, termination as well as the remedies from the Sales Directive –with a hierarchy. UK law allows the consumer to choose between this package of remedies and the right to terminate the contract; although the right to terminate itself will be lost after a 'reasonable period of time', which tends to be a matter of a month or couple of months at the most.</p> <p>If the contract is one of supply of services or sui generis: only damages and termination are available. The termination remedy is only available where the breach is shown to be sufficiently serious.</p>	
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⁺ means an increase, ⁻ means a reduction and ⁼ means no change in the level of consumer protection

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	Consumers might face an increase in prices as businesses could try to compensate the higher costs for remedies.
Benefits for consumers	<p>Consumer certainty in relation to purchases of digital products would increase, as consumers would be certain that if a digital content product is defective, a seller would be obliged to offer remedies. The consumer detriment stemming from the problems related to the quality of digital content products has been estimated at €7.5bn and €10bn for problems concerning access to digital content products.</p> <p>A Common European Sales Law would increase consumer protection compared to many national laws, as it would offer a free choice of remedies for a defective digital product. Thus, a consumer could also choose between repair, replacement, termination and price reduction for digital products. As a result consumer detriment could be significantly reduced.</p> <p>A Common European Sales Law would ensure certainty in cross-border shopping, as well removing the hierarchy of remedies. Thus, the level of consumer protection under a Common European Sales Law would increase compared to the baseline</p>

	scenario, for instance compared to the laws of DE, ES, FI, FR, HY, IT, NL, PL and the UK.
Costs and benefits for businesses	
Costs for businesses	<p>Businesses would have to bear some additional costs as their customers would be able to freely choose the remedies they prefer which is not the case in most Member States at present. However, considering that national laws provide at least for certain types of remedies (with or without a specific hierarchy), the additional costs for business would only be limited to the difference in the cost of a given remedy, compared to another. For instance, the additional costs would only be the difference between the cost of a remedy that would otherwise apply under a given national law (e.g. replacement), as opposed to the cost of an alternative remedy that a consumer could choose under a European Common Sales (e.g. reimbursement of the cost).</p> <p>The costs would mostly affect companies who sell on average more defective products than their competitors, as the costs would only occur if the company sells a defective product.</p>
Benefits for businesses	<p>Businesses would gain legal certainty as to their obligations when selling digital content products. At present, depending on the national law and the circumstances, contracts for digital content products might be qualified as a contract of sale or a service contract.</p> <p>Moreover, businesses would be able to develop economies of scale, as they could sell their digital products to consumers across the EU, based on the same rules. Considering that digital products can easily be sold on the internet irrespective of national borders, the expansion of cross-border trade in digital products is likely to be even higher in a simplified legal environment where businesses could use a uniform contract law throughout the EU compared to the existing situation.</p>

Conformity in long term contracts

Legal comparison:

Country	Provision comparison	Impact on the level of consumer protection
DE	No specific provision requiring the service provider to make after sales service available or to fix bugs or updates. The availability of updates is subject to the contractual agreement. Whether the seller gave a contractual warranty and is therefore liable for non-conformity depends on the interpretation of the contract in each single case. The jurisprudence often denies such an obligation (OLG Koblenz 6 U 268/08: no liability for software-update for camera by producer). It seems, however, that there is a time dimension to the conformity with the contract if the digital content cannot be used any more after an unduly short term (the non-conformity would lie in its lack of sustainability or flexibility (examples from DE case-law refer to the year 2000 or the introduction of the Euro – systems that could not cope with these changes were held not to be in conformity with the contract). The usual life cycle would be an indicator of the duration of an update obligation.	+
FR	This question is not specifically dealt with under French law. If there is an obligation of the trader to update, a lack of conformity can be claimed according to the general rules.	+

HU	There is no specific regulation at present, only on the level of General Terms and Conditions. Thus the agreement between the parties is the governing rule, there are three typical models of updating in contracts: 1. Regular safety updates for free. 2. Safety updates are free but other updates or developments are provided on payment. 3. Optional updates.	+
IT	This question is not specifically dealt with under Italian law. If there is an obligation for the trader to update, remedies for a lack of conformity can be claimed.	+
NL	No specific provision in Dutch law. General conformity requirements apply.	+
PL	No specific provisions exist obliging the service provider to make an after sales service available. If the consumer concludes a contract for having digital content service provided to him for an unlimited period of time, it may be assumed that out of the nature of the obligation would arise the obligation for the service provider to provide access to the digital content and its updates, when necessary. Although consumer sales are not applicable, rules of general contractual remedies apply (the general regime under Art. 471, Arts. 559, 568, 563 of the Civil Code).	+
UK	There is no legal right to after sales service; apart from what is provided for expressly in the contract or in any associated guarantee or extended warranty. It is in such express provisions of particular contracts that conditions relating to how long (and in what form) an after sales service will be available can be found. This would depend on how the courts interpreted and applied the ‘durability’ criterion that is relevant to the ‘satisfactory quality’ implied term applicable to goods; or how ‘reasonable fitness for purpose’ was interpreted (the implied term applicable if the contract was treated as <i>sui generis</i>); or what was expected in terms of ‘reasonable care and skill’ if the contract was treated as one for services. These various criteria provide a significant degree of flexibility and no case law exists on these issues.	+

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	No costs for consumers.
Benefits for consumers	Warranties are important for consumer protection in the case of digital products. Digital content products are excluded from the current EU consumer protection law as intangible products. A number of businesses are reported to make limitations and/or exclusions in their contract terms, especially regarding warranty disclaimers. At present, in most Member States (e.g. DE, FR, HU, IT, UK) there are no specific provisions obliging the trader to make an after sales service available and only the general rules and the specific contractual agreements apply. The provision of conformity with the long-term contract would therefore increase consumer rights as remedies could be sought by consumers through the whole duration of the contract.
Costs and benefits for businesses	
Costs for businesses	This provision does not involve a direct burden and cost but nevertheless might imply a burden for digital content providers. This burden would stem from the

	increased liability of digital content providers which as the result could increase the cost of after-sales services. However, contrary to tangible products, repair or replacement of digital products are not so costly.
Benefits for businesses	Retailers would benefit from increased consumer confidence in purchasing digital content products.

B2B TRANSACTIONS

Duty to disclose information about goods and services

Issue:

A European Common Sales could introduce a rule that before the conclusion of a B2B contract, the supplier would have a duty to disclose to the other business any information concerning the main characteristics of any good or service. Breach of the duty might, among other consequences, trigger liability for damages.

Legal comparison:

Country	Provision comparison	Impact on the level of protection
BE	<p>There is not such a specific and clear provision. However:</p> <ul style="list-style-type: none"> -The principle of good faith (Art. 1134.3 of the Civil Code) obliges contracting parties to cooperate loyally and to inform each other in good faith. When a party does respect these duties, the judge can decide that this contractual party has committed a contractual fault and is liable for the loss caused to the other party. - In addition the violation of the duty to inform can also lead to pre-contractual liability: e.g. when there is a defect of consent (fraud (1116 of the Civil Code) / mistake (1110 of the Civil Code)) the contract can be avoided or give rise to damages. As to fraud, there is no general duty to inform the other party (every contracting party has also a duty to inquire). Fraud by omission (to provide information) will not be easily accepted. Fraud by omission supposes the existence of a special duty to inform and the deliberate concealment of the information. A special duty to speak can be derived from special legislation (e.g. Art. 4 MPCPA or the prohibition in that Act, to mislead the consumer by omitting essential information, see Art. 90 MPCPA, in B2C relations), customs, the nature of the contract, the special circumstances of the contracting parties (e.g. professional expertise, the weakness of a contracting party), the trust that a contracting party creates, the circumstances of the preliminary negotiations and the obligation of loyalty (e.g. the duty to answer correctly on questions). In case of a mistake, the mistake must be 'excusable': there is only a mistake if a reasonable person in similar circumstances would have made the same mistake. The contract cannot be avoided if a contracting party is frivolous or negligent when contracting. Indeed, both contracting parties have a pre-contractual information duty: a contracting party has a duty to inform, but the party who made a mistake also has a duty to obtain information. <p>If a pre-contractual breach takes place then the following sanctions are</p>	+

	applicable: damages and voiding the contract.	
DE	There is no special provision. The general principle of good faith obliges to inform about unusual circumstances which the other party cannot expect and which are obviously important for the other party, especially when they concern the purpose of the contract. Breach of the duty may cause contractual liability for damages.	=
EE	<p>- Estonian law has a general obligation to inform: LOA § 14. Pre-contractual negotiations</p> <p>(1) Persons who engage in pre-contractual negotiations or other preparations for entering into a contract shall take reasonable account of one another's interests and rights. Information exchanged by the persons in the course of preparation for entering into the contract shall be accurate.</p> <p>(2) Persons who engage in pre-contractual negotiations or other preparations for entering into a contract shall inform the other party of all circumstances with regard to which the other party has, based on the purpose of the contract, an identifiable essential interest. There is no obligation to inform the other party of such circumstances of which the other party could not reasonably expect to be informed.</p> <p>- Obligation to inform derives also from the rules on mistake (GPCCA § 92 (3)): A person who entered into a transaction under the influence of a relevant mistake may cancel the transaction if: 1) the mistake was caused by circumstances disclosed by the other party to the transaction, or non-disclosure of circumstances by the other party if disclosure of the circumstances was required pursuant to the principle of good faith.</p> <p>2) the other party knew or should have known of the mistake and leaving the mistaken party in error was contrary to the principle of good faith.</p> <p>3) the other party to the transaction, entered into the transaction on the basis of the same erroneous circumstances, except if the other party could have presumed, having the correct perception of the circumstances, that the mistaken party would have entered into the transaction even if it had known about the mistake.</p> <p>- In assessing what kind of information should be delivered, in court practice GPCCA § 95 regarding 'Notification obligation' is often used: In order to ascertain whether circumstances are subject to disclosure to the other party (...), regard shall be had, in particular, to whether the circumstances are clearly important to the other party, to the specific expertise of the parties, the reasonable opportunities of the other party to obtain the necessary information and the extent of the necessary expenses to be made by the other party in order to obtain such information.</p> <p>Amongst other, damages and voiding the contract are remedies available under Estonian law.</p>	=
ES	There is no specific provision for B2B transactions, but general rules on avoidance for a mistake and fraudulent omissions, and good faith, determine duties to disclose. However, the duties are much less precise.	+
FI	There is no such duty in B2B transactions. The Sale of Goods Act (355/1987), Section 18(1) provides that the goods are defective if they do not conform with information relating to their properties or use which was given by the seller when marketing the goods or otherwise before the conclusion of the contract and the information can be presumed to have had an effect on the contract.	+
FR	The jurisprudence has developed a general obligation of pre-contractual	+

	information (fraud/mistake/good faith) which varies according to the circumstances, the quality of the parties or the complexity of the product for instance.	
HU	Under Art. 205 (3) of the Civil Code, the parties must inform each other regarding all essential circumstances in relation to the proposed contract before the contract is concluded. Moreover, according to Art. 367 of the Civil Code, the seller must inform the buyer regarding the essential characteristics of the goods and all important requirements pertaining to the good, particularly any potential rights in connection with or any encumbrances on the good. The seller must also convey the documents concerning such circumstances, rights, or encumbrances to the buyer. Finally, the general duty of good faith is applicable also during the pre-contractual phase. As a result, a contract could be annulled, for example, if the party withholding information leads the other party to enter into the contract by mistake. However, the burden of proof lies on the party who allegedly made the mistake.	=
IT	There is no such rule under Italian law.	+
NL	There is no specific provision in Dutch law.	+
PL	<i>There is no general duty to provide the other party with information prior to the conclusion of a contract. In relation to specific contracts, according to Art. 546(1) of the Civil Code, a seller is obliged to inform a buyer about all necessary circumstances related to legal and factual aspects of the goods being sold. However, it is not certain in legal doctrine whether this obligation also covers pre-contractual duties. A party may also release itself from a contract entered into on grounds of a mistake (Art. 84 of the Civil Code) or fraud (Art. 86 of the Civil Code).</i>	+
PT	This duty is based on the general duty of good faith in pre-contractual relationships – Art. 227 para. 1 of the Civil Code. The remedies in general are damages.	=
UK	England and Wales: There is no direct general duty. However, businesses may have to disclose information on the characteristics of goods to avoid liability for non-conformity. Scotland: No such duty is directly imposed in the law of Scotland. However, there would sometimes be remedies via the rules on error or damages for fraud or negligent misrepresentation. Also information may have to be given to avoid liability for non-conformity.	+ +

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	No costs for consumers.
Benefits for consumers	The provision does not have a direct impact on consumer wellbeing. Consumers might indirectly benefit of an increase in business competitiveness and productivity (addressed below).
Costs and benefits for businesses	
Costs for businesses	Businesses might incur administrative costs for providing information on their products. In this case, these costs are likely to be recurrent, as providing product information is a continuous activity. However, it could be expected that similar information is provided already in the usual

	<p>course of businesses.</p> <p>The costs would affect mostly businesses involved in B2B transactions only. Those selling to consumers as well would have lower costs as they could use the same pre-contractual information with some adjustments if necessary both for their consumer and business customers.</p>
Benefits for businesses	<p>SMEs would benefit in relations with companies with greater market power, as this general disclosure duty and related remedies in case of a breach – which currently do not exist or only partially exist in most Member States (e.g. DE, ES, FI, FR, IT, NL, PL, UK) – would entitle them to information they otherwise may not have received from the other party and/or would not have been able to obtain in another way. By being better informed, they could strengthen their position in negotiations.</p> <p>In general, businesses would be in a better position to judge about the characteristics of the products they purchase in advance of concluding a deal. This information would enable them to select the products that mostly suit their needs. As this would result in a better allocation of resources, their productivity and competitiveness would increase.</p>

Duty to ensure that information supplied is correct

Issue:

In addition to the general duty to disclose information about goods and services, a Common European Sales Law could introduce a duty for the party who supplies information before or at the time a contract is made, to take reasonable care to ensure that the information supplied is correct and is not misleading.

In case of breach of this duty the aggrieved party would have the following remedies:

- Where the business has not fulfilled his pre-contractual information duty and, as a result a contract has been concluded which the other party would not have concluded, or would not have concluded on the same terms, the business would be liable for damages.
- The contract may be void on the basis of a mistake or fraud provisions.

Legal comparison:

Country	Provision comparison	Impact on the level of protection
BE	<p>There is not a specific provision. However:</p> <ul style="list-style-type: none"> - The principle of good faith (Art. 1134,3 of the Civil Code) obliges contracting parties to loyal cooperation and to inform each other in good faith. When a party violates one of these duties, the judge can find that this party commits a contractual fault and is liable for loss caused to the other party. - In addition, the violation of the duty to inform can also lead to pre-contractual liability: e.g. when there is a defect of consent (fraud (1116 of the Civil Code)/ a mistake (1110 of the Civil Code)), the contract can be avoided and/or damages can be claimed. Especially where a party intentionally gives misleading or incorrect information there will often be fraud. In the case of fraud, four conditions must be fulfilled: (1) the use of 	+

	<p>artifices; (2) the fraud must be committed by the other contracting party; (3) the party that commits the fraud must have the intention to deceive or to mislead the other party and finally (4) the fraud must be of an overriding importance. Only when the latter condition is fulfilled, a fraud will ('principal fraud') lead to avoidance of the contract (at the request of the party that is victim of the fraud). If the fraud is not of an overriding importance and has not led the other party to enter into the contract (but could have led him or her only to enter into the contract under different conditions, e.g. a lower price) the fraud is 'incidental'. In the latter case only damages can be claimed, on the basis of a pre-contractual fault (tort liability: Art. 1382 of the Civil Code). The first condition will be fulfilled (artifices):</p> <p>If the information provided is incorrect, incomplete or misleading, (through lies, misleading declarations or overstatements); or</p> <p>If there is an omission to provide information, deceit will only be accepted if there is a special duty to inform and if the contracting party deliberately conceals this information. This special duty to disclose can result from special legislation (e.g. Art. 4 MPCPA). Whilst in B2C situations it is likely that an omission to give information constitute a fraud, it is less certain in B2B situations.</p> <p>The first condition of fraud will be fulfilled when the information provided is incorrect, incomplete or misleading. The condition that there must be an intention to deceive or to mislead the other party, makes the defect of consent 'fraud' less protective than the provision envisaged at the European level mentioned above.</p> <p>Under Belgian law the remedies for fraud consisting in not providing information that the other business party needed are limited to avoidance and damages.</p>	
EE	<p>Estonian Law of Obligations Act (1.07.2002) provides (§ 14. Pre-contractual negotiations): Persons who engage in pre-contractual negotiations or other preparations for entering into a contract shall take reasonable account of one another's interests and rights. Information exchanged by the persons in the course of preparation for entering into the contract shall be accurate.</p> <p>There are no special remedies provided for in the Art. itself, but all remedies mentioned above are available (LOA § 101 (1)).</p>	=
ES	<p>There is no such specific provision. But general rules on avoidance for mistake, fraudulent omissions and good faith determine such a duty. However, the duty is much less precise.</p> <p>There is no specific provision for B2B transactions. The remedies based on general contract law would, however, be similar.</p>	+ for the duty = for remedies
FI	No such provision in the Finnish law.	+
IT	No corresponding provision in Italian law – extreme cases are however dealt with by the general provision on good faith.	+
PL	There is no such special provision. There are no such remedies.	+
PT	<p>This duty of care follows from the general duty of good faith – Art. 227 par. 1 of the Civil Code.</p> <p>The remedies in general are damages.</p>	= for duty + for remedies
UK	England and Wales: the rules governing misrepresentation, including Misrepresentation Act 1967, section 2(1), apply in principle where there has been a misstatement of fact. Moreover, the courts are ready to find that	+

	<p>a statement that literally may be true but which is misleading amounts to a false statement. Right to avoid if misrepresentation is serious; right to damages unless the person giving the incorrect information shows that he had reasonable grounds to believe that the information was correct.</p> <p>Scotland: no such duty is directly imposed in Scottish law. However, there are sometimes remedies via the rules on error or damages for fraud or negligent misrepresentation. Additionally, information may have to be given to avoid liability for non-conformity. No such comprehensive remedies in Scottish law.</p>	+
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Assessment of impacts

Costs for consumers	Consumers are unlikely to be concerned.
Benefits for consumers	Consumers are unlikely to be concerned.
Costs and benefits for businesses	
Costs for businesses	Some additional costs may be incurred by businesses to adapt the information materials to make sure that the information supplied is correct and is not misleading. In the case of breach of this duty i.e. where the business has not fulfilled his pre-contractual information duty and, as result a contract had been concluded which the other party would not have been concluded, or would not have been concluded on the same terms, the business would be liable for damages. The potential costs for compensating damages would however only affect traders providing incorrect or incomplete pre-contractual information to other parties. These costs are considered as minor as the required standard would correspond to normal business practice.
Benefits for businesses	Businesses would benefit from receiving complete and correct pre-contractual information that would facilitate the business decision making process. In a number of Member States at present there are no specific provisions concerning remedies for a breach of information obligations in B2B contracts (e.g. PL, FI) or the rules are not so clear and strict (e.g. PT, IT, UK). Businesses in these countries would be more protected in case they conclude a contract based on incomplete or misleading information.

Unfair exploitation

Issue:

A Common European Sales Law could introduce a provision that a party may avoid a contract if, at the time of the conclusion of the contract: (a) the party was dependent on or had a relationship of trust with the other party, was in economic distress or had urgent needs, was improvident, ignorant, inexperienced or lacking in bargaining skill; and (b) the other party knew or could be expected to have known this and, given the circumstances and purpose of the contract, exploited the first party's situation by taking an excessive benefit or unfair advantage.

Legal comparison:

Country	Provision comparison	Impact on the level of
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		protection
BE	<p>There is not such an explicit provision under Belgian law. However legal literature and case law have developed the theory of the 'qualified unfair treatment' (gekwalificeerde benadeling/ lésion qualifiée) of a contract party. There are three cumulative requirements: 1) there must be a manifest imbalance between the obligations of the parties; 2) there must be an abuse of the concrete circumstances of the inferiority of the unfair treated contractual party (inferiority can be: physical, moral, financial, intellectual, functional, a monopoly, ...) and 3) the abuse has to be the determining factor: without the abuse of circumstances the unfair treated party would not have concluded the contract or would have concluded a less onerous contract. The sanction under Belgian law is based on the culpa in contrahendo (Art. 1382 of the Civil Code) and damages will be awarded to the victim. Some scholars have submitted that redress in kind can consist out of nullifying the contract or reducing an overstated obligation. The text envisaged at European level as mentioned above provides for a clear provision.</p>	+
EE	<p>Regulation is based on nullity of the contract: GPCCA § 96. Transaction contrary to good morals or public order: (1) A transaction which is contrary to good morals or public order is void. (2) A transaction is contrary to good morals, inter alia, if a party knows or must know at the time of entry into the transaction that the other party enters into the transaction arising from his or her exceptional need, relationship of dependency, inexperience or other similar circumstances, and if: 1) the transaction has been entered into under conditions which are extremely unfavourable for the other party or 2) the value of mutual obligations arising for the parties is out of proportion contrary to good morals. (3) If the value of mutual obligations specified in paragraph (2) 2) above is unreasonably out of proportion contrary to good morals, it is presumed that the party knew or should have known of the other party's exceptional need, relationship of dependency, inexperience or other similar circumstances. (4) If a transaction is void due to the obligation to pay interest which is contrary to good morals, the party who is obliged to pay the interest or other charge depending on the time during which the loan is used, has the right to return that which is received as a result of the void transaction by the due date by which the party had, according to the void transaction, to repay the whole loan. In such a case, interest for the time during which the loan was used shall be paid in the amount provided for in subsection 94 (1) of the Law of Obligations Act.</p>	=
ES	<p>Under Spanish law, there is no general possibility of avoiding the contract for unfair advantage except: (i) there is duress; (ii) there is some quantitative disadvantage in very specific cases involving minors and similarly situated persons, and no other remedy is available; (iii) in certain Spanish regions - Cataluña, Navarra - where the traditional rescission by seller for laesio enormis is applicable.</p>	+
FI	<p>Section 31 in the Contracts Act: (1) If anyone, taking advantage of another's distress, lack of understanding, imprudence or position of dependence on him/her, has acquired or exacted a benefit which is obviously disproportionate to what he/she has given or promised, or for which there is to be no consideration, the transaction thus effected shall</p>	=

	not bind the party so abused.	
IT	Under Art. 1448 of the Civil Code the party is entitled to avoid the contract when there are specific conditions such as: a) 'ultra dimidium' disproportion among the reciprocal obligations; b) the party had urgent needs; c) the other party exploited the first party's situation by taking an excessive benefit or unfair advantage. No judicial revision of the agreement is allowed by the court.	+
PL	Under Art. 388 of the Civil Code in a case of unfair exploitation, a party may demand a reduction of its own performance or an increase in the performance due to it and in the event that one or the other would be excessively difficult, it may demand that the contract be declared invalid. There is no possibility to avoid contract by notice of the entitled party.	+
PT	The same remedy is foreseen in Art. 282 of the Civil Code.	=
UK	England and Wales: Where the parties are in a relationship of trust and confidence, remedies (for 'undue influence') are readily given. In other cases there is the possibility that the contract may be avoided as an unconscionable bargain, but the cases are few. Scotland: No such express rule exists, but in some cases a contract may be avoided on the ground of 'facility and circumvention' or undue influence. 'Facility' here means mental weakness. Cases are few.	+ +

Assessment of impacts

Costs for consumers	Consumers are unlikely to be concerned.
Benefits for consumers	Consumers are unlikely to be concerned.
Costs and benefits for businesses	
Costs for businesses	Businesses which exploit the other party's situation by taking an excessive benefit or unfair advantage would need to change their businesses practices. In the case of unfair exploitation the other party could avoid the contract and this may generate some costs for the exploiting party. However, these costs are considered as minor as the required standard would correspond to normal business practice.
Benefits for businesses	At present, in a number of Member States, the rules are less strict i.e. not provide for the same remedies or provide for less cases of unfair exploitation (e.g. ES, PT, PL, UK). Businesses in these countries would benefit from more protection against unfair exploitation. SMEs are likely to benefit particularly from this provision as they are often the weaker party and are more likely to fall victim of unfair exploitation.

Unfairness control of standard terms

Issue:

A Common European Sales Law could introduce a rule that in B2B transactions, a business cannot rely on a contract term included in its standard terms and conditions which grossly deviates from good commercial practice, contrary to good faith and fair dealing. (i.e. unfair term). This rule means

that not individually negotiated unfair standard terms and conditions shall be fair, otherwise that term cannot be enforced.

Legal comparison:

Country	Provision comparison	Impact on the level of protection
BE	There is no such provision under Belgian law.	+
DE	The general provision on the reasonableness of unfair terms is also applicable to B2B transactions. According to this, provisions in standard business terms are ineffective if, contrary to the requirement of good faith, they unreasonably disadvantage the other party to the contract with the user. An unreasonable disadvantage may arise from the provision not being clear and comprehensible. Unreasonableness is, in case of doubt, to be assumed to exist if a provision is not compatible with essential principles of the statutory provision from which it deviates, or if it limits essential rights or duties inherent in the nature of the contract to such an extent that the purpose of the contract is jeopardised. To interpret that rule the courts take into account the black and grey lists from B2C legislation, as an overall grey list for B2B contracts.	=
EE	A standard term is void if, taking into account the nature, contents and manner of entry into the contract, the interests of the parties and other material circumstances, the term causes unfair harm to the other party particularly if it causes a significant imbalance in the parties' rights and obligations arising from the contract to the detriment of the other party or if the standard term is contrary to good morals.	+
ES	No such provision for B2B transactions.	+
FI	No such general provision in Finnish law. But under certain circumstances contract terms may be considered as unfair (e.g. Supreme Court 2008:53).	+
FR	Under Art. L 442-6 of the Commercial Code (introduced in 2008) any professional engages his liability and requires him to repair the damage caused by the fact that he: - submits or attempts to submit a trading partner to obligations which create a significant imbalance in rights and obligations of the parties - obtains or attempts to obtain undue or disproportionate benefits from a trading partner. Moreover, Art. L.132-1 of the Consumer Code contains a reference to a 'non-professional' which might lead, under certain circumstances, to the application of the unfair terms control of the Consumer Code to relations between businesses.	+
HU	There is no such specific provision in the national law. However, Art. 205/B (2) of the Civil Code provides that the other party shall be explicitly informed of any standard terms that differ substantially from the usual contract conditions, the regulations pertaining to contracts, or any stipulations previously applied by the same parties. Such conditions shall only become part of the contract if, upon receiving special notification, the	+

	other party has explicitly accepted it. This is mandatory for B2B contracts.	
IT	No corresponding provision in Italian law.	+
NL	Standard terms can be nullified if they are unreasonably burdensome: Art. 6: 233 BW- of the Dutch Civil Code. The fairness control in Dutch law provides a similar protection.	=
PL	<i>There is no such specific provision in Polish law</i>	+
PT	Terms not individually negotiated are unfair if they are contrary to good faith – Art. 15 of the Decree-Law 446/85 –in B2B as well as in B2C. There are also black and grey lists of terms specifically for B2B.	=
UK	There is no unfairness control, unless the term was an exclusion or limitation of liability clause, void under UCTA 1977. Apart from penalty clauses, there is currently no control over other unfair terms in B2B contracts, but the Law Commissions have recommended Unfair Terms Directive-like controls over small business contracts. The Government has accepted the recommendation but nothing has been implemented in law.	+

Assessment of impacts

Costs and benefits for consumers	
Costs for consumers	No direct costs. There is a potential risk that businesses that use unfair terms will pass on the costs of adjustment to consumers. However, this risk is low in a competitive market. Moreover, many of the businesses may be engaged in B2B relations only and do not sell their products to consumers.
Benefits for consumers	Consumers may indirectly benefit from increased business activity.
Costs and benefits for businesses	
Costs for businesses	Businesses that impose unfair terms might need to adjust the conditions they offer and may incur operational costs. Businesses would no longer be reliant that their standard terms and conditions (which include some unfair terms) could be enforced and might be faced with some legal uncertainty. However the risk and costs are considered minor as including terms which grossly deviate from good commercial practices, contrary to good faith and fair dealing, do not correspond to normal business practice.
Benefits for businesses	Businesses would be protected against the enforcement of unfair terms and therefore would be able to avoid the detriment stemming from such terms in particular in Member States where there are no such specific provisions in place (e.g. BE, IT, ES, PL, UK) or where the unfairness control covers certain restrictive circumstances (e.g. DE, EE, FR, HU, FI). SMEs are likely to benefit in particular, as they usually have less market power to oppose unfair terms or legal resources to identify them in a contract. SMEs would gain a stronger position in negotiating the terms of a contract as they would not have to invest resources in negotiating against unfair terms.

Terms which are unfair if not sufficiently drawn to the buyer's attention

Issue:

A Common European Sales Law t could protect against standard terms of which the party not supplying them could not be aware: contract terms supplied by one party and not individually negotiated may be invoked against the other party only if the other party was aware of them, or if the party supplying them took reasonable steps to draw the other party's attention to them, before or when the contract was concluded..

Legal comparison:

Country	Provision comparison	Impact on the level of protection
BE	<p><i>Under general contract law it is generally held that standard terms are not accepted (and not part of the contract) until the other party has, at the latest at the moment the contract was concluded, knowledge of those terms or could have obtained knowledge of those terms, and he has accepted those terms.</i></p> <p>A Common European Sales Law would provide a higher level of protection because there is also an obligation for the party supplying the terms, to take reasonable steps to draw the other party's attention to the standard terms.</p>	+
DE	<p>Standard terms become part of the contract in B2B by agreement which can be explicit, implied or tacit. The incorporation of standard terms may be made by reference or derived from commercial practice. The party does not have to 'draw the other party's attention' to the terms. The other party is however protected by the unfairness control which includes transparency and the rule on surprise clauses.</p>	=
EE	<p>Estonian law provides this principle as part of the procedural fairness: § 37. Standard terms as part of contract: Standard terms are part of a contract if the party supplying the standard terms clearly refers to them as part of the contract before entering into the contract or while entering into the contract and the other party has the opportunity to examine their contents. Standard terms are also part of a contract if their existence could be presumed from the manner in which the contract was entered into and the other party was given the opportunity to examine their contents.</p>	=
ES	<p>A provision in Section 5 of the Standard Form Terms Act (Ley 7/1998, de 13 de abril, LCG) determines that a standard term will not be incorporated into the contract if the supplier of the term did not effectively ensure that the other party knew of the existence and content of the term.</p>	=
FI	<p>No such provision in Finnish law.</p>	+
HU	<p>No such provision in Hungarian law. However, Art. 205/B (1) of the Civil Code provides that standard terms become part of a contract only if they have previously been made available to the other party for perusal and if the other party has accepted the terms explicitly or through conduct that implies acceptance. Mandatory for B2B contracts.</p>	-
IT	<p>Arts. 1341 and 1342 Italian Civil Code: (1) Standard terms or model contracts supplied by one party are effective as against the other party if the latter was aware of them at the time of conclusion of the contract, or should have been aware of them by using 'ordinaria diligenza'</p>	+

Benefits for businesses	Businesses would be protected against terms supplied by the other party of which they were not aware. In a number Member States, at present there are no such rules or rules are less strict i.e. (e.g. BE, UK, PT, PL, IT, FI). Businesses in these countries would gain more confidence as they would need to be made aware of all the terms supplied by the other party or otherwise they could not be invoked against them.
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Seller's right to cure for fundamental non-performance

Issue:

A Common European Sales Law could foresee a seller's right to cure his non-performance in the following cases:

- A seller who has delivered goods early and who is notified that they are not in conformity with the contract may make a new and conforming tender if that can be done within the time allowed for performance.
- In other cases a seller who has tendered a performance which is not in conformity with the contract may, on being notified of the non-conformity, offer to cure it at the seller's own expense.

Legal comparison:

Country	Provision comparison	Impact on the level of protection
BE	Such a provision does not exist under Belgian law. Although some roughly similar results may be reached under several legal basis (e.g. Arts. 1610, 1630-1637, 1641-1646 and 1184 of the Civil Code), a Common European Sales Law would set out a clear provision on the seller's right to cure his non-performance, which would be more protective towards the seller.	+
EE	-No such rule in Estonian law. - LOA § 107. Cure: (1) A party who fails to perform a contractual obligation may, at the party's own expense, cure the non-performance, including improving or replacing defective a performance, as long as the other party has not withdrawn from or cancelled the contract or demanded compensation for damage in lieu of the performance, provided that: cure is reasonable in the circumstances, and cure does not cause unreasonable inconvenience or expenses to the injured party, and the injured party has no legitimate interest in refusing a cure. (2) A non-performing party may cure non-performance within a reasonable period of time after the party has given notice to the injured party of the intention to cure and of the proposed manner and timing of the cure and if the injured party with a legitimate interest in refusing cure has not given notice of such refusal within a reasonable period of time.	+ =
ES	No specific provision for B2B transactions, however case law may lead to roughly similar results but with less precision and certainty.	+
FI	Sale of Goods Act, Section 36: the seller may, at his own expense, remedy the defect or deliver substitute goods if this can be done without substantial inconvenience to the buyer or uncertainty of reimbursement by the seller of any expenses advanced by the buyer.	=
HU	There is no such specific provision in Hungarian law.	+

IT	While there is no specific provision in the Italian Civil Code on the debtor's (or seller's) right to cure non-performance, either in case of early performance or in other cases of non-conformity, scholars and case-law have suggested that the debtor's (or seller's) offer for a conforming tender should be taken into account in assessing whether parties behaved according to fair dealing (Art. 1175 of the Civil Code). Moreover, the debtor (or seller) can make a new conforming tender as long as the other party has not requested a termination.	Slightly +
PL	- There is no such provision. - There is a similar provision. Under Art. 560 §1 of the Civil Code the buyer's termination of the contract is ineffective if the seller cures the non-conformity of goods with the contract (replace or repair the good) without unreasonable delay.	+ =
PT	- The seller has a right to cure. - The buyer may refuse the cure if he opts for the rescission of the contract because of the defects – Art. 913 para 1 of the Civil Code.	= +
UK	England and Wales: English law contains the same rule. Scotland: The rules on the right to cure a defective performance are not as clear or developed.	= +

Assessment of impacts:

Costs for consumers	Consumers are unlikely to be concerned.
Benefits for consumers	Consumers are unlikely to be concerned.
Costs and benefits for businesses	
Costs for businesses	There could be some additional costs for buyers as the sellers would have the right to cure for non-performance whereas at present in some Member States a buyer can refuse the cure and opt for the recession of contract. However, normally a buyer should be interested in bringing the delivered goods in conformity as soon as possible and not having to search for a new supplier or becoming involved in disputes with the first supplier.
Benefits for businesses	In a number of Member States the rules on the right to cure a defective performance are not as clear or developed (e.g. HU, ES, EE, IT). These rules would give the opportunity to the seller to cure for non-performance and thus avoid additional costs if a buyer opts for the recession of contract and compensation for damages.

ANNEX IX: RANKING OF BARRIERS TO TRADE

Surveys among businesses who are involved or interested in starting cross-border trade provided data on obstacles to cross-border transactions in the internal market. Eurobarometer 320 *European contract law in business-to-business transactions* (B2B) and Eurobarometer 321 *European contract law in business-to-consumer transactions* (B2C) list and rank the obstacles that have an impact on the cross-border trade of businesses in the internal market.

The barriers identified are of a regulatory nature (tax regulations, contract law related difficulties, licensing and registration requirements) and of a practical nature (e.g. after-sales maintenance). Cultural differences are also accounted for. The obstacles identified below to a large extent comprehensively cover the various barriers that businesses may still encounter in the internal market. This is proven by the fact that in both surveys the share of respondents who indicated that they were affected by 'other obstacles' than those identified in the questionnaire was very small.

For the purpose of identifying how the barriers to trade affect businesses, it is essential to find out how businesses perceive these barriers. While perceptions are by nature subjective, they are an important driver determining the business decision to enter into cross-border trade. The survey method is particularly appropriate for collecting data on perceptions, as it is based on the opinions of the respondents.

1. Barriers to cross-border B2C transactions (based on EB 321)

A contract law-related problem (difficulty in finding out about the provisions of a foreign contract law) was ranked as the top barrier for B2C transactions, with 40% of the surveyed companies indicating that it had an impact on their decision to trade cross-border. Other contract law related problems are ranking third, sixth and seventh.

The overall picture of barriers to B2C cross-border trade is illustrated by the figures below, with contract law related obstacles indicated in bold:

- I - **Difficulty in finding out about the provisions of a foreign contract law, 40%**
- II - Tax regulations, 39%
- III - **The need to adapt and comply with different consumer protection rules in the foreign contract laws, 38%**
- IV - Language (communication problems, translating documents, etc.), 36%
- V - Formal requirements e.g. licensing, registration procedure, 35%
- VI - **Obtaining legal advice on foreign contract law, 35%**
- VII - **Problems in resolving cross-border conflicts, including costs of litigation abroad, 34%**
- VIII - Problems with cross-border delivery, 32%
- IX - After-sales maintenance abroad, 31%
- X - Cultural differences, 27%
- XI - Other, 11%

The above data shows that a significant percentage of companies who are interested in cross-border trade are hindered by remaining barriers in the internal market. Contract law related obstacles rank high among the barriers that hinder businesses.

2. Barriers to cross-border B2B transactions (based on EB 320)

Tax regulations were ranked as the main obstacle in B2B transactions, closely followed by formal requirements and a contract law-related barrier, i.e. the **difficulty in finding out about the provisions of a foreign contract law**. Thus a contract law related obstacle ranked among the top three barriers to trade with 35% of respondents saying that it had an impact on their decision to trade cross-border. Other contract law related problems ranked sixth, seventh and ninth.

The overall picture of barriers to B2B cross-border trade is illustrated by the figures below, with contract law related obstacles indicated in bold:

- I – Tax regulations, 38%
- II - Formal requirements e.g. licensing, registration procedures, 36%
- III - **Difficulty in finding out about the provisions of a foreign contract law, 35%**
- IV - Language (communication problems, translating documents, etc.), 34%
- V - Problems with cross-border delivery, 34%
- VI - **Problems in resolving cross-border conflicts, including costs of litigation abroad, 32%**
- VII - **Obtaining legal advice on foreign contract law, 31%**
- VIII - After-sales maintenance abroad, 30%
- IX - **Difficulty in agreeing on the foreign applicable contract law, 30%**
- X - Cultural differences, 25%
- XI – Other, 12%