

## Harnessing the potential of the collaborative economy

In its Single Market Strategy<sup>1</sup> the European Commission announced the development of a European agenda for the collaborative economy, including guidance on how existing EU law applies to collaborative economy business models. This informal competitiveness meeting offers an excellent opportunity to discuss Member States' views and best practice approaches to the collaborative economy, to reach a broad consensus on its economic potential, and to provide an initial political steer for the development of the European agenda.

### 1. Reaping the rewards of the collaborative economy

#### ***Economic and sustainability benefits***

The collaborative economy, also known as the sharing economy, has experienced rapid development and growth in recent years. Studies have shown the substantial potential of the collaborative economy – according to PwC, five collaborative economy sectors worth EUR 13 billion globally in 2014 could be worth EUR 300 billion by 2025.<sup>2</sup> Consumer behaviour is also changing – a study by Nielsen has demonstrated that two thirds of adults are willing to share products in exchange for money.<sup>3</sup>

While the most prominent – and controversial – examples of the collaborative economy are found in the transport and accommodation sectors, collaborative business models have sprung up across the whole economy, enabling additional value to be obtained from underused assets and skills. There is significant potential to be found in collaborative economy models, such as peer-to-peer service markets, second-hand or craft goods marketplaces, shifts from owning to renting or sharing durable goods, and even 'collaborative production' (where businesses use crowd-sourcing and decentralised manufacturing). Businesses may find new market opportunities and cost and resource efficiencies; innovative entrepreneurs can enter markets more easily; and previously unemployed or underemployed workers can make better use of their time and skills. Owners of expensive assets may be able to profit from renting them out or sharing them with others – or alternatively, from selling the asset and becoming a renter themselves. Consumers more generally may have access to greater choice, lower prices, and more convenient options.

There may be additional benefits in terms of environmental sustainability as a result of the more efficient use of capital intensive assets: by sharing or renting instead of buying a particular asset, the needs of society can be fulfilled using fewer resources. A Dutch study on the environmental impact of the collaborative economy has shown that one drill can be used by six households – thereby potentially reducing the use of resources needed for the production of five drills.<sup>4</sup>

#### ***Facing the challenges***

Harnessing the power of the collaborative economy comes with challenges. Governments need to safeguard public interests, such as safety, health, and labour conditions, whether or not a particular initiative is categorised as part of the collaborative economy. We cannot ignore that these public interests may be at risk within the collaborative economy as well as traditional business models. Additional challenges stem from complaints of regulatory certainty, from both entrants and incumbents, and resistance from vested interests is growing.

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<sup>1</sup> Doc. 13370/15, Upgrading the Single Market: more opportunities for people and business, European Commission, 2015.

<sup>2</sup> [Consumer Intelligence Series: The Sharing Economy](#), PwC, 2015.

<sup>3</sup> ['Is sharing the new buying?'](#), Nielsen, 2014.

<sup>4</sup> [Milieu-impact en -kansen deeleconomie](#), ShareNL, 2015.

A further challenge stems from the fact that the collaborative economy is not bounded by national borders. It is bringing a Single Market dimension – and even a global dimension – to markets that were previously national or local. This demands consideration of the Single Market from a regulatory perspective, as well. A fragmented and hasty response to issues in the collaborative economy on a local and national level could unnecessarily limit the further development of the collaborative economy.

The phenomenon of the collaborative economy is in its infancy. Its potential to lead to sustainable economic growth and job creation is not fully realised. As collaborative initiatives launch and grow ever more rapidly, now is the time to consider how the EU can maximise the potential benefits of the collaborative economy.

## **2. Identifying the key issues for further developing the collaborative economy**

### ***Characterising the collaborative economy***

The European Commission characterises the collaborative economy as a complex ecosystem of on-demand services and temporary use of assets based on exchanges via online platforms.<sup>5</sup> Nonetheless, there remains no consensus in academic or public debate on a clear-cut definition of the collaborative economy, and indeed, the definition is hardly the most relevant element from a policy perspective. To take forward the policy debate, it is necessary to understand how the collaborative economy can change our economy and society, and how this affects our policies and regulatory framework.

The subject of the collaborative economy can encompass a whole range of prominent topics, from changes in labour markets to online digital platforms. Many of these issues are not specific to the collaborative economy. Today's discussion will focus on two of the most important characteristic elements of the collaborative economy: the shift from owning to sharing, and the blurring of the boundaries between business and consumer. These two developments are at the root of much uncertainty over the application of existing regulation, at local, national and European levels, as highlighted in the Single Market Strategy, and affect both new entrants and incumbents.

### ***From owning to sharing***

The first important characteristic of the collaborative economy concerns the shift from owning goods to sharing goods. Many collaborative economy business models facilitate renting or borrowing – either from the business itself or through a peer-to-peer platform – and so there is less need to own goods, from cars and holiday homes to tools and designer dresses. However, both the regulatory framework and the private sector are often based on models of single individual ownership or certain regimented forms of business-to-consumer rental. The collaborative economy therefore prompts questions which both governments and markets cannot always answer: Who, for example, is liable in case of an accident involving a shared good? Can a car be leased jointly? Can a mortgage allow for home-sharing? Clarifying these rules and rights could give an enormous boost to collaborative initiatives. We may need to re-examine legislation on liability, insurance, property rights, warranties, and contracts. In addition, private sector organisations such as those providing mortgages or insurance policies may need to adjust to the collaborative model, and may require government encouragement or support to do so.

### ***The 'prosumer': blurring the boundaries***

The second important characteristic of the collaborative economy is the consumer becoming a supplier of services and products: the 'prosumer'. Digital platforms in the collaborative economy facilitate the increasing participation of citizens as providers of goods and services, for example by hiring out their tools or their guest bedroom, or by contracting out their skills and spare time. This could unleash the vast potential of unused capacity of goods and people. However, as consumers provide goods and services more often and earn more money by doing so, the line between private individuals and businesses becomes blurred. The issue becomes yet more complex and challenging where a supposedly peer-to-peer/consumer-to-consumer platform attracts professional providers, who are able to profit from lighter (or ambiguous) regulation compared to providers using traditional business models.

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<sup>5</sup> Doc. 13370/15, Upgrading the Single Market: more opportunities for people and business, European Commission, 2015.

Problems arising around product and service market regulation (in industries such as taxis, hotels and restaurants), consumer protection, and taxation can be traced back to this shift from consumer to 'prosumer' and the increasingly blurred line between business and consumer. It can result in friction between new entrants and incumbents, as traditional businesses complain of unfair competition from providers in the collaborative economy who do not comply with the same level of regulation. These issues arise in almost every market affected by the collaborative economy.

This is illustrated by the phenomenon of home-sharing. The rise of the collaborative economy has allowed consumers to become 'prosumers' and profit from the unused asset of their guest bedrooms. In some countries, legislation has been adapted to facilitate this development. However, an increasing number of professional providers are renting out properties on a permanent basis to tourists under the guise of home-sharing. Ensuring clarity on who has to comply with which legislation is necessary to prevent abuse by professional providers, and to create conditions for growth for bona fide collaborative economy participants.

### **3. Policy considerations**

Understanding how these characteristics of the collaborative economy affect our economy, society and institutions can help to structure policy discussions – issues in the hotel sector, for example, are perhaps not so different from issues in the restaurant sector. Using this structure, it is possible to develop an approach that focuses on the underlying themes of many policy issues, and consequently addresses these issues in a consistent and coordinated way that strengthens the Single Market and leads to economic growth and job creation in the EU.

It is important to take a balanced and proportionate approach that does not needlessly restrict the further development of the collaborative economy, safeguards public interests, and ensures a level playing field. Such an approach starts with going back to the root of existing legislation: asking whether any public interests are at stake and if so, which ones, and whether existing legislation is fit to safeguard these public interests in the context of the collaborative economy. This approach recognises that developments in the collaborative economy do not change existing public interests as such – safety and quality are as important as ever – but do raise questions about how they are safeguarded. In some cases, the collaborative economy may not affect the public interest, in which case we should ask whether regulatory burden is necessary. If the public interest is at stake, existing rules may still not be suitable. Applying inappropriate existing regulation could hamper the further development of the collaborative economy without necessarily achieving the intended aims of protecting consumers or otherwise serving public interests such as safety and health. Developments in the collaborative economy are putting to the test not just national and local but also EU legislation, including the Services Directive, the E-Commerce Directive, and consumer protection rules.

Developments in the collaborative economy can therefore compel us to clarify legislation, introduce additional legislation, remove legislation, or formulate smarter regulation at local, national and European levels. In this process it is important to remember that developments are dynamic. Specific legislation imposed for collaborative initiatives can quickly become obsolete or outdated. When adjustment of legislation is necessary, it is better to strive for rules that can be applied to incumbent, new, and future players in the market and that correspond to the nature and risks of the products and services in question. The fact that a product or service is part of the collaborative economy does not necessarily mean that a different type of regulation is required. We therefore need legislation that is agile and future-proof: an innovative and innovation-friendly regulatory approach. As part of this approach, we can also consider the role that digital platforms can play in facilitating compliance, for instance, in informing users of tax obligations or enabling authorities to use platform data for enforcement.

### **4. A framework for assessing regulatory issues in the collaborative economy**

Taking into account these considerations, this paper includes a framework to assess regulatory issues in the collaborative economy in a clear and structured way, which is presented on page 6. This framework could help to tackle regulatory issues without unnecessarily restricting collaborative initiatives, taking the public interest and the need for a level playing field into full consideration.

Nonetheless, dealing with these issues in practice can be difficult. As innovations are characterised by uncertainty, so can innovative regulatory policies themselves succeed or fail. And with innovation comes diversity, which is both an asset and a risk to the Single Market. It is therefore important to share best practice and experiences among Member States, and to work together with the Commission to achieve clarity on how the power of the collaborative economy can be harnessed in a way that benefits the Single Market. In this way we can take an effective, consistent and coordinated approach to further facilitate the development of the collaborative economy. The European agenda for the collaborative economy envisaged by the Single Market Strategy will create progress towards this goal by providing guidelines on how Single Market legislation – including the Services Directive, the E-Commerce Directive and European consumer laws – applies to these areas.

Finally, it is important to remember that regulatory issues are not restricted to the collaborative economy – other innovative products and services also come up against limits put in place by national and European legislation. This results in an increasing need for smarter and future-proof regulation that safeguards the public interest, facilitates new entrants, and at the same time considers the interests of incumbents. If we truly want to facilitate the further development of innovation in the collaborative economy and beyond, we will need to develop an innovative approach to regulation across the whole of the EU economy.

### **5. Set-up of the session**

Using this perspective we will discuss this topic during the lunch session. The Chair (Henk Kamp, Dutch Minister of Economic Affairs) will introduce the subject. Afterwards, Francesca Pick, Consultant and Chair of OuiShare Fest, will give an inspiring talk on this topic which will be the basis for further discussions. Following this, a number of Member States are invited to present their experiences of dealing with issues concerning the collaborative economy. Finally, Member States will have the opportunity to share their views. Using the discussion questions below, the moderator Constantijn van Oranje will guide the debate to focus on the potential, challenges and corresponding policies for the collaborative economy. The lunch debate will be concluded by Vice President Jyrki Katainen. He will further explain the plans of the Commission and the key points he will take back to Brussels. The Chair will then end the session.

### **Questions for discussion**

1. *Economic potential:* What potential do you think that the collaborative economy offers for sustainable economic growth, and in which fields?
2. *Challenges:* Which issues and risks should be addressed in relation to the collaborative economy, and at which administrative (local, national, or European) level should these issues be addressed?
3. *Policies for the collaborative economy:* How can we address these challenges? How can we learn from each other's experience and take a more coordinated approach? What role should the European agenda for the collaborative economy have in this?

**Framework for assessing policy issues in the collaborative economy**

