THE OUTLOOK ON THE E-COMMERCE IN RUSSIA IN TERMS OF DIGITAL SINGLE MARKET STRATEGY DEVELOPMENT IN EUROPE: ECONOMIC AND LEGAL ASPECTS

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ABSTRACT

The aim of the research is to emphasize the importance of online E-commerce on a worldwide scale in the context of the benefits it provides to the national governments. Special attention is paid to the key E-market trends in Russia and European Community with a brief overview of the statistics and analysis data, which proves the necessity for its future development.

However, the potential development of e-market in Russia has certain restrictions, connected with the current economic downtown, lack of legal provision and general consumer’s distrust to online transactions. Authors dwell upon the possible ways of overcoming these urgent obstacles according to the European policy of bringing down barriers to unlock online opportunities, which is called the Digital Single Market (DSM). To do that, the paper explores the benefits of the DSM Strategy’s introduction in Europe and the reasons whether it could be implemented into the Russia’s frontiers or not.

Finally, authors reckon that despite the fact that the several legislative improvements relating to electronic market has been introduced in recent years, there are several efficient suggestions to our government to scrutinize in order to achieve high rates of online sales, bring the economy up and enforce cross-border cooperation.


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1. INTRODUCTION

The term “e-commerce” has a variety of definitions and is basically used to define commercial online activities. Though its history seems to be rather short and can be traced to 1960s it is currently a vibrant sector of a global economy and an integral part of every national one, which provides great opportunities for the companies, using the power of the Internet, to gain access to foreign markets and expand distribution channels creating an effective system of association between suppliers and buyers. Companies have an opportunity to reduce costs in the supply networks they constructed; provide customers with services of higher quality; create new labor and capital markets; generate new revenue streams.1

Many researchers argue on the correlation of “e-business”, “e-commerce” and “e-trading” trying to establish appropriate scientific grounds.

David Kosir was one of the first to study the theoretical components of e-commerce and considered it mostly in the context of electronic trading emphasizing that the structure of e-commerce is similar to the retail one but with a lot more opportunities for being flexible.2 According to his approach e-commerce and e-trading are synonyms. Some western economists also share the same point of view, for example, Daniel Amor agrees that the e-commerce is a part of e-trade.3

L.S. Klimchenja determines e-commerce as an integral part of electronic business and the electronic trading as an element of e-commerce.4 The idea that e-business is broader in meaning than e-commerce prevails due to the fact that e-commerce refers only to selling or buying, while e-business includes aspects like customer service and collaboration with business partners.

Obviously, e-commerce can be looked from many different perspectives, for example:

- From communications perspectives e-commerce is a flow of information, payments, products and services over different electronic channels.

Business perspective views that e-commerce uses technology in order to automate business transactions.

For service perspective, e-commerce is a tool for customers and managers of the company, which is used to reduce costs, improve quality and cut the delivery times.

Online perspective sees e-commerce as an atmosphere of products, services and information available online. (Viewing in this perspective makes e-commerce synonymous to e-business).\(^5\)

The key feature of e-commerce is the absence of physical interaction between parties while conducting a wide range of numerous transactions. Depending on the parties, modern e-commerce can be categorized in five groups, including: business-to-business (B2B), business-to-customer (B2C), business processes, customer-to-customer (C2C) and business-to-government (B2G). This classification describes the main actors involved in the economic process and determines the purpose of these processes, namely who are the ultimate beneficiaries.\(^6\)

For the purpose of this article, we dwell mostly upon B2B and B2C segments. Business-to-business (B2B) is currently perceived as the most important segment of e-commerce, representing transactions (supply) goods and services between companies (manufacturers, suppliers, distributors, retailers, etc.) in order to obtain the final economic assets. Business-to-consumer (B2C) is the second element of e-commerce, being centered on the mechanisms able to satisfy the consumers’ interests (sale/purchase of goods and services, information, etc.) through trade between producers and buyers.

Due to a wide range of involved participants, one can hardly deny that e-commerce has a vast potential for business development worldwide. On a global scale the number of connected consumers, as well as that of e-shoppers is annually on an intensive increase – in 2016 26% of the world's population, which is 1,436 millions of people, have become e-shoppers. According to the annual B2C E-commerce report (2016) carried out by the E-commerce foundation, the electronic market keeps registering a double-digit growth, involving all major industries. The statistics indicates that the Global B2C E-commerce turnover in 2016 is expected to be up to a 2,7 billions of dollars and the share of E-commerce in GDP has risen to a 3,11%, which is still highly significant.\(^7\)

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\(^7\) E-commerce in Russia, in E-commerce news Europe, September 2016, Available at: https://ecommercenews.eu/ecommerce-per-country/ecommerce-russia/ (03.2016)
It is obligatory to mention the contribution of online device’s growth to such a considerable result in e-commerce development, as the global share of smart phones that has risen from 26% in 2012 up to 45% in 2016. In this regard, it is noteworthy that the demand for smart phones in terms of devices that can be used for online shopping is still growing and, consequently, they have to be considered as one of the key shopping tools on a global level. Tablets occupy the 2nd place in the rank of mobile devices relevant for online shopping and are particularly popular in North America and Western Europe.

Despite the fact that such a resounding success leads to a number of future prospects, there are still obstacles to be overcome in every particular country. The existing online barriers are the reasons for the citizens to miss out on goods and services, for the Internet companies and start-ups to have their horizons limited as a result businesses and governments cannot fully benefit from digital tools. Consequently, it is important to study the experience of e-commerce development in Europe, to analyze the development trends in the Russian e-commerce market, to indicate the barriers and consider the opportunities for the future growth.

2. DIGITAL SINGLE MARKET STRATEGY (DSM) PRIORITIES

According to the comparative analysis of the statistics on e-commerce efficiency in Russia and European Community, made for the purpose of this research (Table 1), we claim that Europe is mostly a mature e-commerce market in comparison with the Russian level of e-commerce. The number of online orders in Europe is 27 times as in Russia, Internet penetration rate is rather high and the turnover profits from E-commerce are incredible – 22 times larger than the revenue from e-market in Russia. High rates of the EU e-commerce market are to a great extent determined by the implementation of the Digital Single Market Strategy (DSM).

According to the European Commission Staff Working Document⁸, a DSM is called among the 10 political priorities as a special legal and economic regime in which free movement of persons, services and capital is ensured and where the individuals and businesses can seamlessly access and exercise online activities under conditions of fair competition, and a high level of consumer and personal data protection, irrespective of their nationality or place of residence.

Table 1. E-market statistics in Russia and Europe

<table>
<thead>
<tr>
<th></th>
<th>Russia</th>
<th>EC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online orders</td>
<td>148 mln</td>
<td>4 bln</td>
</tr>
<tr>
<td>Internet users</td>
<td>86 mln (70%)</td>
<td>516 mln (75%)</td>
</tr>
<tr>
<td>Online buyers</td>
<td>30 mln (25%)</td>
<td>296 mln</td>
</tr>
<tr>
<td>GDP</td>
<td>2,30%</td>
<td>2,59%</td>
</tr>
<tr>
<td>Turnover</td>
<td>$22,8 bln</td>
<td>$505 bln</td>
</tr>
<tr>
<td>Spending per e-shopper</td>
<td>$760</td>
<td>$1709</td>
</tr>
</tbody>
</table>

The advantages of this initiative are quite evident. A single set of rules will bring legal certainty and thus help businesses expand their activities to foreign markets, will increase the level of trust and legal protection of consumers in the Internet market. It will ensure a broader choice of goods at more competitive prices for the consumers, will create a friendly environment for businesses, contribute to the increase of cross-border trade volume, and simplify the legal framework for the competitiveness and active participation in digital market.\(^9\)

This framework is composed of the E-commerce Directive 2000/31/EC (ECD), which has created the legal basis for online services, including electronic commerce in the Internal Market. The ECD has two vectors of action: it contains principles which should encourage the functioning of the Internal Market such as the Internal Market clause and regulates certain legal aspects of online services.

Following its adoption, additional sets of rules were introduced, among which are: the Unfair Commercial Practices Directive (2005)\(^10\), the Regulation on Passenger Rights (2004)\(^11\), the Services Directive (2006)\(^12\) and the Consumer Rights Directive (2011)\(^13\), complementing Article 5 ECD on the information requirements.

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Regulations, concerning Intellectual property, mainly include the Copyright Information Society Directive (2001)\textsuperscript{14} and the IPR Enforcement Directive (2004)\textsuperscript{15}. Article 9 of the ECD deals with electronic contracting and in this regard, since the 1\textsuperscript{st} of July 2016 it is supported by the Regulation on electronic identification and trust services for electronic transactions in the internal market («E-IDAS» Regulation) which regulates the legal recognition of e-signatures. In order to secure personal data properly, the E-Privacy Directive (2009)\textsuperscript{16} concentrates on the electronic communication sector.

The whole range of legal acts, introduced for the express purpose of Digital markets significantly decreases the amount of issues, connected with transactions between consumers and sellers, brings their interests into compliance and protects their rights.

Apart from legal stability, the DSM Strategy requires the updating of user’s digital skills, as in the nearest future 90% of jobs will demand IT competencies, This fact explains the necessity and importance of the European Open Science Cloud. It maintains the connection across borders and interaction of scientific disciplines, concentrates on creating the best business environment through modernization of online platforms, developing the means to secure personal data and speeding up the Internet connectivity for all the Europeans.\textsuperscript{17}

3. ELECTRONIC MARKET IN THE RUSSIAN FEDERATION

The Russian e-market follows the global tendency for growing and expanding its horizons in terms of e-commerce. Russian online population of 86 million makes the largest Internet base in Europe. Moreover, market insights declare that in 2015 Russian online consumers have received 160 million of small pack-

\begin{itemize}
  \item \textsuperscript{17} Why we need a Digital Single Market, Paper by the European Commission, Available online at: https://ec.europa.eu/digital-single-market/sites/digital-agenda/files/digital_single_market_factsheet_final_20150504.pdf (03.2016)
\end{itemize}
ages and parcels and the average spending per e-shopper amounted to 760$.
The Internet penetration level has certain growth from 37% in 2010 to 59,2% in 2015, nevertheless, it is considerably below the European average of 75%.

**Chart 1. Overview of popular product groups**

There are few regular major players on the Russian e-market, whose turnover has grown throughout the 2015. The most prospering amongst them are: Ozon.ru with the 30% of sales growth, KupiVip – Russia’s leading fashion flash sites, Lamoda.ru – a leading retailer of footwear. These companies will remain dominant on the Russian e-market in 2016, as they are actively raising

their capital, disregarding the global growth of financial tension: in 2015 Ozon closed a record $150 million funding deal with Russian investors, Lamoda raised $130 million from western investors and continues to grow. This fact determines a real growth potential for the e-commerce market in Russia.

Chart 1 presents an overview of the most popular product groups, which were the most demanded categories in online orders in 2015. According to the paper of Association of Internet commerce companies, made as a part of an Online retail Russia in Skolkovo in 2016, Russian consumers spent most of their e-money on small appliances and electronics (32.3%), clothes (23.3%) and shoes (11.6%). A comparative analysis of data for 2015 and 2016 shows that the trend of high rate’s sales in clothing and information technology still remains due to the fact that these products have a strong tradition of being sold by mail order.

Notably, Russian e-market trends also vary in the context of different gender preferences concerning online purchases. The research, conducted by «Yandex.Market» and GfK Company shows that men tend to spend more money online than women: they are most likely to purchase auto parts and electronics, while women are more interested in such categories as clothing, cosmetics and children’s goods.

Apparently, despite of low penetration level, online shopping has already become a rather common method of consuming for active Russian Internet users, inhabiting big cities with the high level of telecommunication networks’ density and enjoying the upper, middle and high incomes.

Russian electronic market has development potential and is able to reach higher levels of e-sales. The reasons are explained by multiple factors. They include those stimulating the businesses: the low costs of market entry, investment in the industry, the opportunities for using multi-channel sales, marketing support services in a real-time mode (targeting or affiliate marketing) and stimulating the customers. The customers are mostly attracted by the convenience of

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21 E-commerce in Russia 1Q 2016 Association of Internet commerce companies research in association with GFK and Russian Post, available online at: http://www.akit.ru/wp-content/uploads/2016/05/E-commerce_1Q2016-FINAL.pdf (06.01.2017)
e-services and a wide choice of products at a lower than in retail shop price.\textsuperscript{23} These facts make some experts predict the Russian e-market extension, optimization and consolidation, additionally, due to online hypermarkets, which provide a mixed range of products. Though, there is no unanimous opinion on the possible scenarios of its development.

There are numerous obstacles to this. One of the most serious is the lack of legal provision. Unlike many other business spheres in Russia, e-commerce is not subject to specific legislation. In most cases, the issues are regulated by legal norms of the Russian Federation Civil Code (1994)\textsuperscript{24} (“distance way of selling goods”) and a range of federal laws, designed to regulate larger sectors, sometimes even in a non-electronic context: Federal Law on Consumer’s rights protection (1992)\textsuperscript{25}, Government regulation on rules of selling goods (2007)\textsuperscript{26}, Federal law on Computer-generated signature (2011).\textsuperscript{27}

On the one hand, they establish the system of consumer’s rights protection: there are the opportunities for claiming the eradication of defects in goods without any compensation, reimbursing for the expenses, for decreasing the price and replacing the items for similar ones. On the other hand, all these legal acts were developed for retail shops and do not consider specific features of online market trade. In case of a legal dispute the courts interpret laws in their own ways. Consequently, weak legal and regulatory frameworks make the turnover of online sales chaotic and difficult to be controlled.

Another serious barrier is connected with business risks, which emerged in 2014-2016 due to the Russian-Ukrainian relations crisis. K. Kovalenko states that “one of the biggest threats for foreign online platforms is the money-transfer sanctions program imposed on Russian banks by the US and the EU”.\textsuperscript{28}

Other impediments that the Russian e-commerce is facing are: the lack of qualified human resources, resulted in the absence of qualified e-marketing, IT specialists and e-marketing instruments; “the jungle of e-payment system”; the risk of cybercrimes during the online transactions (nearly half of 2.3 bil-

\textsuperscript{23} Investigating barriers and drivers of the e-commerce market in Russia Anna O. Daviy, Vera A. Rebiazina. Basic research program working papers series: management WP BRP 40/ man/2015 (04.01.2017)
\textsuperscript{24} The Civil Code of the Russian Federation, №51-FZ of 30.11.1994 (03.2016)
\textsuperscript{25} The Law of the Russian Federation on the protection of the consumers’ rights № 2300-1 of 07.02.1992 (03.2016)
\textsuperscript{26} The Governmental regulation on selling certain goods №55 of 19.01.1998 (03.2016)
\textsuperscript{27} Federal law on Computer-generated signature, №63-FZ of 06.04.2011 (06.01.2017)
lion dollars share in global cybercrime volume originates from online fraud\(^{29}\)); challenges in logistics and parcel delivery caused by ailing roads and rail infrastructure and others.

Beyond all these ups and downs it is obvious that the full potential of the Russian e-commerce market is far from being tapped. The proportion of organizations using the Internet in Russia is on annual increase: from 78.3% in 2009 to 88.1% in 2015.\(^{30}\) The trend is likely to remain due to global tendencies of e-commercialization and an excellent convenience of e-transactions for both the customers and the sellers. E-business has no restrictions, as every person in the world is connected and can become a potential e-customer.

4. CONCLUSION

To conclude with, it is reasonable to come up with some final statements made on the basis of Russian and Europe e-market models analysis, in order to boost the e-commerce in Russia and not to lose its potential. So, it would be topical and necessary for the Russian government:

- To develop a legal framework for e-market in Russia, as this sphere is extremely unique and cannot be efficient under the general laws on trade. DSM regulations have already been introduced, consequently, they could be taken as the key benchmarks for the Russian legal and regulatory frameworks;

- To increase the personal data security level. The Russian consumers are ready to use mobile applications introduced by the Russian e-shops: mobile-optimized websites, shopping apps and digital wallets, which are designed to encourage and facilitate mobile shopping activities but they cannot rely on the online payment systems due to the low quality of protection and high risks of cyber security and lags;

- To create the system of unjustified geo-blocking prevention according to DSM strategy orienteer’s in order to raise the share of cross-border sales to increase a competitive level of Russian goods;

- To develop high-quality online platforms for associations and partnerships of traders to reach the infrastructure maturity. Similar to DSM, there is the

\(^{29}\) Path to a Cashless Society – Project on Monetary Sovereignty. Payment / Clearing Systems – Preliminary Paper of Dr. János Kóka. 15.05.2015 (04.01.2017)

need for the reduced delivery costs, wider choice of the affordable product categories in order to make them available to small cities and remote areas;

– To introduce a high-quality system of blocking the cyber attacks from external servers, which will be composed of servers and workstations virus protection, a software for filtering of e-trading sites on malicious programs identification;

– To establish the system of e-commerce trader’s identification by a special unique license that will be given to an e-shop to confirm that the seller is legal and supports the customer’s rights agreements. To obtain such an identification e-businessmen should organize a fiscal accounting system and sign a number of agreements, which will make the process of submitting the information to the state bodies an obligatory stage of online activities.

**LITERATURE:**


vacy in the electronic communications sector and Regulation (EC) №2006/2004 on cooperation between national authorities responsible for the enforcement of consumer protection laws.


12. E-commerce in Russia, in E-commerce news Europe, September 2016, Available at: https://ecommercenews.eu/ecommerce-per-country/ecommerce-russia/ (03.2016)


