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# Dropshipping - Recommendations for a Regulation on EU level

Position paper



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# Dropshipping - Recommendations for a Regulation on EU level

The European Union has continuously strengthened consumer rights in e-commerce over the last decades. Although consumers therefore already benefit from protection against unfair commercial practices, the European Consumer Centres Network (ECC-Net) has observed a number of problems related to the growing number of so-called "dropshipping" companies in the past years.

The aim of this policy paper is to provide recommendations for regulatory improvements to enhance consumer protection.



## What is dropshipping?

Dropshipping is a retail fulfilment method in which the seller does not hold goods in stock, but instead transmits customer orders and shipping details to a third party, usually the manufacturer or a wholesaler, who then ships the goods directly to the customer. It's also called «direct fulfilment», «drop shipment», «direct-to-customer trading» or «direct dispatch». This business model has been around since the early days of e-commerce, but has gained significant prominence since the COVID pandemic, leading to a substantial increase in consumer complaints. This development has been driven by online coaches promoting this business model on social media, promising independence and fast money, especially to young entrepreneurs.

## Challenges related to dropshipping

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Dropshipping allows sellers to operate without having to manage inventory, offering the potential for high profits (up to 50-100%) and the ease of setting up an online store using platforms and service providers such as Aliexpress, Amazon and Shopify. However, consumers are often unaware that they are purchasing from a dropshipping business, which can lead to a number of problems.

## Observations by the ECC-Net

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Although dropshipping as a business model has existed since the beginning of e-commerce, the ECC-Net has observed a **considerable increase** in dropshipping-related complaints in the last years. In June 2024, there were 2432 registered complaints within the network. It is likely that the actual number is significantly higher due to variability in case categorisation. For example, cases involving dropshipping might be classified either as dropshipping or under the broader category of e-commerce issues. This variability can lead to inaccuracies in reported numbers. The majority of these complaints originate from French (46%), German (25%), and Swedish (10%) consumers. The primary issues concern household furniture (27%), garments for women (16%), products for pets (14%), and shoes (8%). Most traders seem to be based in Belgium (27%), the Netherlands (23%), and the United Kingdom (21%).

Whereas important dropshippers are located outside the EU, for example in China, they are not yet significant in terms of numbers in the ECC-Net. This indicates that the issue needs to be addressed at a European level, despite the products often being manufactured in third countries.

Dropshipping stores often engage in **misleading practices**, such as falsely claiming high product quality or European origin (by using a misleading domain or brand name), using **dark patterns** such as fake scarcity promotions ("only today", "15 customers are looking at this article right now" or "10 customers have just bought this product"), countdown timers, and misleading free shipping offers.

Sometimes, dropshipping e-commerce sites promote **supposedly environmentally friendly** products, claiming that direct distribution results in lower carbon emissions, or disguise the fact that the product is shipped from a third country by advertising it as a 'local product'. In reality, the process of dropshipping involves the unchecked marketing of **poor quality** and even counterfeit products. If the product doesn't match the consumer's expectations because its poor quality, the consumer is discouraged from returning the product and instead asked to keep it, with price reductions being offered, supposedly for the sake of reducing emissions by avoiding returns.

Some products sold by dropshipping stores can also cause serious health problems. The Swedish Chemicals Agency (KEMI) conducted a study<sup>1</sup> in 2022, revealing that dropshipping stores had the highest **non-compliance** rates (72%) in **product safety**, followed by marketplaces (60%) and traditional online stores (39%).

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1. KEMI (Swedish Chemicals Agency): Enforcement of e-commerce articles 2022 with a special focus on marketplaces and dropshipping, TILLSYN 5/23, [Enforcement 5/23: Enforcement of e-commerce articles 2022 - Kemikalieinspektionen](#).



## Recurring complaints from consumers

The problems mentioned above have been identified through the analysis of numerous complaints handled by the ECC-Net. Consumers have reported various issues with dropshipping companies to the ECC-Net, including the following specific examples:

### Information and contact issues

- The imprint on websites of dropshipping merchants is incomplete or missing.
- In some cases, there are discrepancies between the cancellation policy and the terms and conditions regarding the return policy. This causes confusion among consumers about which information is correct.
- Many traders don't provide any customer service at all.
- Traders are often registered in Europe, but the registered address is sometimes just a PO box. This complicates legal enforcement, as legal notices cannot be delivered to a PO box, so a judgment against these companies therefore can't be executed.
- Some websites use fake reviews and fake trustmarks or other labels.
- The company is a fake shop (often websites go offline after the order is placed).

## Delivery issues

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- It is common that orders have a very long delivery time (despite the information on the website), and in some cases, consumers are repeatedly told that the delivery has been postponed.
- In some cases, although an order can still be placed, it is possible that the goods are already out of stock at the actual supplier and can't be delivered. The purchase price is still charged immediately.
- Some sellers don't inform about additional costs for import VAT and customs fees.
- Invoices sometimes don't match the order that was delivered.

## Issues with returns

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- Sometimes a previously unknown company is named as the sender on the parcel. As a rule, these are pure logistics and shipping service providers who merely take over the delivery to the customer on behalf of the dropshipper. This misleads customers into believing that they can also use this address as a return address. However, the parcel is not accepted there or is not accepted as a proper return.
- The delivered articles are of poor quality, don't look like they were advertised online and often have defects. Consumers then often can't make use of their legal guarantee, often confused by the traders with the right to withdrawal.
- The cancellation policy often does not include information on where to return products in case of withdrawal by the consumer; sometimes the return address has to be requested from the store.
- The right of withdrawal is not accepted by the shops or can't be exercised (the trader only offers a discount or a new product, the trader doesn't provide a return address or refuses the withdrawal altogether).
- Return costs to third countries often exceed the value of the product itself. There may also be unexpected customs fees.
- Returns often don't arrive when they are sent to the specified return address in a third country (some merchants don't collect them or discard them).
- Problems with payment providers often arise in relation to dropshipping companies, because the online shops don't inform the payment providers about returns from consumers. As a result, the consumers continue to receive payment reminders from these providers.



## Recommendations

There are currently no specific rules for drop shipping companies in most Member States or at European level. Therefore, the general rules for e-commerce apply. These should be supplemented by further rules specifically aimed at dropshipping companies in order to address the above-mentioned issues by filling the legal gaps that currently exist.

### Mandatory disclosure

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Every e-commerce website must provide **contact details** for the website provider and **clearly state** any contractual procedures and **terms and conditions** relating to the purchase<sup>2</sup>. In addition, according to Art. 5(1)(c) of the Consumer Rights Directive<sup>3</sup>, online shops must also **inform consumers** about additional delivery costs if a product is imported into the European Union. However, there is currently no obligation for online stores to inform consumers that the order is directly dispatched from the manufacturer or another third party.

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2. 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.

3. Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC of the European Parliament and of the Council and repealing Council Directive 85/577/EEC and Directive 97/7/EC of the European Parliament and of the Council.

Our recommendations: Online stores practising dropshipping should **transparently disclose that orders are dispatched from third parties, especially if they are dispatched from third countries.**

In addition to the already existing obligations, this information should include the contact details of the supplier next to the seller, the address from which the product is dispatched, and all costs associated with withdrawal, including shipping, import VAT and customs fees.

## Obligatory acceptance of returns in the EU

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As with any online shop, consumers have the possibility to revoke their purchase within 14 days of delivery of the order and benefit from their right of redress in the event of non-conformity of the goods within two years of delivery.<sup>4</sup> This may be particularly relevant for dropshipping websites where the quality of the goods delivered does not correspond to the quality advertised and expected by the consumer.

According to Art. 3(3)(1)(b) of the Unfair Contract Terms Directive<sup>5</sup>, dropshippers **can't exclude or limit the consumer's warranty rights or the right of withdrawal**. In practice, however, it is often the case that dropshippers don't accept the consumer's withdrawal or warranty claim and the wish to return the order, and instead only offer a price reduction. This practice is therefore not in line with the current legislation.

If dropshipping companies do accept returns, they usually ask consumers to return the shipment to the manufacturer who is based in a third country at their own expense, making no distinction between warranty rights and withdrawal. Under the current rules, traders only have to provide the address to which the declaration of withdrawal should be sent, but not the return address if it is different, which is a surprise to many consumers.

Often the shipping costs and customs duties exceed the value of the order, making returns very unattractive for consumers and discouraging them from exercising their rights.

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4. Art. 10 of the Directive of the Sale of Goods, Directive (EU) 2019/771 of the European Parliament and of the Council of 20 May 2019 on certain aspects concerning contracts for the sale of goods, amending Regulation (EU) 2017/2394 and Directive 2009/22/EC, and repealing Directive 1999/44/EC.

5. Directive (EU) 2019/2161 of the European Parliament and of the Council of 27 November 2019 amending Council Directive 93/13/EEC and Directives 98/6/EC, 2005/29/EC and 2011/83/EU of the European Parliament and of the Council as regards the better enforcement and modernisation of Union consumer protection rules.

Our recommendations: If a product is sold to European consumers, it should always be possible to return it to a European return address, even if the seller is based outside the EU. This requirement should be made transparent to consumers. For this reason, the appendix "this address is not a return address" should not suffice to exempt a trader from this obligation. The store should be obliged to provide a clear return address in its return policy. In no case should consumers be obligated to pay high costs for returning a parcel to a third country.

## Stricter rules for platforms which provide templates for dropshipping websites

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Dropshipping companies often use templates provided by internet platforms such as Shopify, Jimdo, Weebly etc. to create their website, the terms and conditions provided are often incomplete. They are often not adapted to the specific products sold by the shop.

Currently, dropshipping websites that don't comply with the information obligations can be held liable, but not the internet platform itself.

Our recommendations: It should be mandatory that legally required information, such as a European return address and trader contact information, is clearly available on the store page before it can be published. In addition, the template terms & conditions should comply with the Unfair Contract Terms Directive.

# Product safety compliance and direct liability of marketing influencers

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According to the Unfair Contract Terms Directive<sup>6</sup>, e-commerce stores may not use **standard terms** which exclude the liability of the online store regarding damages caused by the products it sells to consumers, e.g. health problems which result from the products (Annex to Art. 3 (3) of the directive, p. 1 lit. (a)).

Dropshippers, as sellers of goods, are **directly liable to the consumers** and can't redirect them to the manufacturer. This also applies to **influencers** who sell goods via dropshipping on social media. Under French law, they have the same information obligations towards consumers as any online store, including the stock availability of the items they promote<sup>7</sup>.

Our recommendations: The French regulation on influencers should be incorporated into EU e-commerce law. In addition, it should be made clear that all dropshipping sellers are responsible for ensuring the compliance of their products with product safety regulations.

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6. Directive (EU) 2019/2161 of the European Parliament and of the Council of 27 November 2019 amending Council Directive 93/13/EEC and Directives 98/6/EC, 2005/29/EC and 2011/83/EU of the European Parliament and of the Council as regards the better enforcement and modernisation of Union consumer protection rules.

7. see Article 6 of the law n° 2023-451 of 9th of June 2023, (Influencers Act).

## Customer service

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Dropshippers must be required to establish and demonstrate a customer service system with corresponding response obligations.

## Penalties for non-compliance

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Dropshippers already have to comply with many e-commerce regulations that they don't currently meet. For example, the Unfair Commercial Practices Directive<sup>8</sup> prohibits **misleading practices** such as giving false information about the product, e.g. the quality of the product, the effects of its use or the geographical location of its manufacture (Art. 6 of the directive). Online stores are also not allowed to use **aggressive marketing techniques** such as making false claims in order to influence consumer choices (Art. 8 of the directive). This includes marketing techniques often used by dropshipping companies, such as claiming that a certain number of consumers are "currently viewing this product" or "just bought this product" or "only 1 item left in stock" when this information is incorrect.

Online stores must also notify the user when gathering information about their **personal data**. They must indicate where their data is being registered and which management tools consumers may use for future access, modifications or cancellation. These regulations must be in line with the requirements of the General Data Protection Regulation<sup>9</sup>.

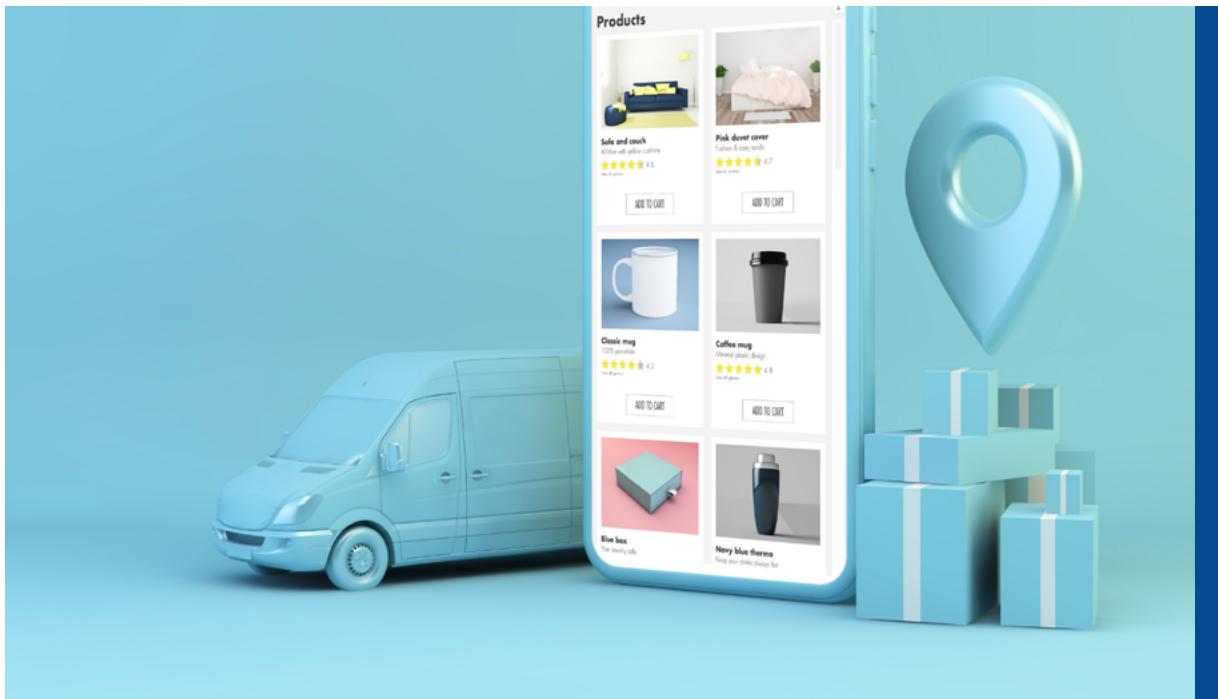
They must also have a **cookies policy** if cookies are being used when consumers access the website.

Currently, the lack of effective consequences means that dropshippers have little incentive to comply with e-commerce regulations. Dissuasive penalties should be introduced for dropshippers who fail to comply with information and product safety obligations.

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8. Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer Commercial Practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council.

9. Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC.



## Conclusion

The rising number of dropshipping online stores presents significant challenges for consumer protection. By implementing specific regulations and ensuring transparency and compliance, the EU can strengthen consumer rights and protect against the risks associated with dropshipping. These measures will promote a safer and more trustworthy e-commerce environment.

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