POSTAL DEVELOPMENTS BETWEEN REGULATION AND COMMERCIAL PRESSURE

ANACOM workshop on the future of postal regulation
Lisbon, 11 April 2019
Post & Parcel industry: a multi-disciplinary strategy, policy and economics challenge

About Copenhagen Economics
- Established year 2000 – independent, project-based and partner-owned
- Specialised staff, mostly with Ph.D. or M.Sc. in Economics – applying academic economics to strategic and policy questions
- Nationalities / languages: Danish, Dutch, English, Finnish, French, German, Hungarian, Irish, Italian, Lithuanian, Norwegian, Portuguese, Romanian, Russian, Spanish, Swedish
- Offices in Brussels, Copenhagen, Helsinki, Stockholm

Independent professional services via a diversified portfolio of client projects across industries
- In the postal sector: policy makers (Regulators, Ministries, European institutions), universal service providers, new entrants, express players
- Across the digital & e-commerce value chain: e-commerce, social media, search; telecoms & internet industry associations
Where are our clients?
Is digital a strong enough substitute for letter mail? What implications on postal market policies

Market trends
- Changes in users’ and senders’ preferences
- Emergence of digital alternatives for communication
- Declining letter volumes

Market definition
- Definition based on the looks
  - Letter post only
- Definition based on the function
  - Letters and digital alternatives?

State intervention affecting postal markets
- Regulation
- Antitrust
- State Aid
- Provision of public services / services of general economic interest
- Digital solutions & digital divide

Sustainability of the postal industry
- Commercial, operational and pricing flexibility
- Retail diversification strategies
- Funding lines from the State
  - for public services
  - for network coverage
  - for regulatory burdens

Landmark case: Dutch Trade and Industry Appeals Tribunal
UPU terminal dues caps: Europe loses €1.2bn per year, primarily to Asia-Pacific

### Yearly net financial transfer (lost opportunity) from terminal dues, 2018, Western Europe

<table>
<thead>
<tr>
<th>Million EUR</th>
<th>Eastern Europe &amp; Central Asia</th>
<th>North America</th>
<th>South Central America</th>
<th>Sub-Saharan Africa</th>
<th>North Africa &amp; Middle East</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td>1000</td>
<td>166</td>
<td>58</td>
<td>25</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

#### 6 distortions identified in our 2014 study for US postal regulator

i. Distortion of competition for last-mile handling of cross-border letter post items
ii. Distortion of competition for first-mile handling of cross-border letter post items
iii. Distortion of demand for delivery within and outside the terminal dues system
iv. Distortion of demand for domestic vs. cross-border delivery
v. Distortion of demand for cross-border delivery originating in transition vs. target countries
vi. Financial transfers between delivery operators

#### Wider economic questions

- Without global multilateral system for cross-border postal remuneration: what efficiencies may be lost?
- What lessons learned from the economics and governance of international trade?
If there was a European Trump.. what would / could he do?

1 NPO for 300m population market

- VAT/Customs Hub & Handling activity
  - Evolving costs
  - New processes
  - New pricing & business models
  - Regulatory questions: cost orientation?

~30 NPOs for 500m population

- Distortions to competition?
  - UPU rates

- Benefit to non-EU e-retailers & sending countries

- Parcel delivery activity
  - Last mile competition impact
  - Retail channel competition impact
  - Impact on intra-EU negotiated rates
Global discussion on VAT / customs / sales tax inter-state exemptions reform
Sweden: e-commerce VAT “natural experiment”

<table>
<thead>
<tr>
<th>How will VAT changes impact postal operators?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased cost when large volumes need to pass through customs clearance without de minimis exemption.</td>
</tr>
<tr>
<td>A relatively large increase in end-to-end price for consumers may reduce volumes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sweden abolishes VAT de minimis exemption</th>
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<tbody>
<tr>
<td>Recruited 250 temporary staff</td>
</tr>
<tr>
<td>Established temporary parcel terminal</td>
</tr>
<tr>
<td>New handling fee on items outside of EU</td>
</tr>
<tr>
<td>Agreement first with Wish on wholesale VAT clearance enabling VAT pre-paid solution</td>
</tr>
</tbody>
</table>
FOCUSING ON THE FUTURE OF POSTAL MARKETS, DRIVERS AND CHALLENGES FOR NATIONAL POLICIES
A  Important market developments

B  Key regulatory challenges
There have always been many products and interdependencies to juggle with.

- Fast speed
- Letters
- Slow speed
- Parcels

Diagram shows:
- Demand
- Pricing
- Operational model

Copenhagen Economics
Total number of addressed letter post items dropped by 12% in three years

Letter post volume decline, domestic, 2013-2016
Billion items

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume (Billion items)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>73</td>
</tr>
<tr>
<td>2014</td>
<td>70</td>
</tr>
<tr>
<td>2015</td>
<td>68</td>
</tr>
<tr>
<td>2016</td>
<td>65</td>
</tr>
</tbody>
</table>
Addressed letter demand declined by four per cent annually in 2013-2016

Development of domestic letter post volume by country, 2013-2016

Annual change

-15% -8% -8% -8% -7% -7% -7% -6% -6% -6% -6% -5% -5% -5% -5% -4% -4% -4% -4% -4% -3% -3% -3% -3% -3% -3% -3% -2% -2% -2% -2% -2% -0%

DK NL IT NO CZ IS EL AT BG EE LT PL ES FR FI MT BE PT EU, EEA, & CH EE, SE UK CY HU CH LU IE SI SK LV HR DE
In contrast to letters, parcel and express volumes grew by 13 per cent annually.

Evolution of domestic parcel & express services volumes
Index (2013=100)

Annual change: +13%
Demand for parcel and express services varies up to four times regionally.

**Domestic parcel & express items per capita, 2016**
Items per capita per year

- **Northern Europe**: 22
- **Western Europe**: 12
- **Eastern Europe**: 10
- **Southern Europe**: 6
The growth in parcel & express segment does not outweigh letter revenue decline for most of USPs

14 USPs

Parcel revenue growth did not outweigh letter revenue decline

7 USPs

Parcel revenue growth has outweighed letter revenue decline
Main challenges for postal operators
Lower per-capita post raises unit costs and may challenge over time affordability

The density of the letter post sector by country
Letters per capita, 2016, Main Developments study, Fig. 8

Copenhagen Economics
Declining demand for letter mail creates pressure to increase prices

Price changes for 20g FSC domestic letter product, 2013-2016
Price index (2013 = 1)

* Includes express service features, e.g. track-and-trace
...pressure to diversify revenues

USP revenue diversification, 2016
% letter post revenue in USP’s total revenue

<table>
<thead>
<tr>
<th>Country</th>
<th>% Revenue</th>
<th>Country</th>
<th>% Revenue</th>
<th>Country</th>
<th>% Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>PL</td>
<td>90</td>
<td>IS</td>
<td>83</td>
<td>CY</td>
<td>79</td>
</tr>
<tr>
<td>AT</td>
<td>73</td>
<td>PT</td>
<td>72</td>
<td>EL</td>
<td>72</td>
</tr>
<tr>
<td>BG</td>
<td>68</td>
<td>IE</td>
<td>64</td>
<td>HR</td>
<td>63</td>
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<tr>
<td>HR</td>
<td>58</td>
<td>BE</td>
<td>58</td>
<td>LT</td>
<td>57</td>
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<tr>
<td>MT</td>
<td>57</td>
<td>SI</td>
<td>56</td>
<td>UK</td>
<td>55</td>
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<td>NL</td>
<td>55</td>
<td>SK</td>
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<td>CH</td>
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<td>SE</td>
<td>49</td>
<td>HU</td>
<td>48</td>
</tr>
<tr>
<td>EU</td>
<td>41</td>
<td>FR</td>
<td>39</td>
<td>LV</td>
<td>37</td>
</tr>
<tr>
<td>RO</td>
<td>36</td>
<td>CZ</td>
<td>34</td>
<td>NO</td>
<td>32</td>
</tr>
<tr>
<td>NO</td>
<td>32</td>
<td>IT</td>
<td>31</td>
<td>EE</td>
<td>31</td>
</tr>
<tr>
<td>EE</td>
<td>31</td>
<td>DK</td>
<td>20</td>
<td>LI</td>
<td>16</td>
</tr>
<tr>
<td>LI</td>
<td>20</td>
<td>LU</td>
<td>16</td>
<td>DE</td>
<td></td>
</tr>
</tbody>
</table>

Average EU revenue: 32%
... pressure to reduce fixed costs by, for example, closing down post offices

**Development of post office and post-in-shop network, 2013-2016**
Percentage change of a number of post offices and post-in-shops

![Diagram showing percentage change of post offices and post-in-shops across different countries and the EU average.](image-url)
A  Important market developments

B  Key regulatory challenges
Changes in user preferences challenge USO sustainability

Development of USO volumes

**USO mail items per capita**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>66.9</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>64.3</td>
<td>-4%</td>
</tr>
</tbody>
</table>

**Annual percentage change 2015-2016**

- **Northern Europe**: -8.0%
- **Southern Europe**: -5.5%
- **Western Europe**: -3.8%
- **Eastern Europe**: -0.9%
Policymakers and regulators are searching for the appropriate reaction to market developments

Compensate

The net cost of the USO

Reduce the net cost of the USO
USO under pressure ...

**Reduced delivery speed and frequency:** NO, FI, DK, IT

**Reduced frequency:** NL

**Reduced speed:** SE

**Economic factors shaping impacts of USO design**

- # items per household
- Letter volume trend (decline speed)
- Population density
- Growth in inbound e-commerce packets

**Relaxing price regulation**

**Moving towards new network (delivery & retail) designs**

- How should the State ensure financing of the USO?
- Should there be a change in the USO for Country X?
- If so, what is the ideal USO for Country X? For today? For tomorrow?
The beloved D+1 is not a universal service in six countries

Fastest letter product in the USO, where delivery speed is lower than D+1

<table>
<thead>
<tr>
<th>Country</th>
<th>Delivery</th>
<th>Since</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>D+5</td>
<td>2016</td>
</tr>
<tr>
<td>Finland</td>
<td>D+4</td>
<td>2017</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>D+3</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>D+2</td>
<td>2018</td>
</tr>
<tr>
<td>Spain</td>
<td>D+3</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>D+2</td>
<td>2018</td>
</tr>
<tr>
<td>Romania*</td>
<td>D+2</td>
<td>* Announced, subject to implementation</td>
</tr>
</tbody>
</table>

* Announced, subject to implementation
Policymakers and regulators are searching for the appropriate reaction to market developments.

- Compensate: The net cost of the USO
- Reduce: the net cost of the USO
Half of the governments compensate the USP for the financial burden imposed by the USO

Compensation mechanisms authorized in the law and established in practice

Number of USPs

- No compensation in the law nor in practice: 4
- Compensation mechanism established: 15
- Compensation fund in the law, but no form of compensation established: 13
- Direct compensation from public funds: 9
- Other: 2

Main Developments in the Postal Sector 2013-2016
Obrigado!
Alguma pergunta?