MAIN DEVELOPMENTS IN THE POSTAL SECTOR 2013-2016

Study for the European Commission
September 2018

Our background

Copenhagen Economics	• Offices in Brussels, Copenhagen, Helsinki and Stockholm • 85+ economists
Postal sector experience	• User needs and future USO • Calculation of USO net costs • E-commerce and parcel delivery • Terminal dues • Tariff regulation • Cost allocation and pricing • Access regulation • Antitrust and regulatory cases
Studies for the European Commission	• Main developments in the Postal Sector 2008-2010 & 2013-2016 • Pricing behaviour of postal operators (2011) • E-commerce and Delivery (2012) • Other studies
Other services in Copenhagen Economics	• Competition • Digital economy • Dispute support • Energy & Climate • Finance & Tax • Healthcare • IP valuation and transfer pricing • Tender & Auction support • Trade & Internal market • Transport

Thanks to the project team

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+ analysts and research assistants that supported the project team

This has been a long journey...

130+
Literature references

81 Questionnaires
=
41,800 Data points

from NRAs, USPs and Trade unions

10 Public workshops

- European Commission events
- ERGP events
- PostEurop events
- SDC and PDC meetings

20+ Interviews

NRAs, USPs, competitors, SDC, ministries, consumer associations, e-commerce associations, and trade union associations

40 Case studies

USP practices, NRA decisions, Ministries policies, Court decisions..

We are thankful for all the input

1.300+

Emails in our Inbox

500+

Comments to draft versions of the Study from the Commission…

330+

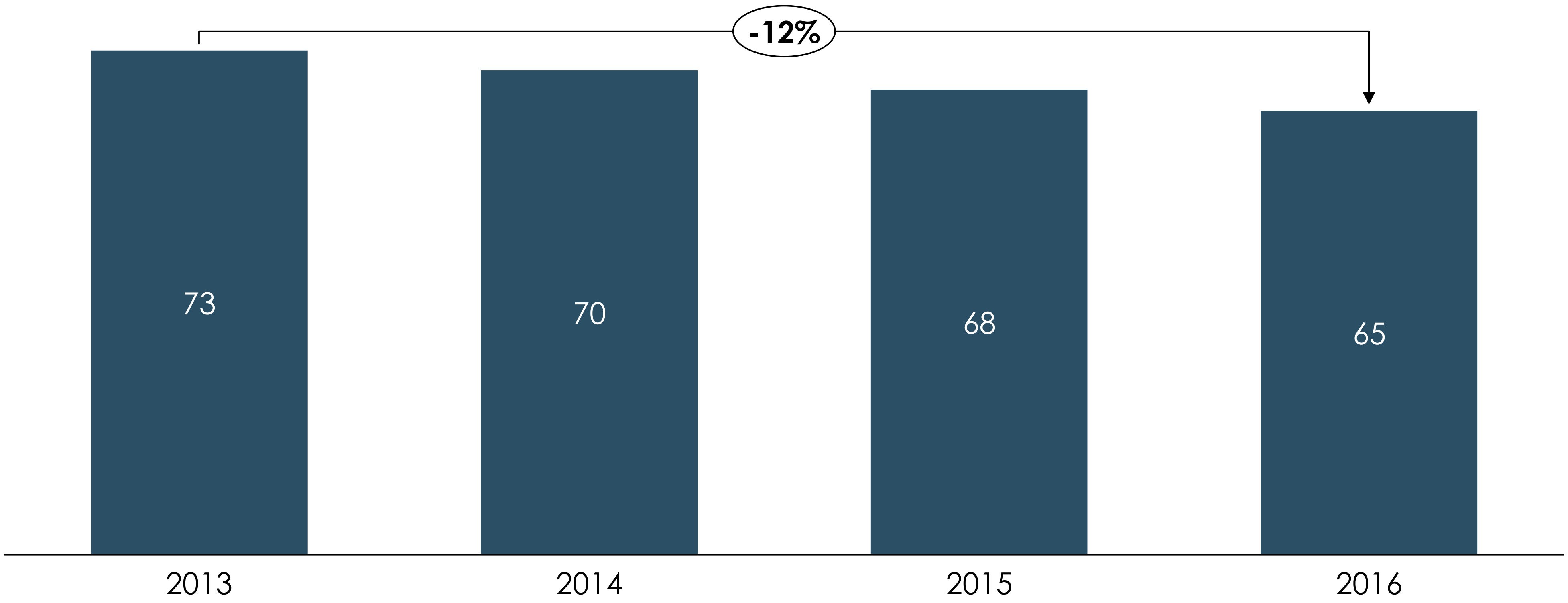
Participants in 3 public workshops

European Commission

1	Important market developments
2	The competitive landscape in the postal sector
3	Employment and environmental developments
4	Developments in universal service
5	Scenarios for the future provision of the USO

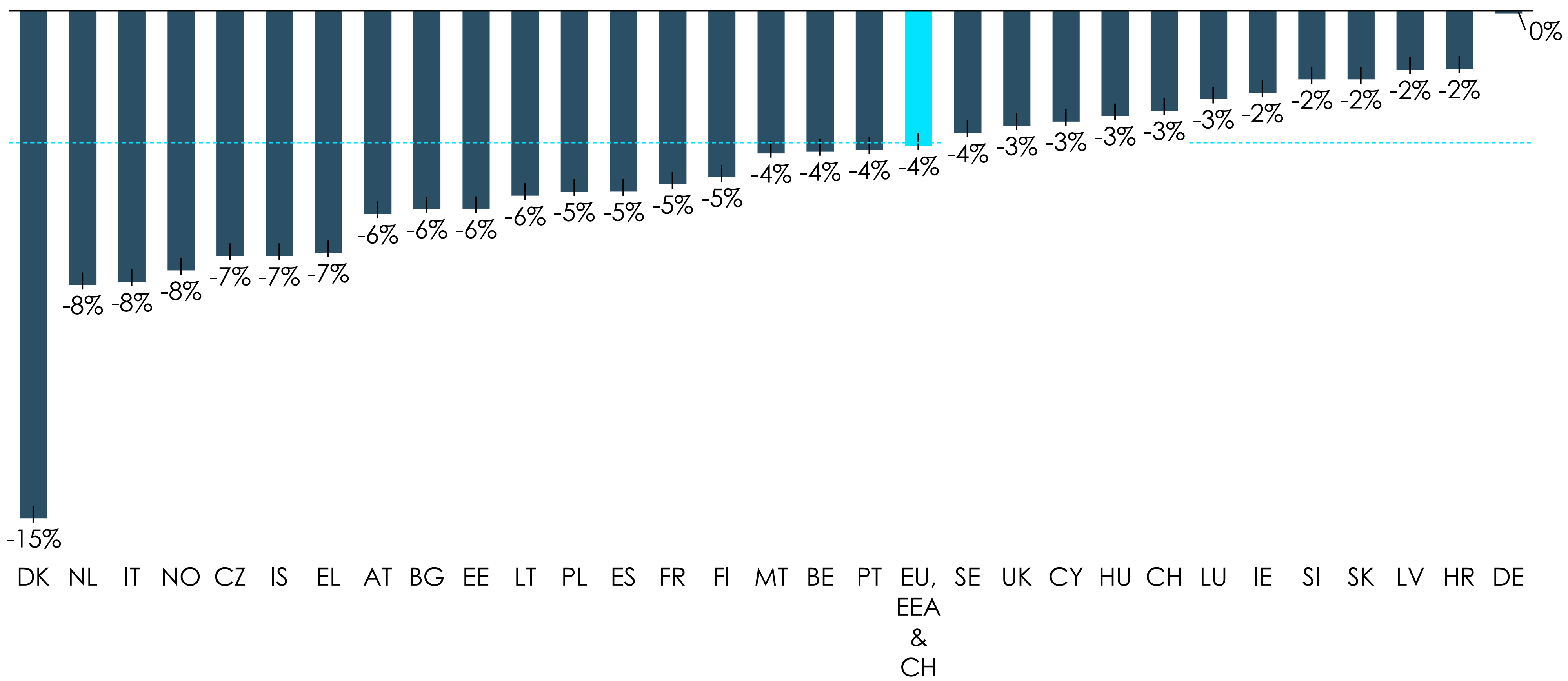
Total number of addressed letter post items dropped by 12% in three years

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



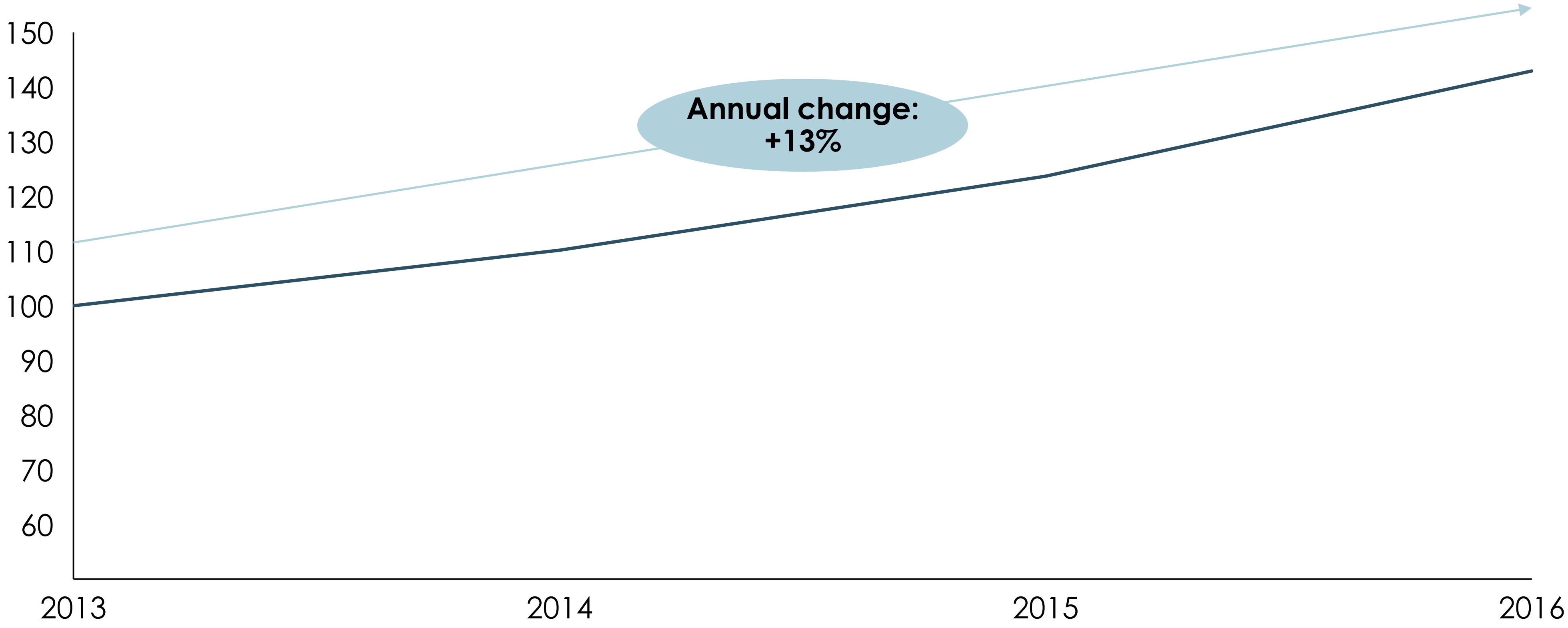
Addressed letter demand declined by four per cent annually in 2013-2016

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



In contrast to letters, parcel and express volumes grew by 13 per cent annually

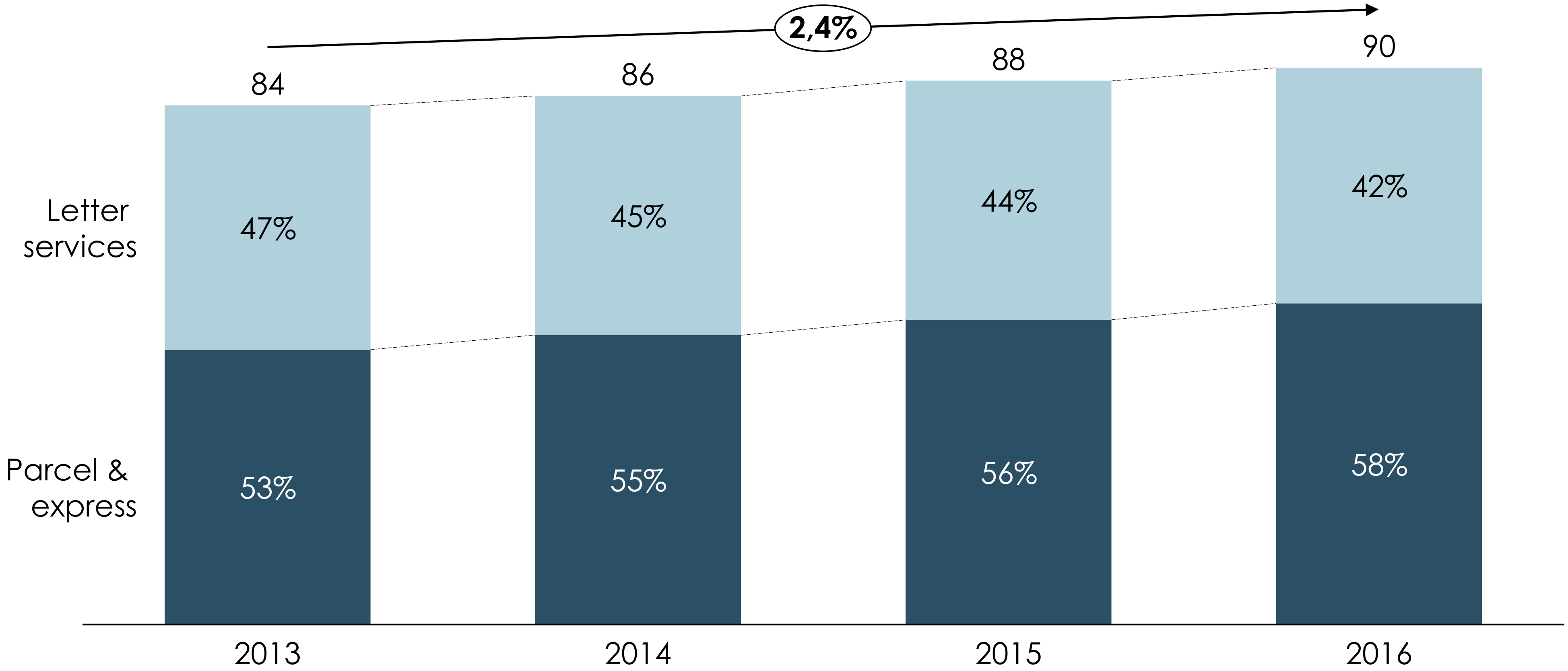
Evolution of domestic parcel & express services volumes
Index (2013=100)



Postal and delivery market in the EU, EEA & CH area produced €90 billions in 2016

Development of revenue in letter post and parcel & express segments

Billions Euro



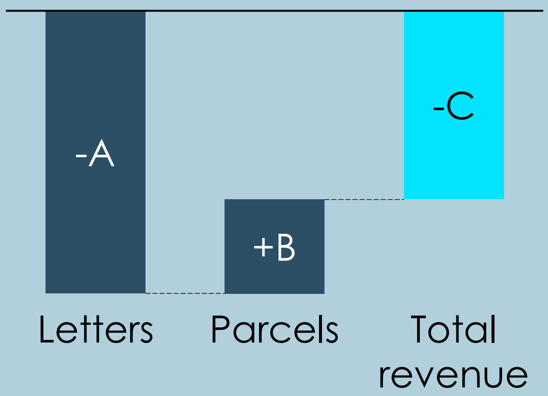
Demand for parcel and express services varies up to four times regionally

Domestic parcel & express items per capita, 2016

Items per capita per year

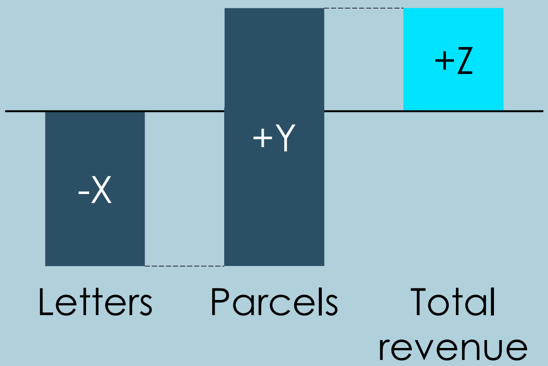
The growth in parcel & express segment does not outweigh letter revenue decline for most of USPs

14 USPs



Parcel revenue growth ***did not outweigh*** *letter revenue decline*

7 USPs

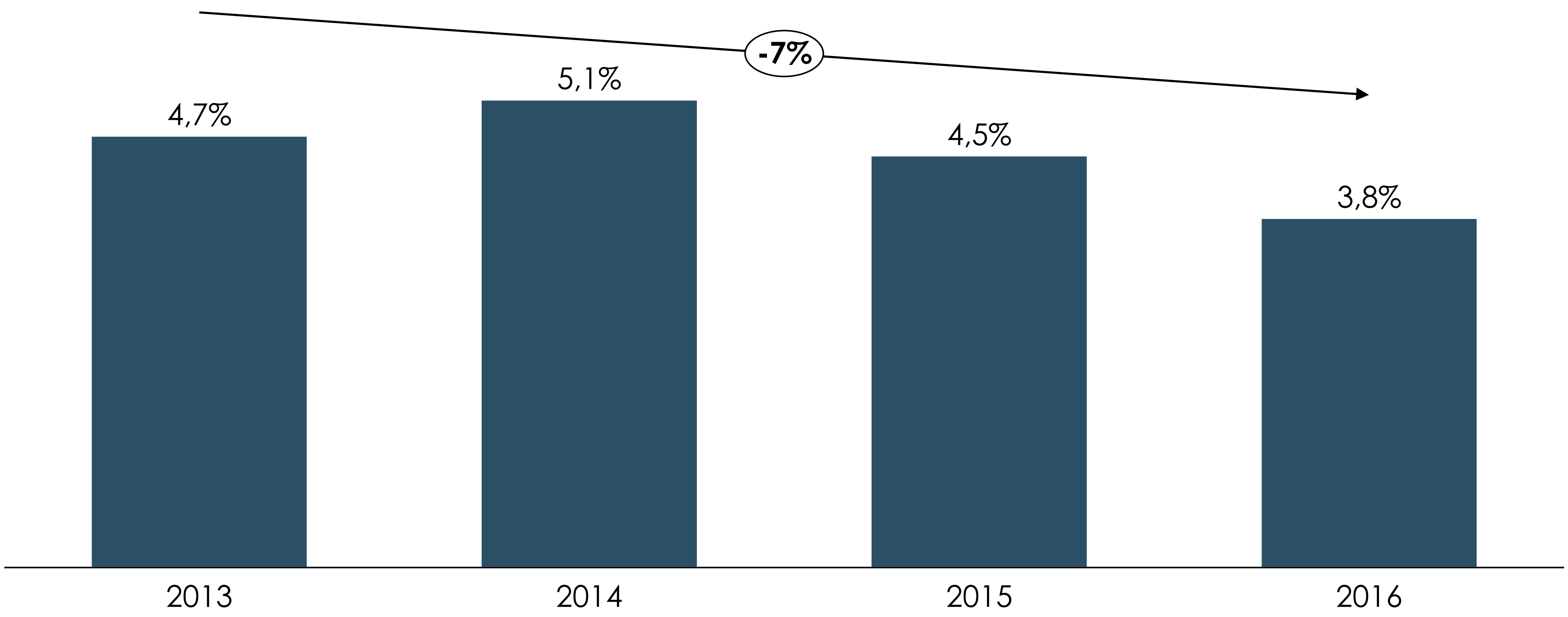


Parcel revenue growth ***has outweighed*** *letter revenue decline*

USPs' profitability has been declining, going from around 5 to 4 per cent

Development of USPs' profitability in the EU, EEA & CH area

Average EBIT %



Main challenges for postal operators

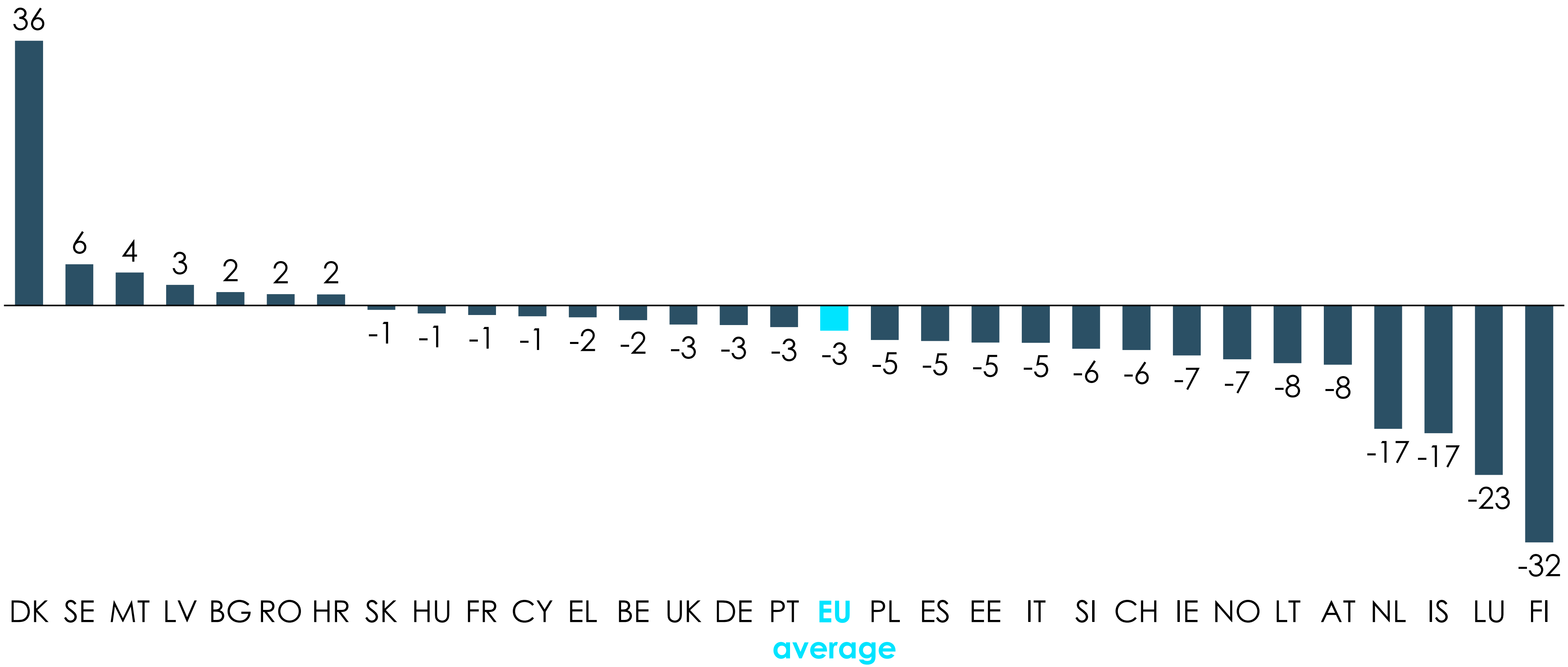
Declining demand for letter mail creates pressure to increase prices

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

** Includes express service features, e.g. track-and-trace*

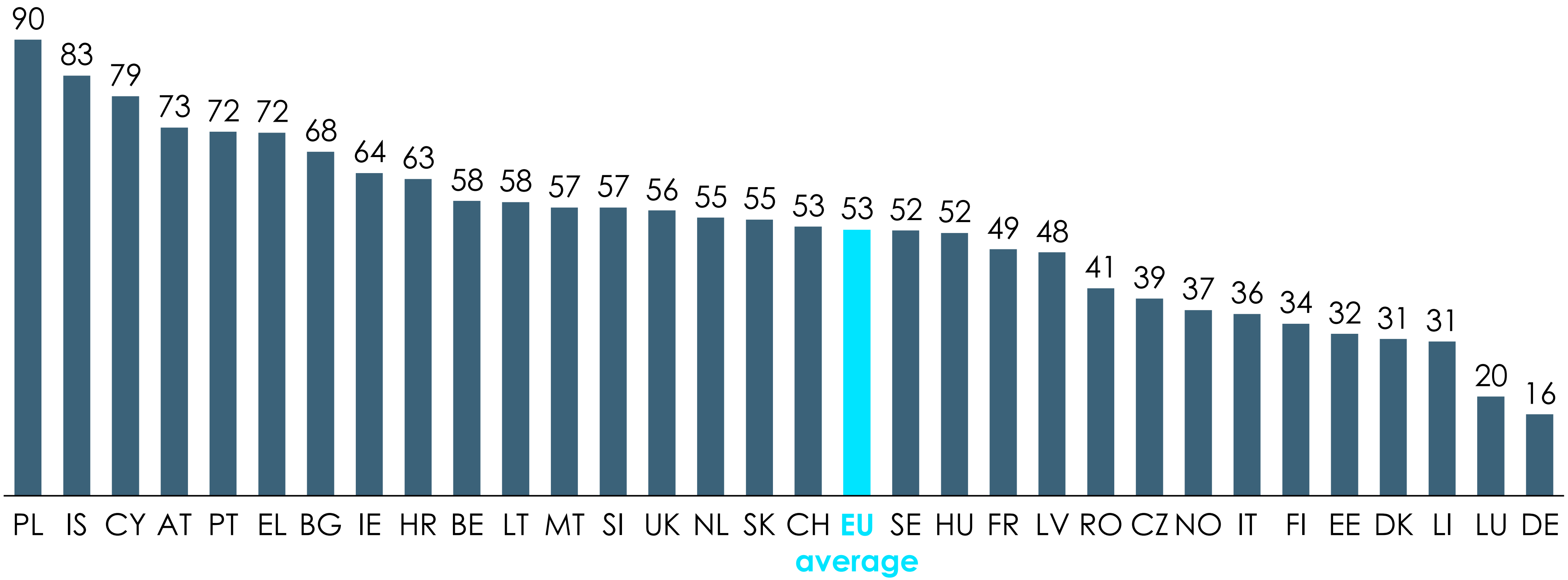
… pressure to reduce fixed costs by, for example, closing down post offices

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



...pressure to diversify revenues

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



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Growing e-commerce packet and parcel volume leads to…

PostNL

PostNL revenues from e-commerce

36% HY 2017

>50% HY 2020

Accelerating transformation towards e-commerce

PostNord

“Important steps towards a more modern postal distribution system”

Interim Report January-March 2018

Pressure to develop a nationwide network centred around parcel delivery

1	Important market developments
2	The competitive landscape in the postal sector
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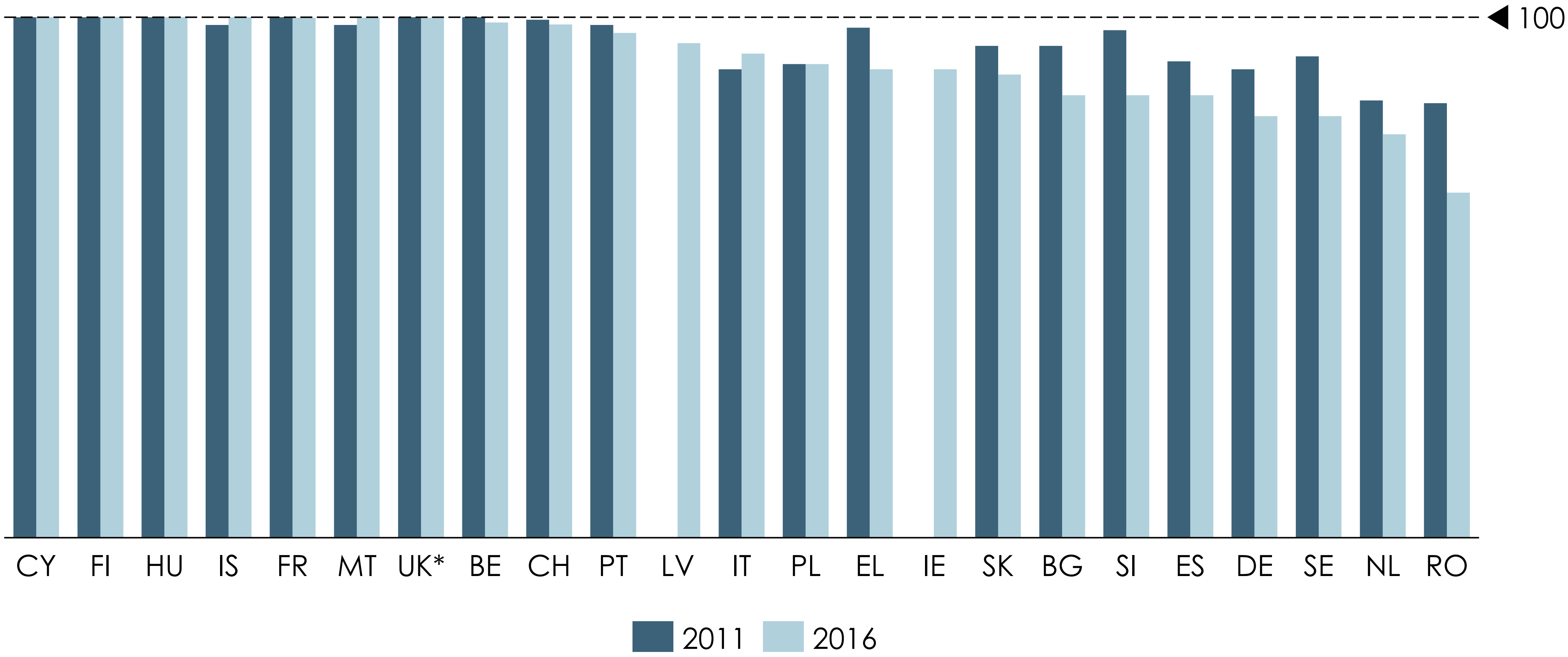
5	Scenarios for the future provision of the USO

Although USPs' market shares declined, letter markets are still concentrated

Market share of the incumbent in the addressed letter market
%, market share based on volumes



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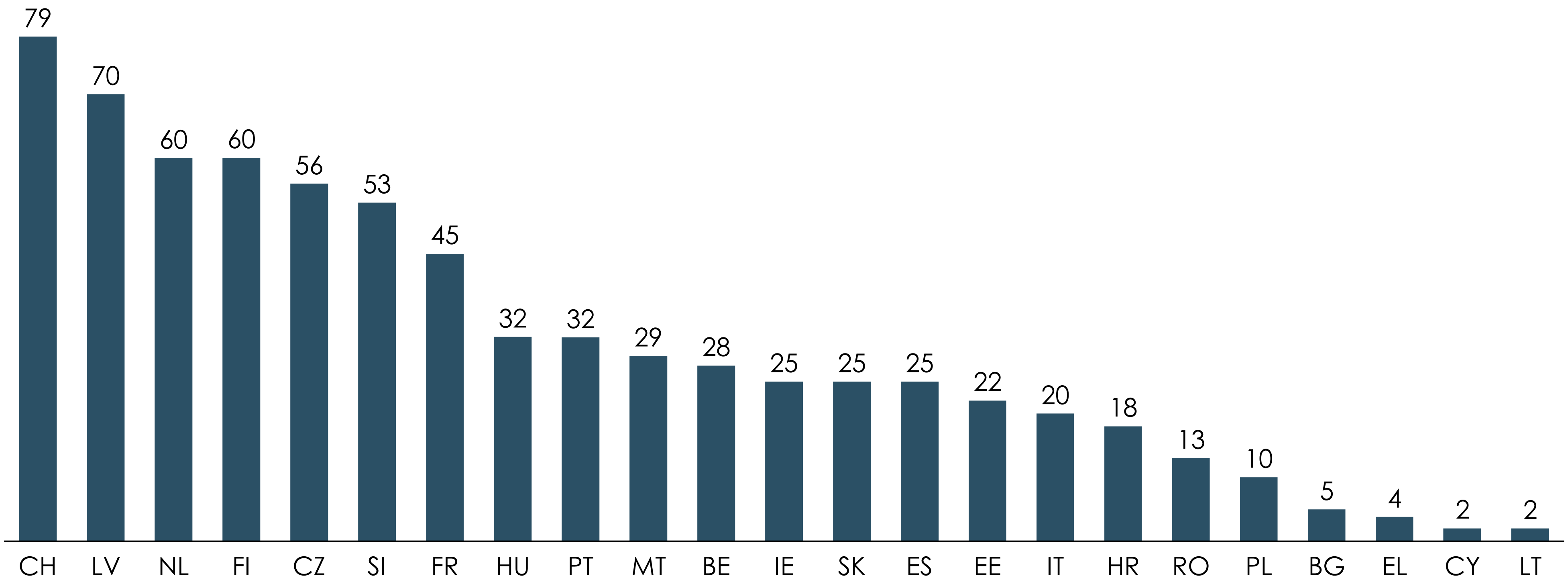
On the other hand, parcel markets are fragmented and more competitive

Market share of the USP in the parcel & express market, 2016
%, market share based on volumes



A number of regulatory, state aid and competition legal cases have taken place in the postal sector in 2013-2016

Pricing Practices

Mergers

USO Financing (State-aid)

Network Access Conditions

VAT Treatment

USPs’ pricing practices have been the subject of more than 15 complaints

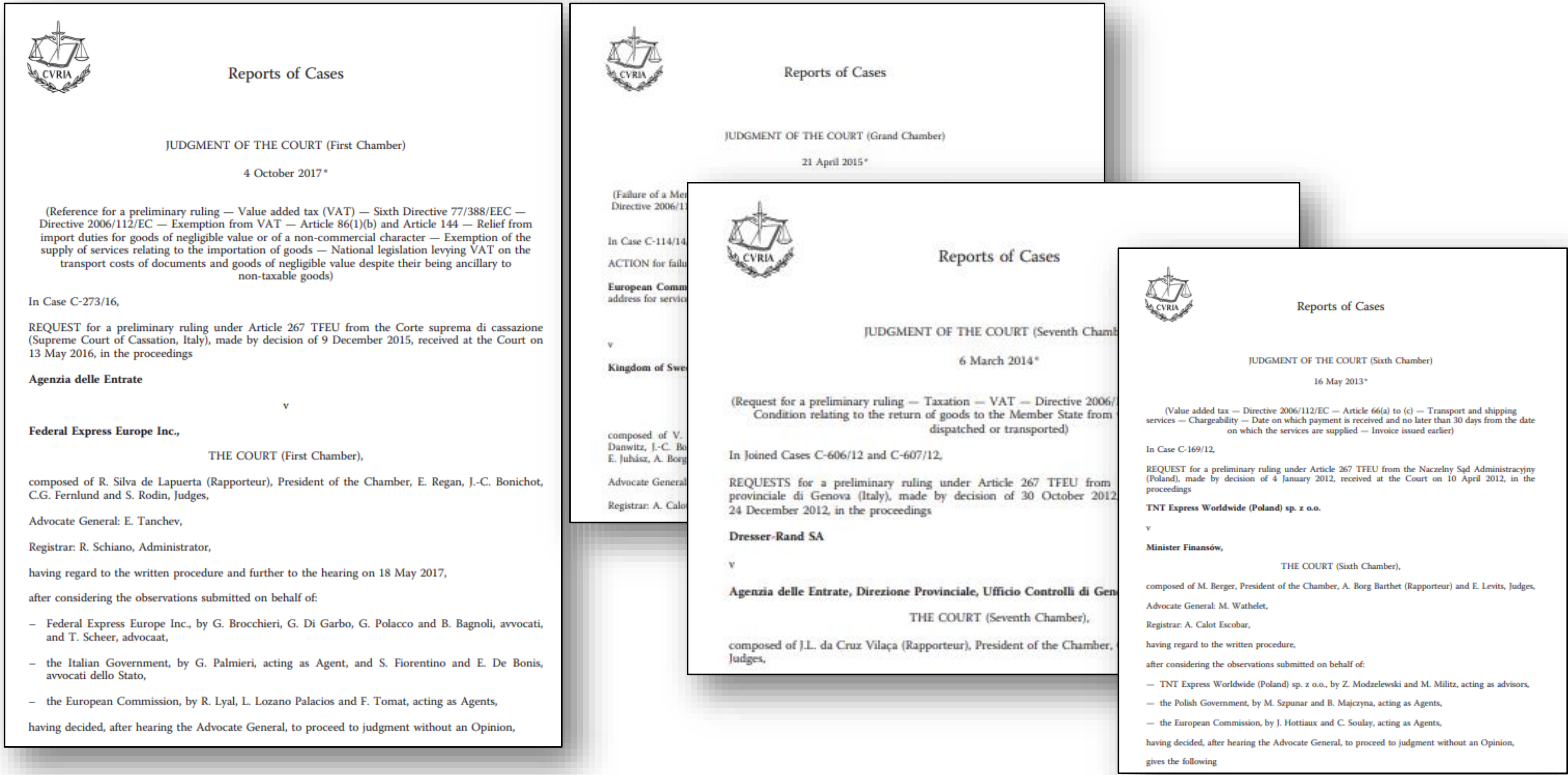
Article 102	Typical concerns: predatory pricing, margin squeeze, or unlawful discounts
typically **Non-USO**	Product categories: bulk mail, magazines or unaddressed mail
Per-sender	Per-sender rebate schemes employed by incumbents were a focal point of cases in Belgium, France, the Netherlands and Sweden

We observe a number of merger filings

ups	+	TNT	FedEx Express	+	TNT
Deutsche Post DHL	+	UKMail	postcon Die Post für Profis. MVD	+	ADVO-Sansula GmbH
BRT CORRIERE ESPRESSO	+	GeoPost	LDC	+	whistl
AEA	+	scan GLOBAL LOGISTICS			

Compatibility of national financing of the USO/SGEI with the TFEU has become more crucial

CJEU decision reconfirmed that VAT exemption must be applied to operators who provide all or part of the USO



Reports of Cases

JUDGMENT OF THE COURT (First Chamber)

4 October 2017*

(Reference for a preliminary ruling — Value added tax (VAT) — Sixth Directive 77/388/EEC — Directive 2006/112/EC — Exemption from VAT — Article 86(1)(b) and Article 144 — Relief from import duties for goods of negligible value or of a non-commercial character — Exemption of the supply of services relating to the importation of goods — National legislation levying VAT on the transport costs of documents and goods of negligible value despite their being ancillary to non-taxable goods)

In Case C-273/16,

REQUEST for a preliminary ruling under Article 267 TFEU from the Corte suprema di cassazione (Supreme Court of Cassation, Italy), made by decision of 9 December 2015, received at the Court on 13 May 2016, in the proceedings

Agenzia delle Entrate

v

Federal Express Europe Inc.,

THE COURT (First Chamber),

composed of R. Silva de Lapuerta (Rapporteur), President of the Chamber, E. Regan, J.-C. Bonichot, C.G. Fernlund and S. Rodin, Judges,

Advocate General: E. Tanchev,

Registrar: R. Schiano, Administrator,

having regard to the written procedure and further to the hearing on 18 May 2017,

after considering the observations submitted on behalf of:

– Federal Express Europe Inc., by G. Brocchieri, G. Di Garbo, G. Polacco and B. Bagnoli, avvocati, and T. Scheer, advocaat,

– the Italian Government, by G. Palmieri, acting as Agent, and S. Fiorentino and E. De Bonis, avvocati dello Stato,

– the European Commission, by R. Lyal, L. Lozano Palacios and F. Tomat, acting as Agents,

having decided, after hearing the Advocate General, to proceed to judgment without an Opinion,

Reports of Cases

JUDGMENT OF THE COURT (Grand Chamber)

21 April 2015*

Reports of Cases

JUDGMENT OF THE COURT (Seventh Chamb

6 March 2014*

(Request for a preliminary ruling — Taxation — VAT — Directive 2006/
Condition relating to the return of goods to the Member State from
dispatched or transported)

In Joined Cases C-606/12 and C-607/12,

REQUESTS for a preliminary ruling under Article 267 TFEU from
provinciale di Genova (Italy), made by decision of 30 October 2012
24 December 2012, in the proceedings

Dresser-Rand SA

v

Agenzia delle Entrate, Direzione Provinciale, Ufficio Controlli di Gen

THE COURT (Seventh Chamber),

composed of J.L. da Cruz Vilaça (Rapporteur), President of the Chamber,
Judges,

Reports of Cases

JUDGMENT OF THE COURT (Sixth Chamber)

16 May 2013*

(Value added tax — Directive 2006/112/EC — Article 66(a) to (c) — Transport and shipping services — Chargeability — Date on which payment is received and no later than 30 days from the date on which the services are supplied — Invoice issued earlier)

In Case C-169/12,

REQUEST for a preliminary ruling under Article 267 TFEU from the Naczelny Sąd Administracyjny (Poland), made by decision of 4 January 2012, received at the Court on 10 April 2012, in the proceedings

TNT Express Worldwide (Poland) sp. z o.o.

v

Minister Finansów,

THE COURT (Sixth Chamber),

composed of M. Berger, President of the Chamber, A. Borg Barthet (Rapporteur) and E. Levits, Judges,

Advocate General: M. Wathelet,

Registrar: A. Calot Escobar,

having regard to the written procedure,

after considering the observations submitted on behalf of:

– TNT Express Worldwide (Poland) sp. z o.o., by Z. Modzelewski and M. Militz, acting as advisors,

– the Polish Government, by M. Szpunar and B. Majczyna, acting as Agents,

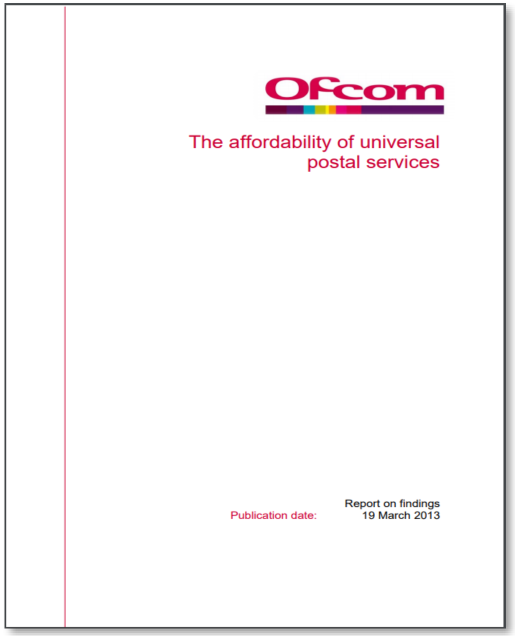
– the European Commission, by J. Hottiaux and C. Soulay, acting as Agents,

having decided, after hearing the Advocate General, to proceed to judgment without an Opinion,

gives the following

Main challenges for policymakers and regulatory authorities

#1 Ensuring affordability and sustainability of the USO

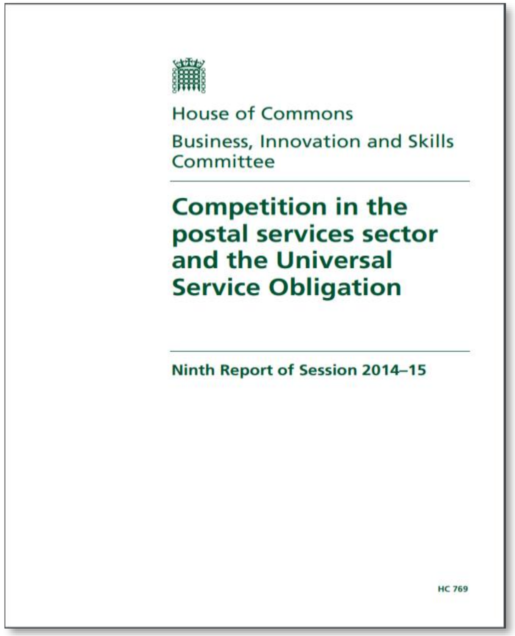


Ofcom

The affordability of universal postal services

Report on findings

Publication date: 19 March 2013



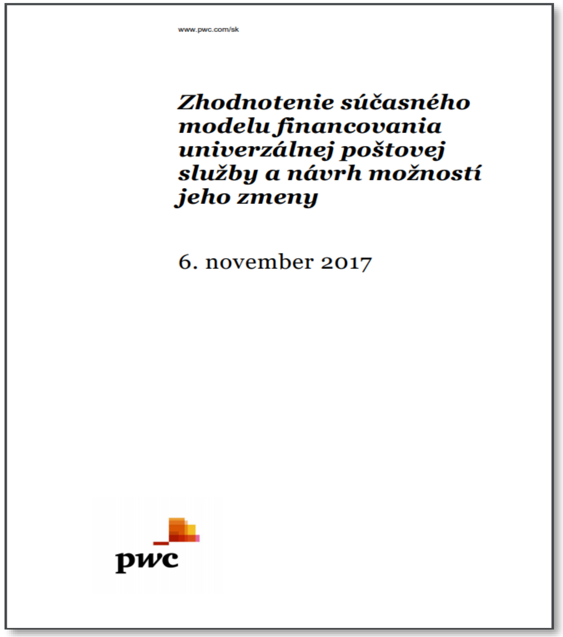
House of Commons

Business, Innovation and Skills Committee

Competition in the postal services sector and the Universal Service Obligation

Ninth Report of Session 2014–15

HC 769



www.pwc.com/sk

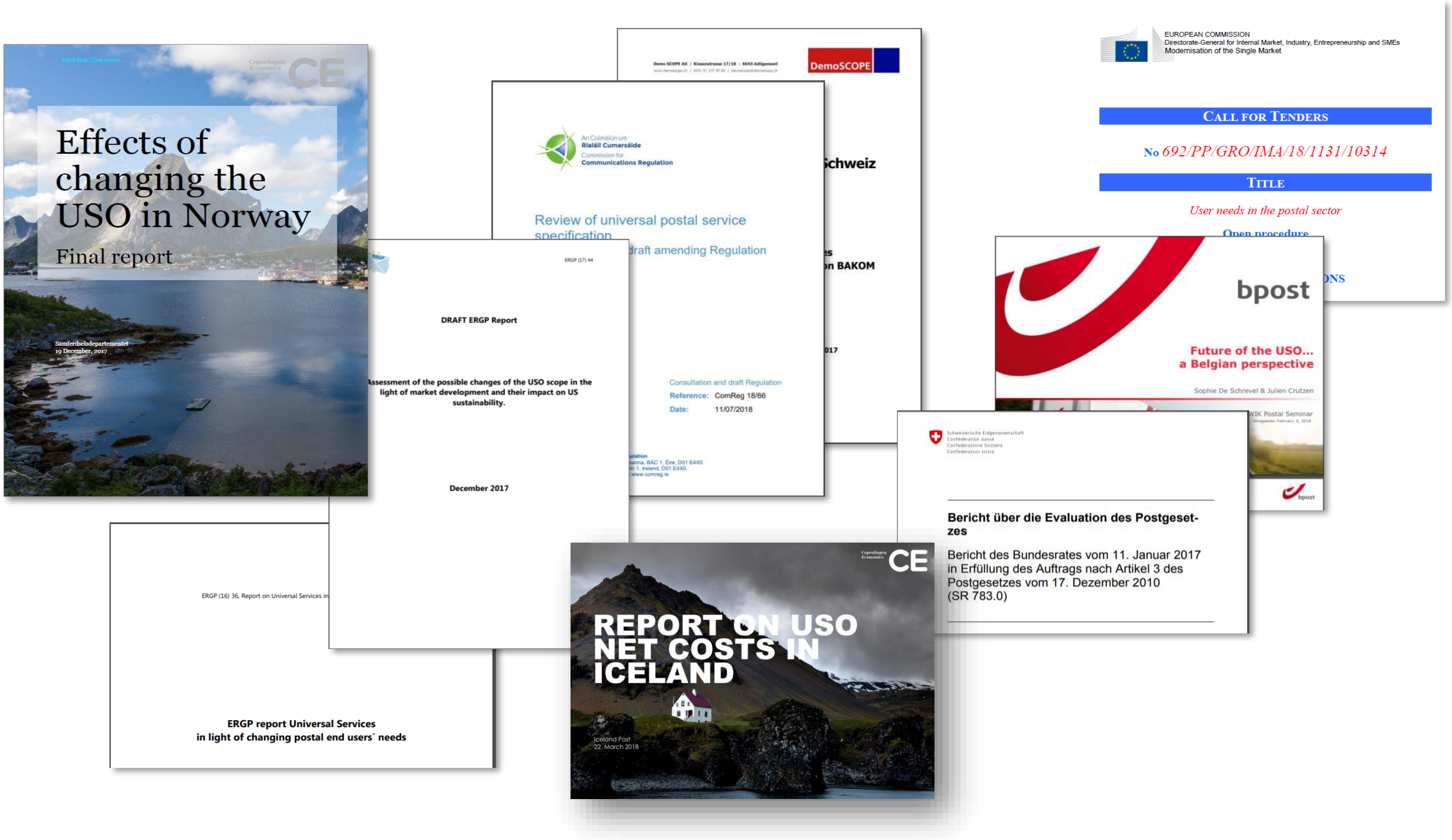
Zhodnotenie súčasného modelu financovania univerzálnej poštovej služby a návrh možností jeho zmeny

6. november 2017

pwc

#2

Defining the scope of the USO in light of changing user needs



#3 Adapting regulatory frameworks to ensure efficient cross-border parcel delivery

1


EUROPEAN COMMISSION
Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs
Modernisation of The Single Market

CALL FOR TENDERS

No 647/PP/GRO/PPA/17/9864

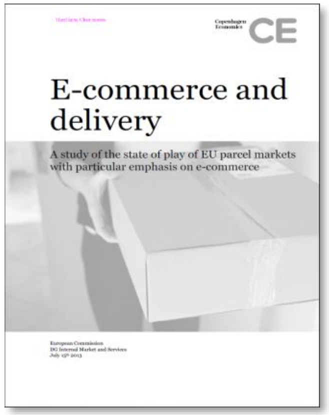
DYNAMIC DEVELOPMENT OF CROSS-BORDER E-COMMERCE THROUGH EFFICIENT PARCEL DELIVERY

Open Procedure

TENDER SPECIFICATIONS

What are the user needs and is there a market failure?

2


CE

E-commerce and delivery

A study of the state of play of EU parcel markets with particular emphasis on e-commerce

Clear definition of key concepts (who is "the postal op.?")

3

Implications of the removal of VAT de minimis

4

UPU

Fixing the UPU terminal dues issue

1 Important market developments

2 The competitive landscape in the postal sector

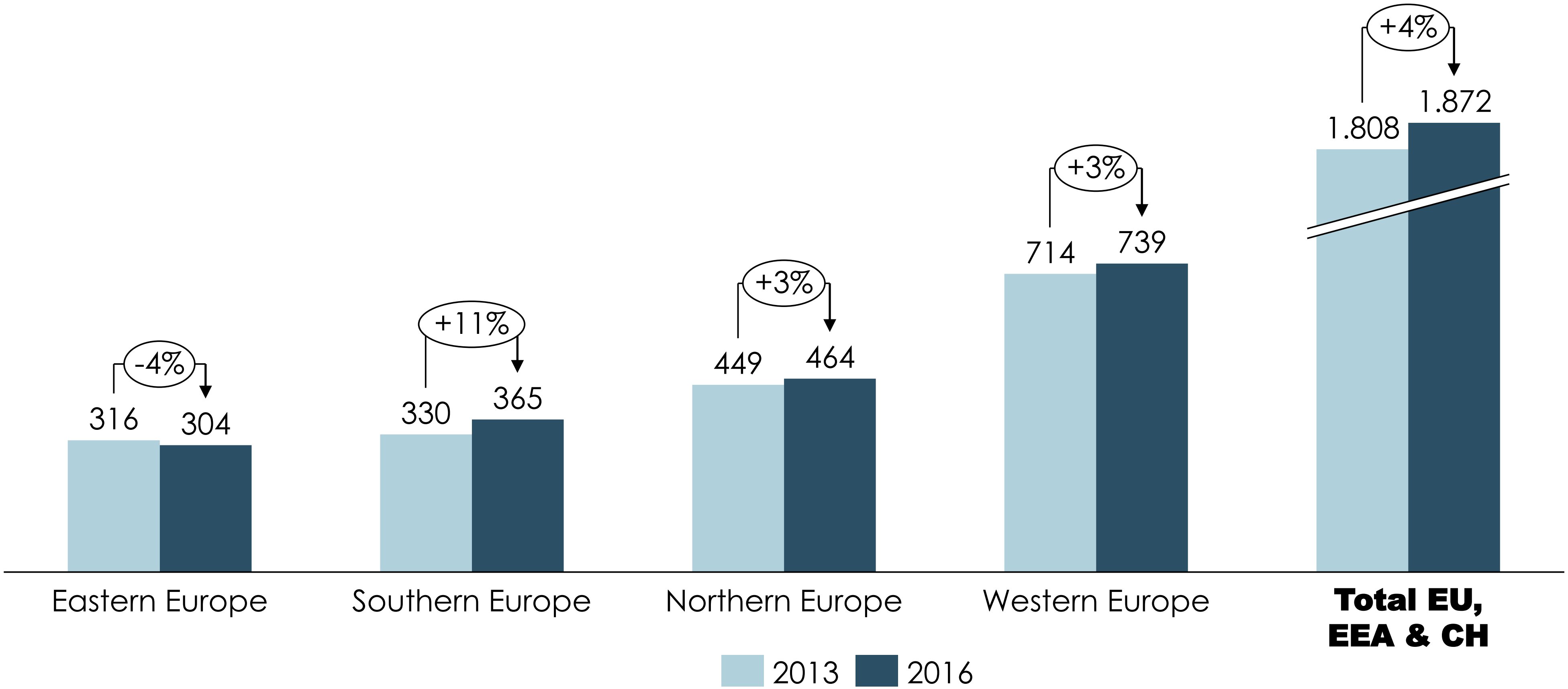
3 Employment and environmental developments

4 Developments in universal service

5 Scenarios for the future provision of the USO

Overall postal and courier sector employment increased, however...

Evolution of postal and courier sector employment, 2013 vs 2016
Headcount, thousands



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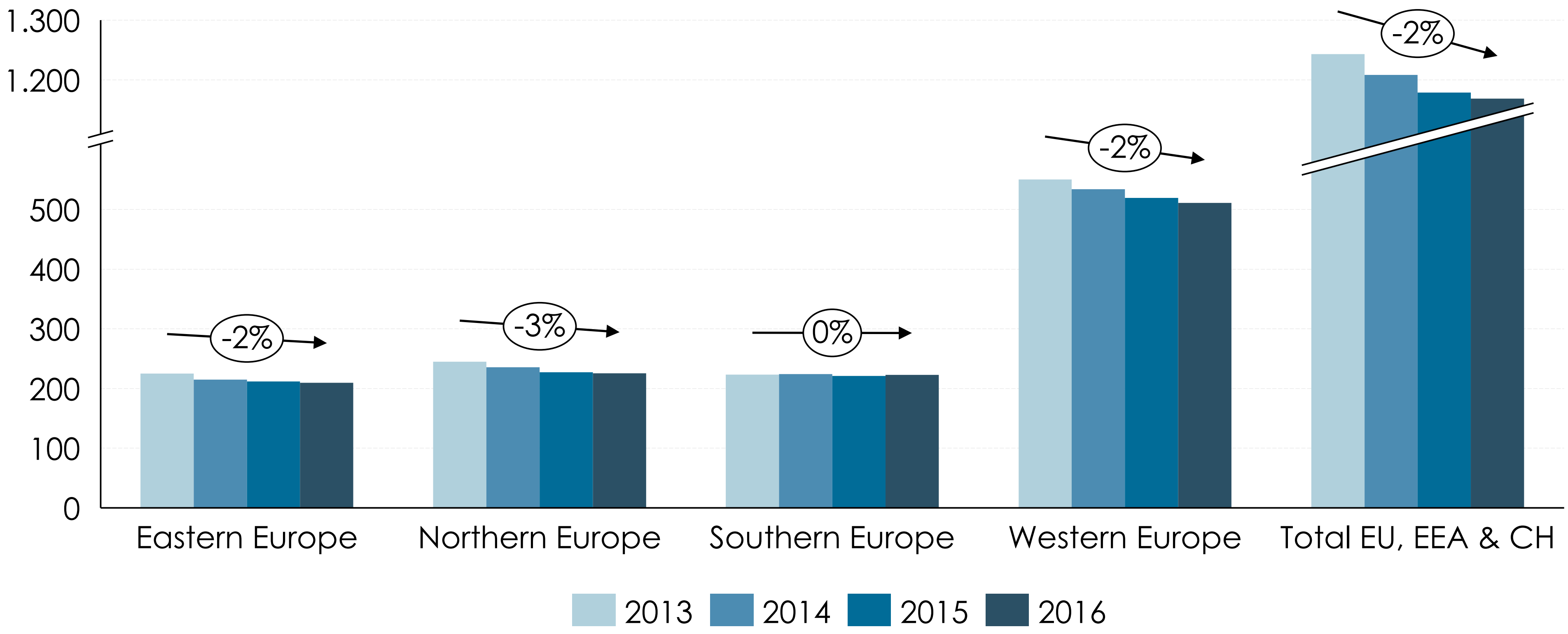
Employment at USPs decreased by 2%...

Evolution of USP employment

Staff employed in the home country, headcount, thousands



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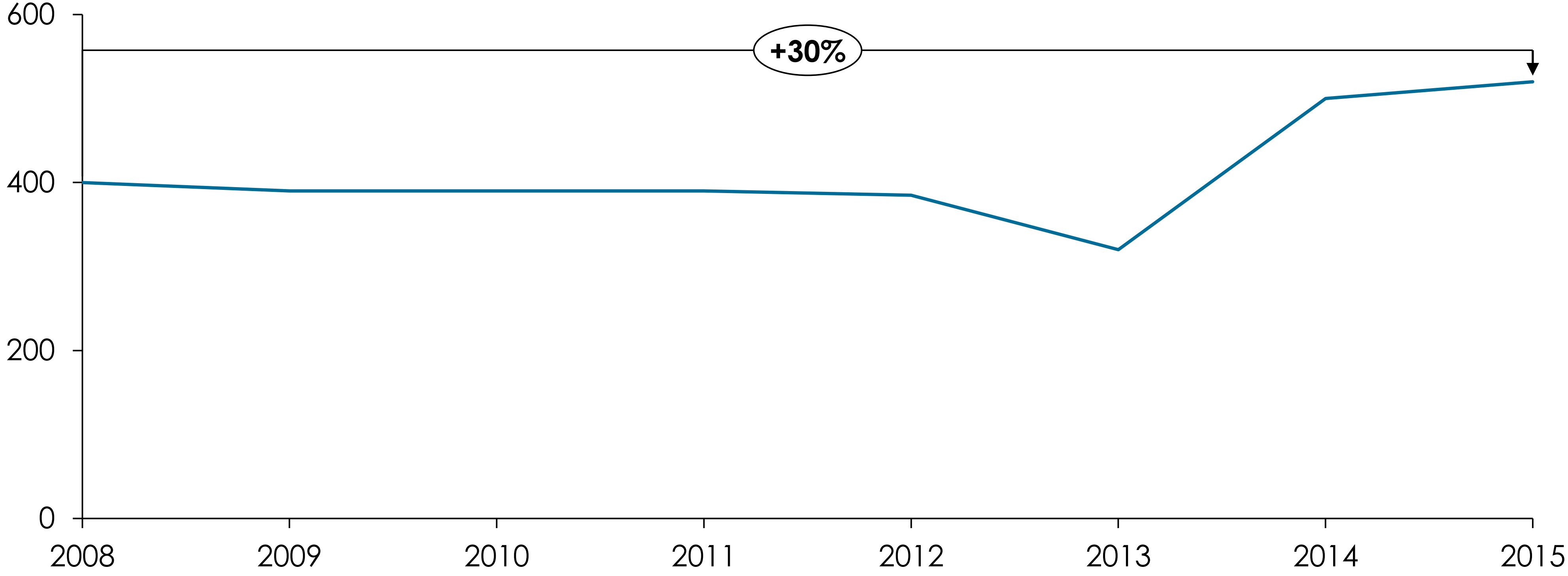
...but number of workers at other postal operators increased

Total employment by other postal providers, 2008-2015

Headcount, thousands



Source: ERGP (16) 38 Report on core indicators for monitoring the European postal market

We notice an increase in new and more flexible employment models

Extent of outsourcing and-subcontracted employment at USPs, 2016

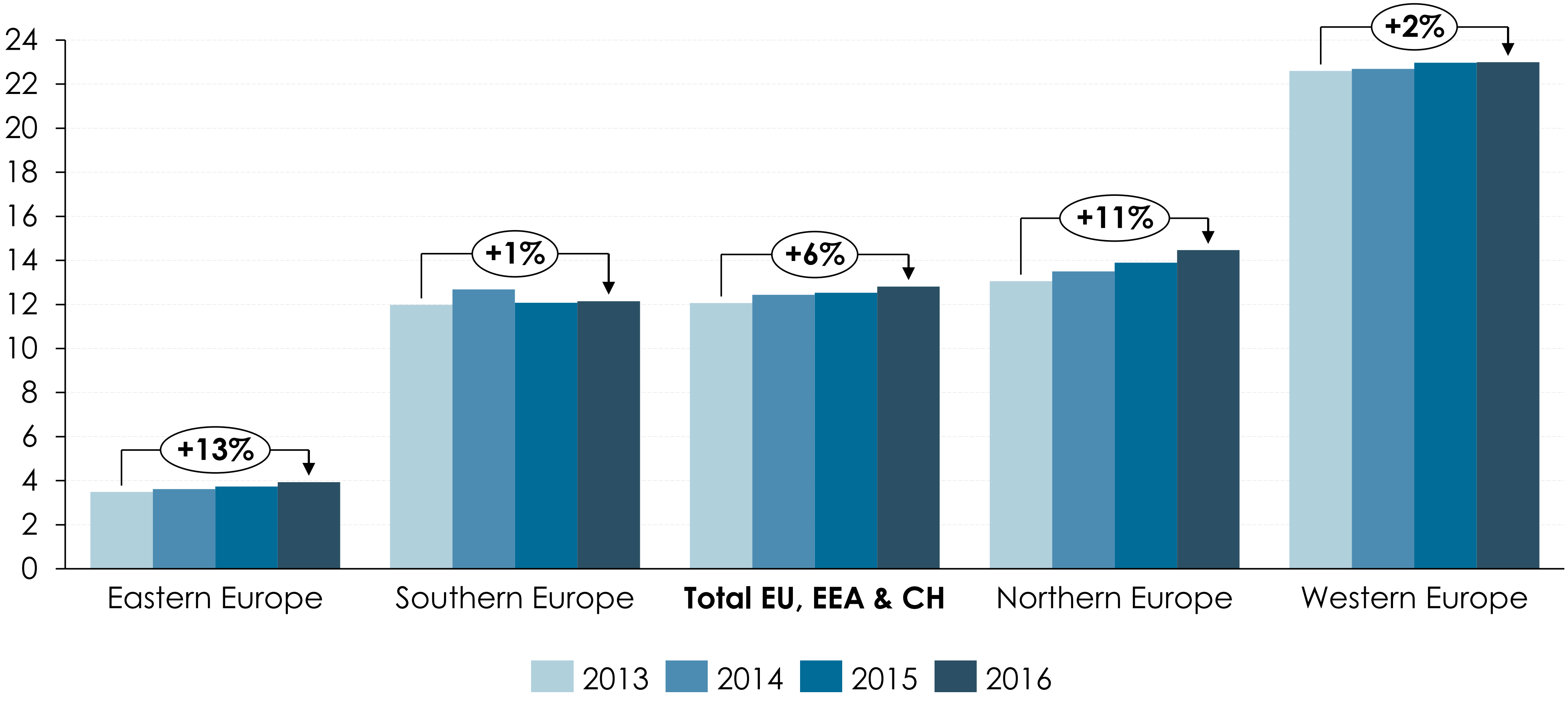
Number of USPs

Employment model	Number of countries	Share in total employment, min and max, 2016	Average total change 2013-2016
Subcontracted workers	21 6 5	1-13%	+36%
Self-employment contracts	5 19 8	<1%	+33%
Temporary employment	23 6 3	1-50%	+10%
Performance-related pay contracts	10 18 4	1-13%	+3%

Use Not use n/a

The average wage for postal workers varies significantly across regions

Average nominal hourly wages for postal workers employed by USP
EUR/h



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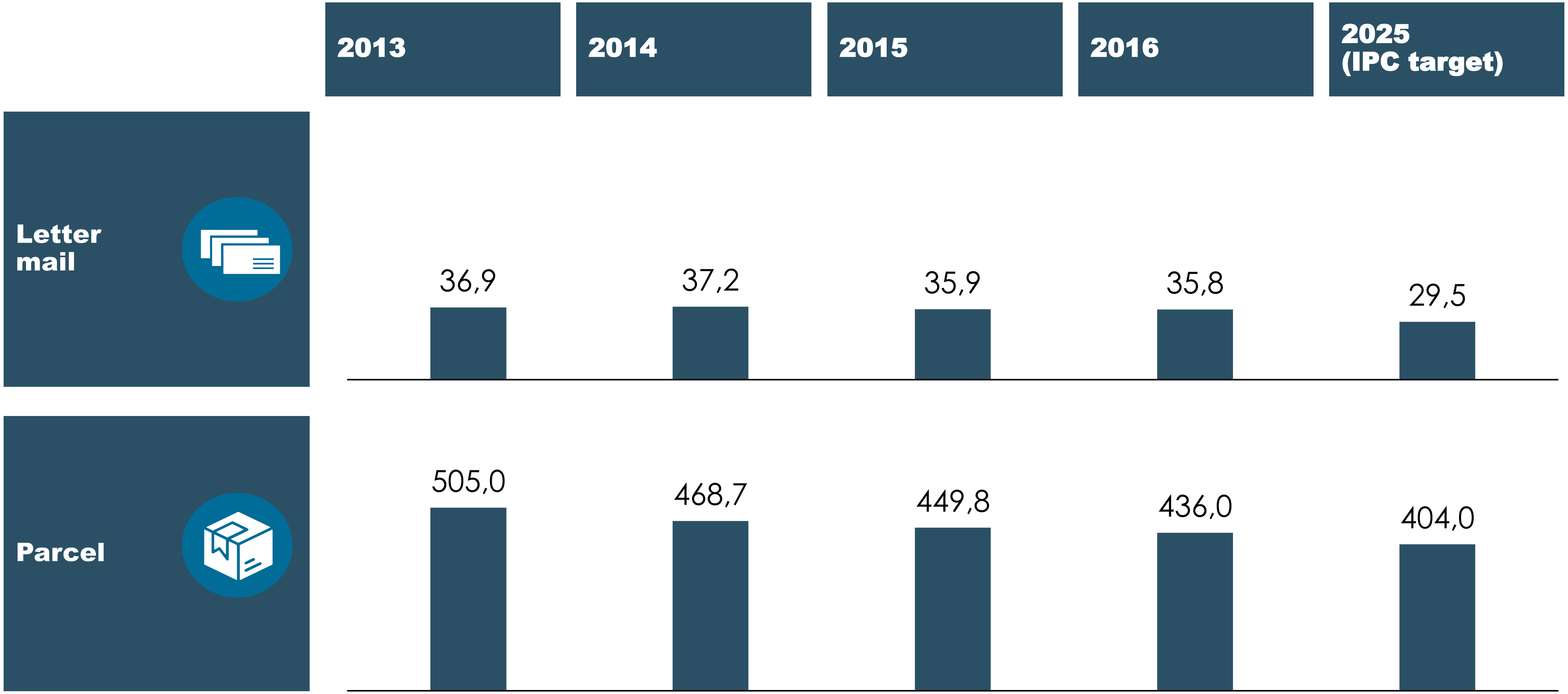
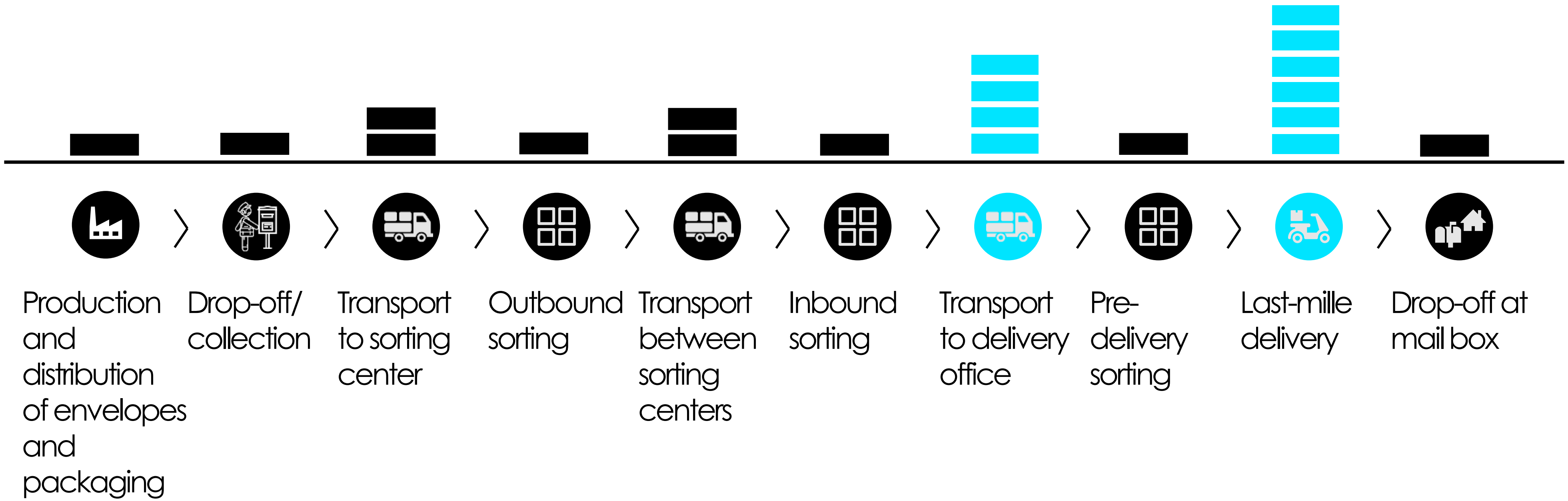
Increase in parcels lifts environmental impact, though per-unit impact falls

Letter mail and parcel delivery environmental impact
Grams CO2 per item



Main environmental impacts are CO2-emissions from different types of mail transportation

Extended postal value chain
Environmental impact



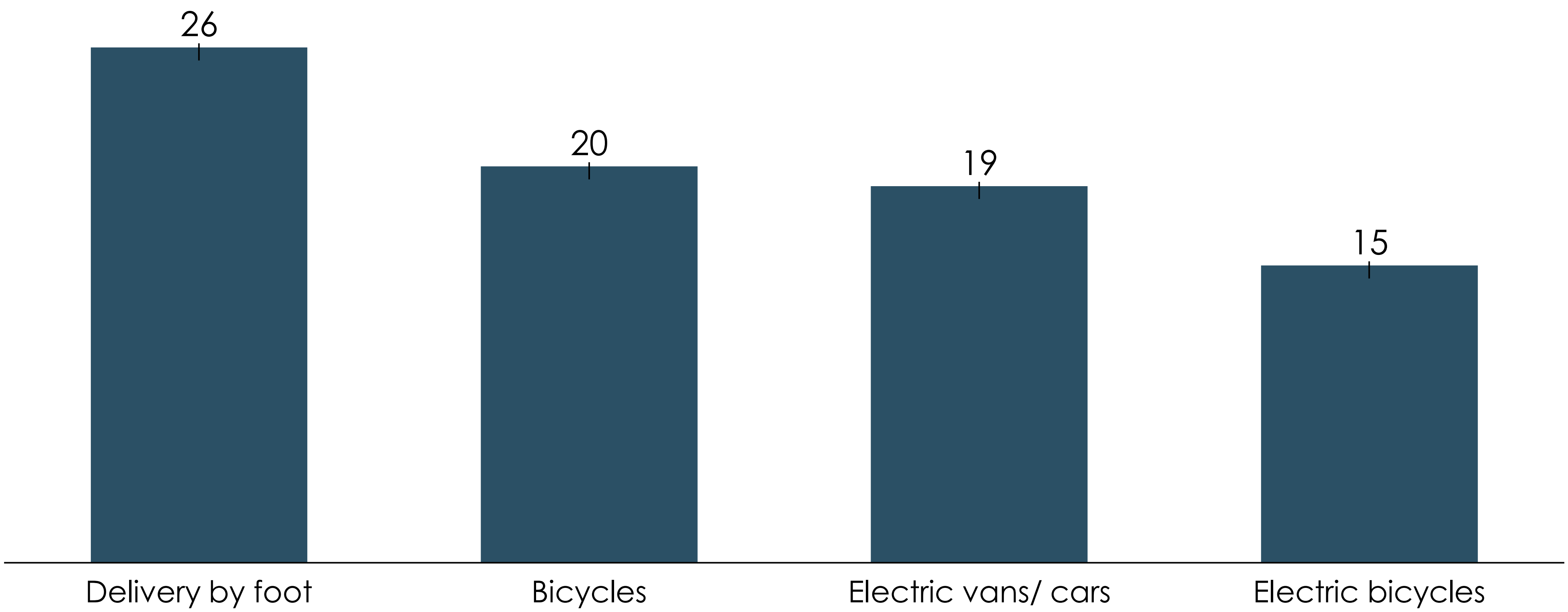
Many USPs set environmental targets on their and on subcontractors' operations

Number of USPs setting environmental targets on their operations, 2017
Number of USPs

Motivation:
#1: Cost saving
#2: Regulatory compliance
#3: Consumers' expectations

USPs undertake initiatives to reduce the impact of last-mile delivery

Environmentally friendly modes for the last-mile delivery, 2017
Number of USPs using a delivery mode



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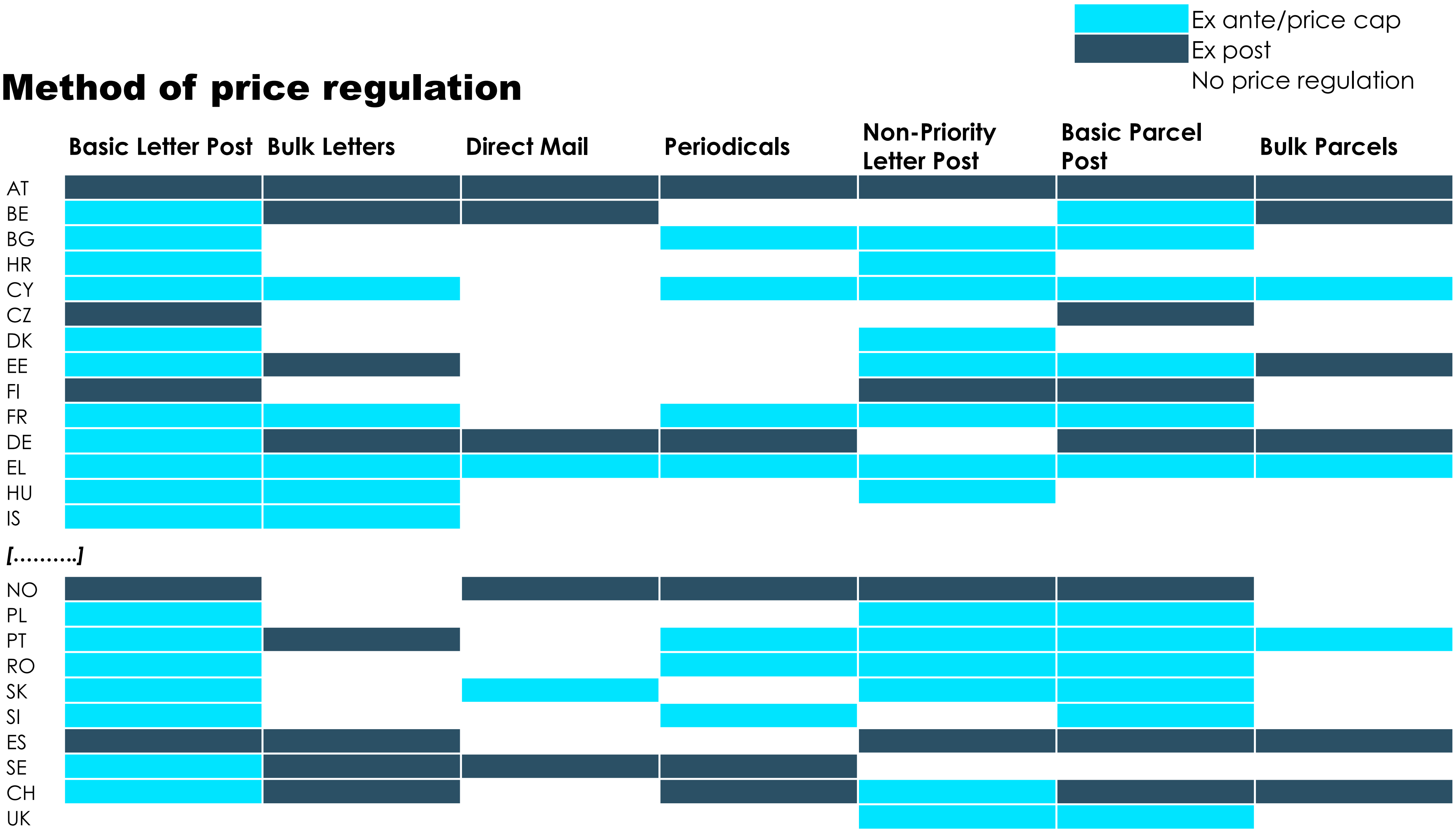
Regulatory measures applied vary significantly across countries (1)

Method of price regulation



Regulatory measures applied vary significantly across countries (2)

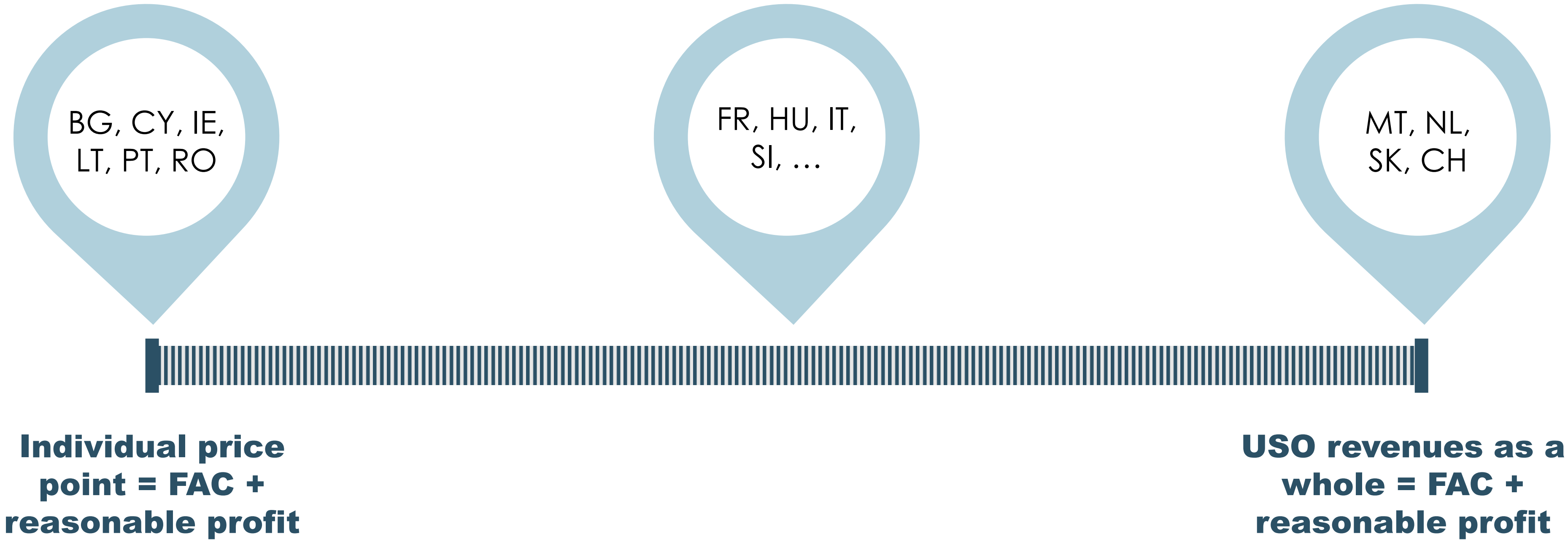
Product scope of quality measurement

■ QoS regulation
No QoS or n/a

	FSC Basic Letter	SSC Basic Letter	Bulk Letters	Registered Mail	Insured Mail	Direct Mail	Publica-tions	Basic Parcel	Bulk parcels	Cross-border letter	Cross-border parcel
AT	■	■	■			■		■	■	■	■
BE	■			■	■			■		■	
BG	■	■						■		■	
HR	■	■						■		■	
CY	■									■	■
CZ	■			■	■			■		■	■
DK		■					■				
EE	■	■									
FI		■								■	
FR	■	■		■			■	■		■	
DE	■			■	■		■	■	■		
EL	■									■	
HU	■	■	■	■	■	■		■	■	■	
IS	■	■								■	
[……….]											
PT	■	■	■	■	■		■	■	■		■
RO	■									■	
SK	■	■				■		■			
SI	■						■	■		■	
ES	■		■					■			
SE	■										
CH	■	■						■			
UK	■	■		■	■			■		■	■

Interpretations of the PSD vary significantly across countries

Interpretation of the cost orientation principle by NRAs



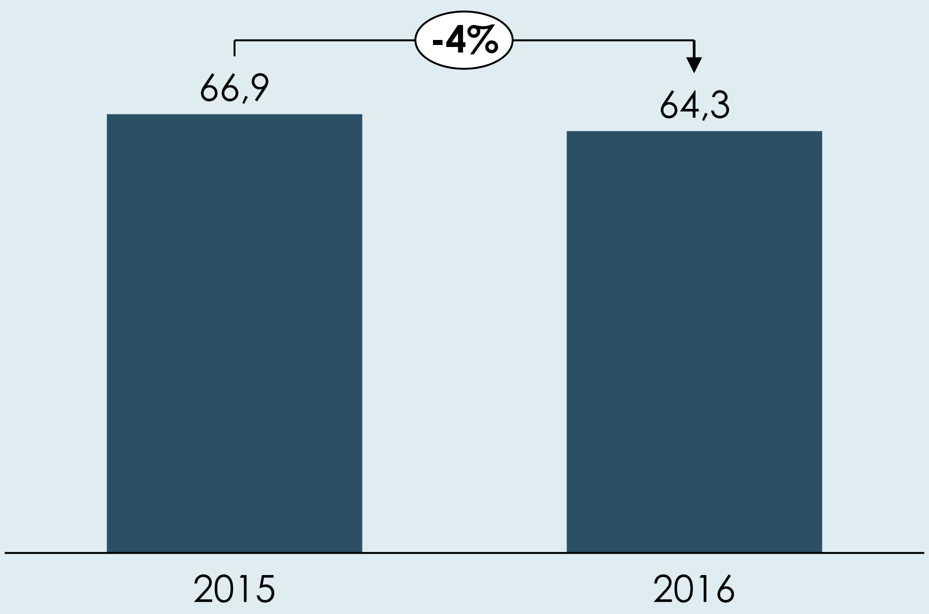
Article 12 of Directive 97/67 is not to be interpreted as imposing an obligation on universal service providers that each individual service that is part of the universal service must be cost-oriented.

[Opinion of advocate general Wahl, delivered on 20 June 2018]

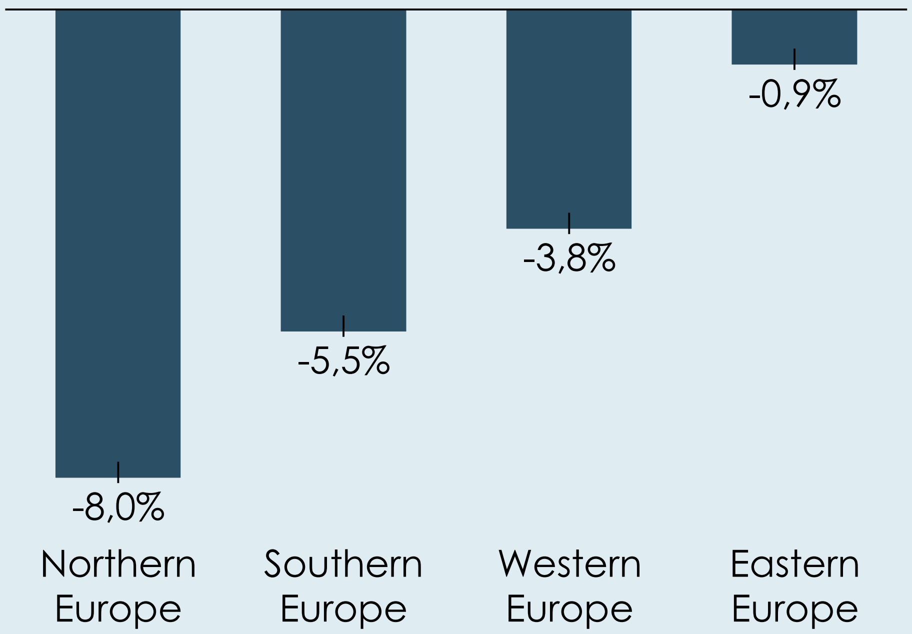
Changes in user preferences challenge USO sustainability

Development of USO volumes

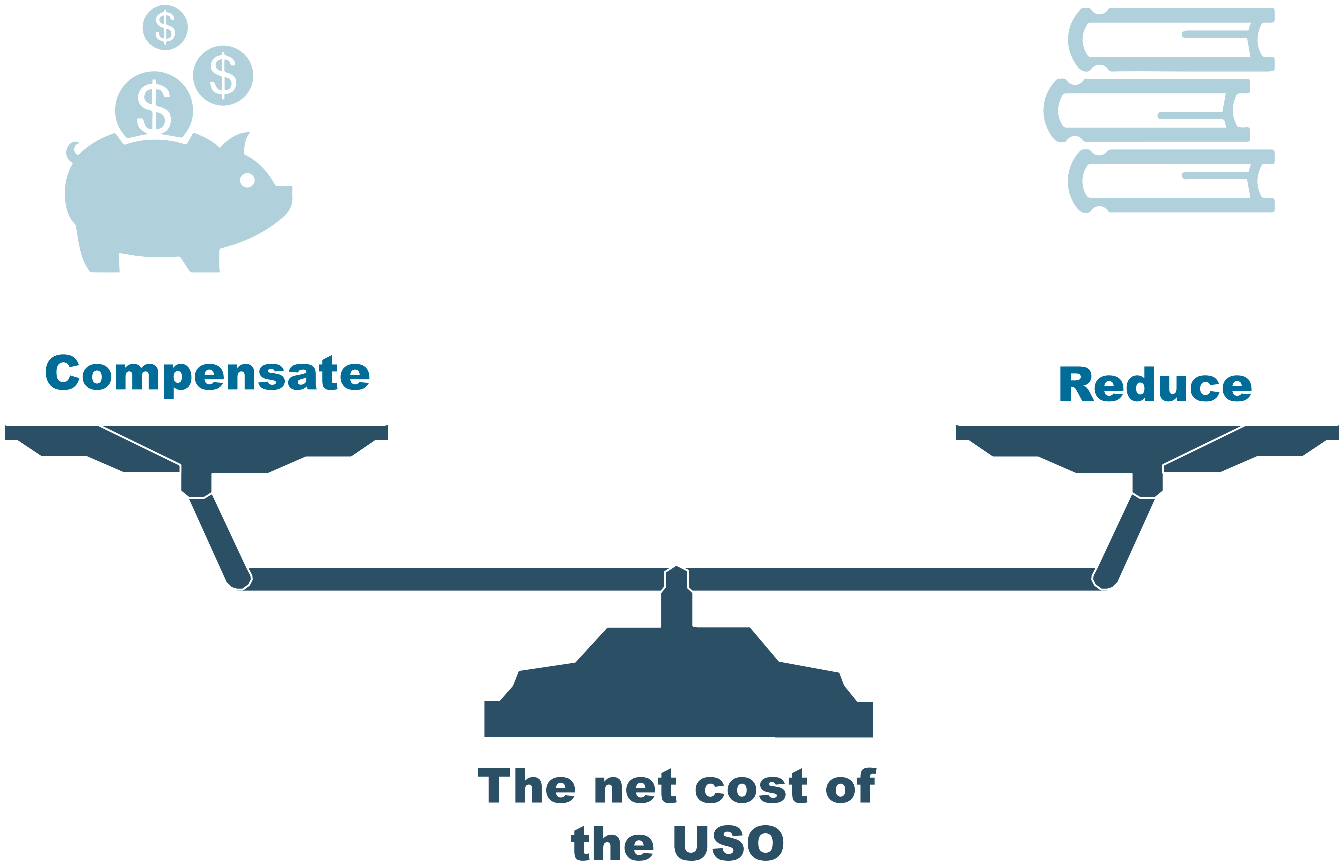
USO mail items per capita



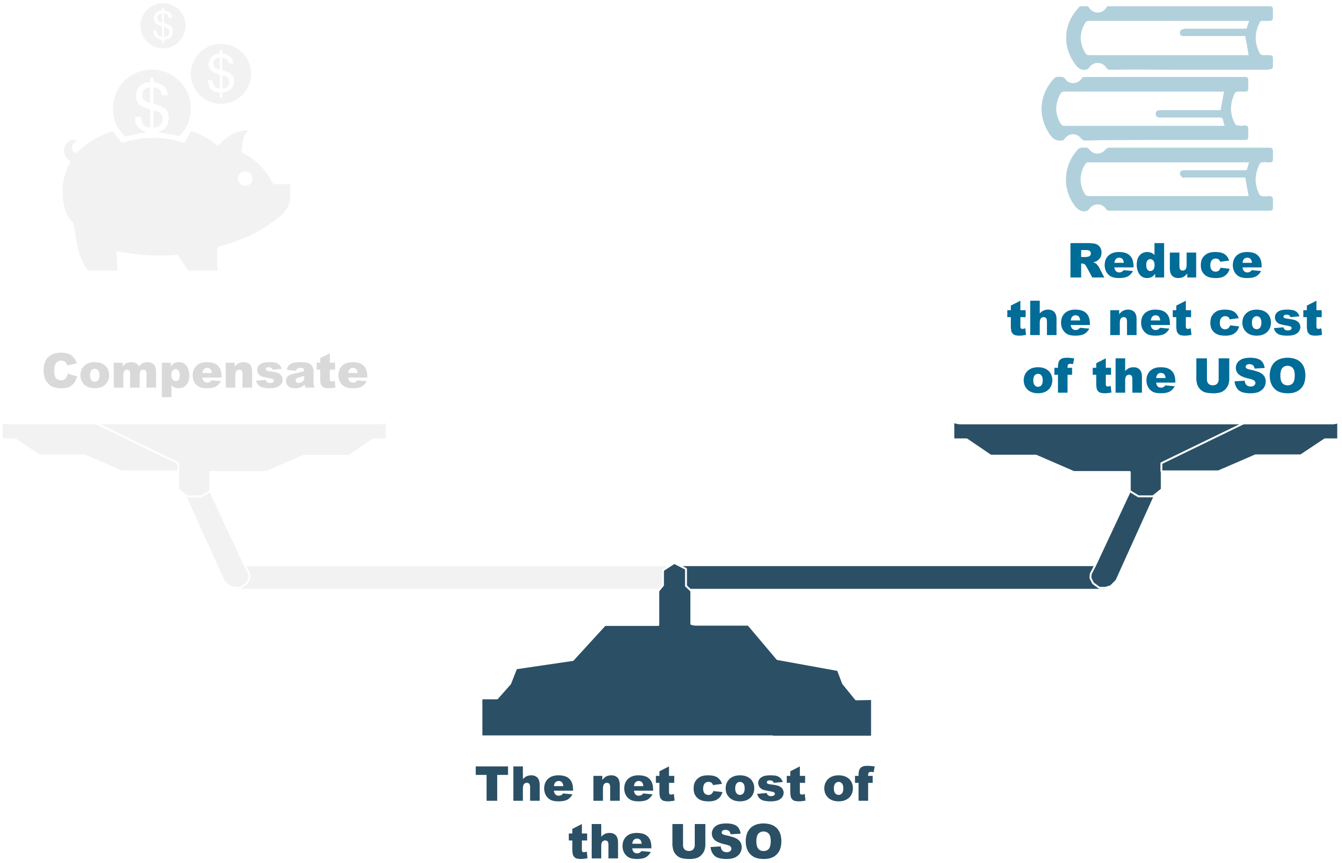
Annual percentage change 2015-2016



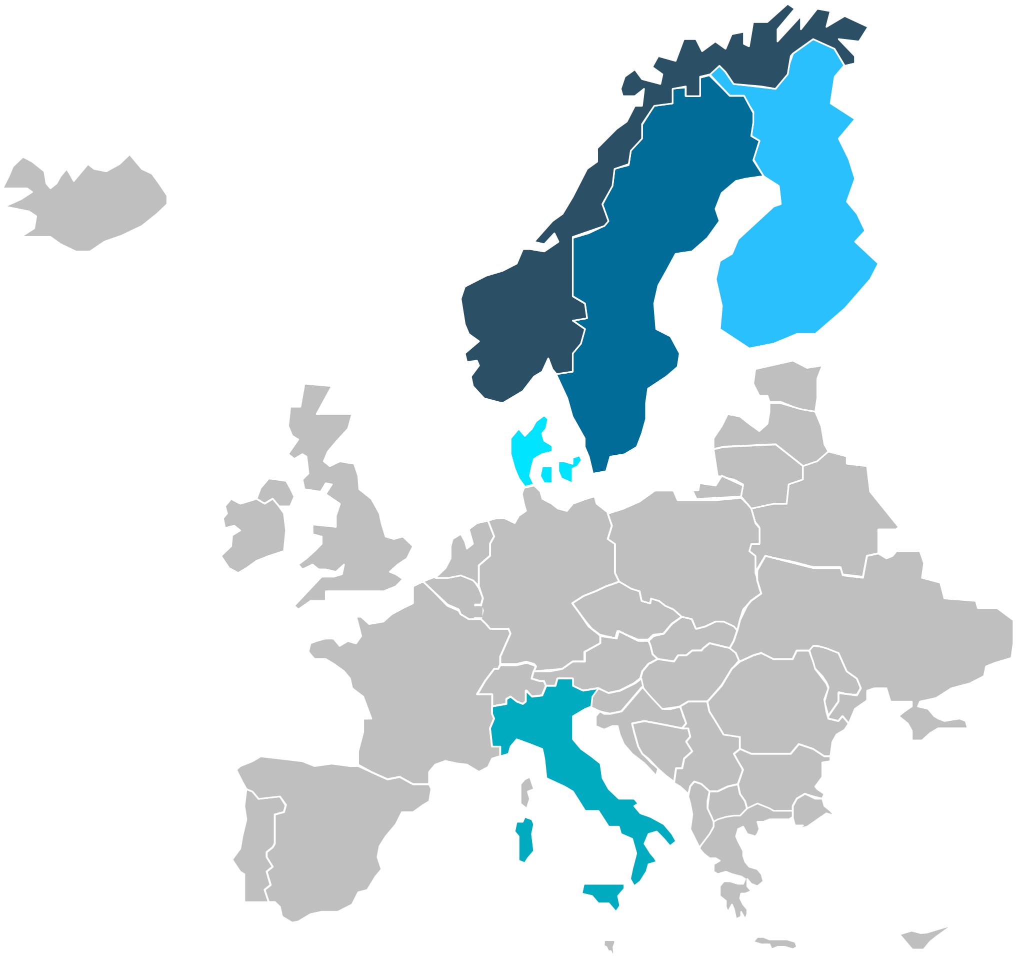
Policymakers and regulators are searching for the appropriate reaction to market developments



Policymakers and regulators are searching for the appropriate reaction to market developments



Some governments responded by reducing the delivery speed



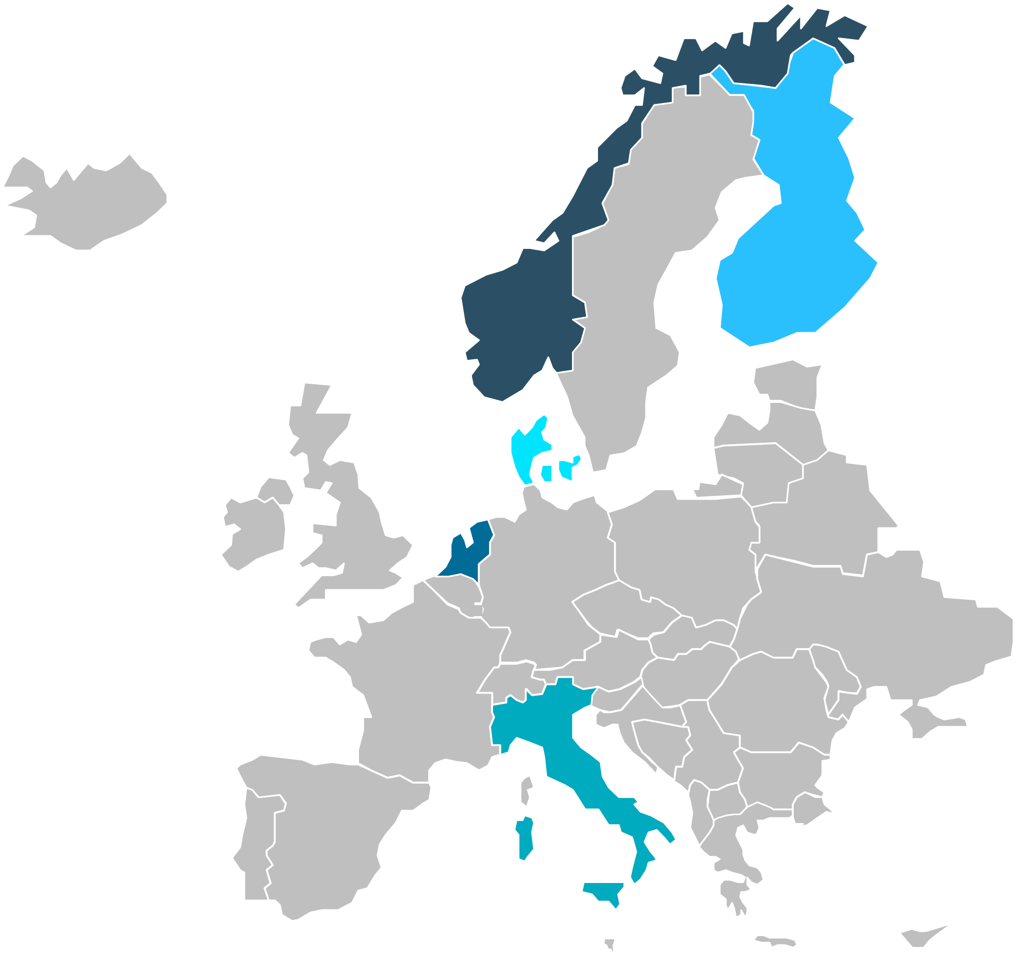
NO	Merging of A and B letters, creating a D+2 standard service (2018)
SE	D+2 replacing D+1 as standard product (2018)
FI	Merging of A and B letters , creating a D+2 standard service (2017)
DK	Elimination of first class letters from the USO and decreased delivery speed for B-letters (2016)
IT	Introduction of slow letter mail product, D+4 (2015)

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

Denmark	D+5	Since 2016
Finland	D+4	Since 2017
Luxembourg	D+3	
Norway	D+2	Since 2018
Spain	D+3	
Sweden	D+2	Since 2018
Romania*	D+2	* Intention, not implemented

Some governments responded by reducing the frequency of delivery



NO Mail delivery on Saturdays discontinued (2016)

FI Introduction of 3-day delivery in urban areas (2017)

DK Standard delivery is once per week (2018)

NL Reduced delivery frequency (2014)

IT Delivery every second day in rural areas (2014-)

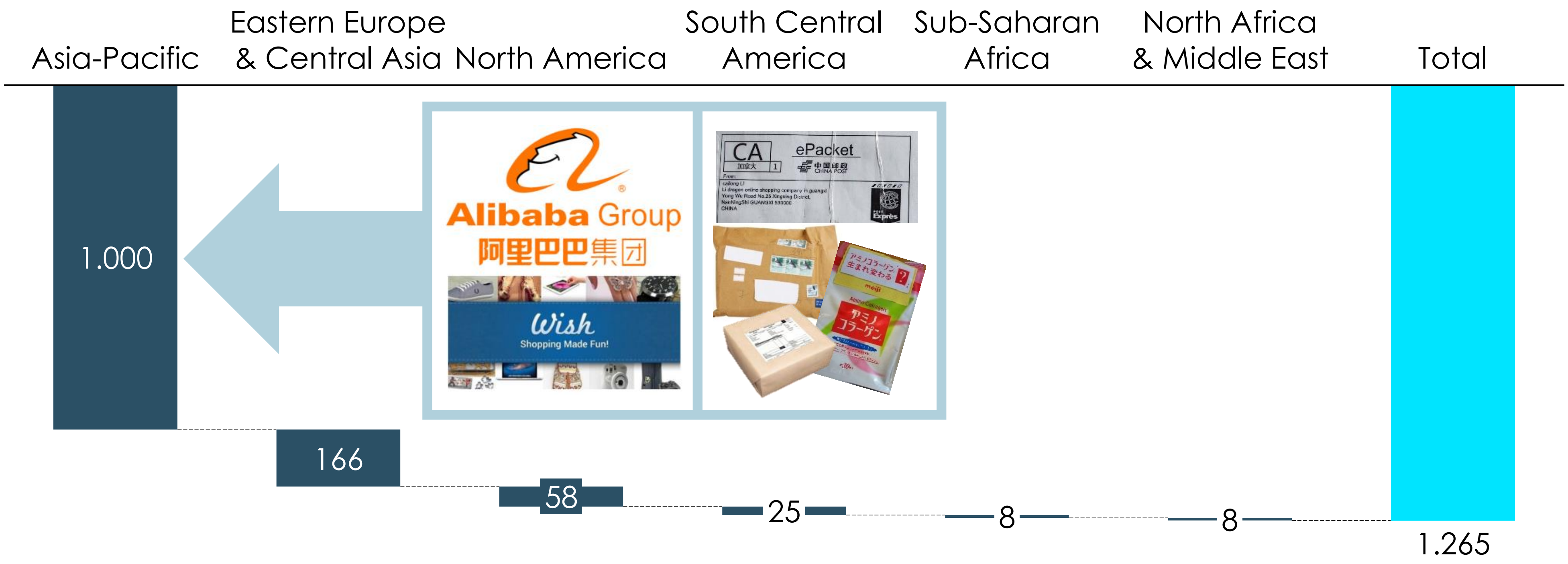
Rapid growth of e-commerce creates challenges...

#1

UPU terminal dues add to the financial burden of some USPs

Western Europe net financial transfer from terminal dues, 2018

Million EUR

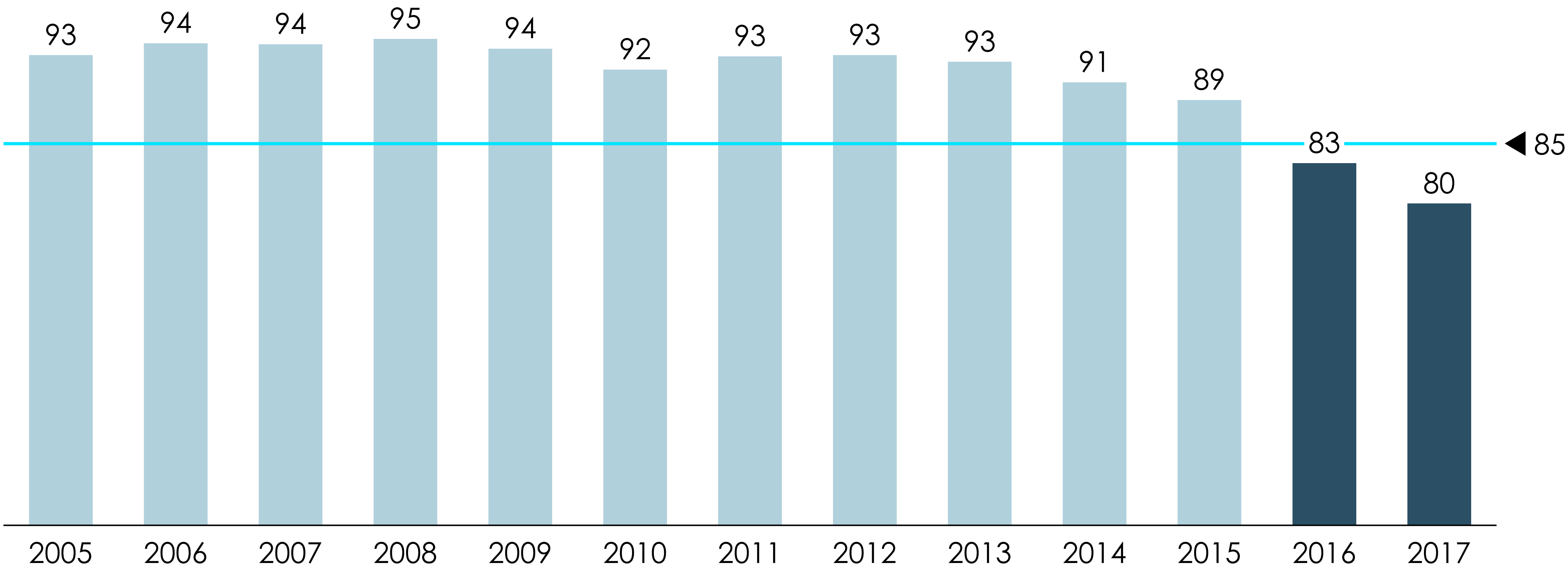


Source: Copenhagen Economics (2017) A study for the U.S. Postal Regulatory Commission. Impact on financial transfers among designated postal operators of the Universal Postal Union 2018-2021 cycle agreements.

#2

Fewer cross-border items are delivered on target

Transit time performance for international European priority letter mail
Transit time performance, %



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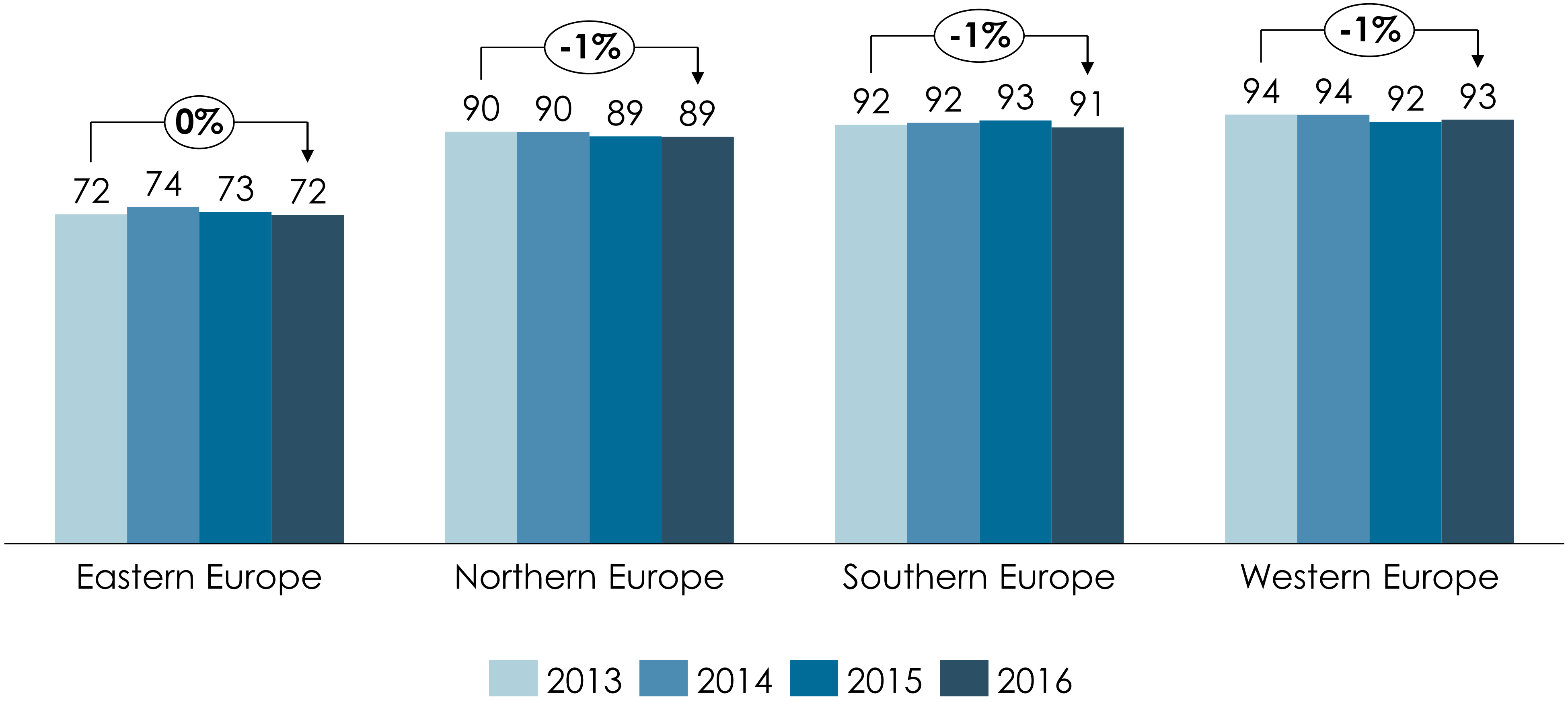
However, transit time performance of domestic D+1 letters remained stable

Evolution of domestic quality of service for priority letter
% letters arrived in D+1

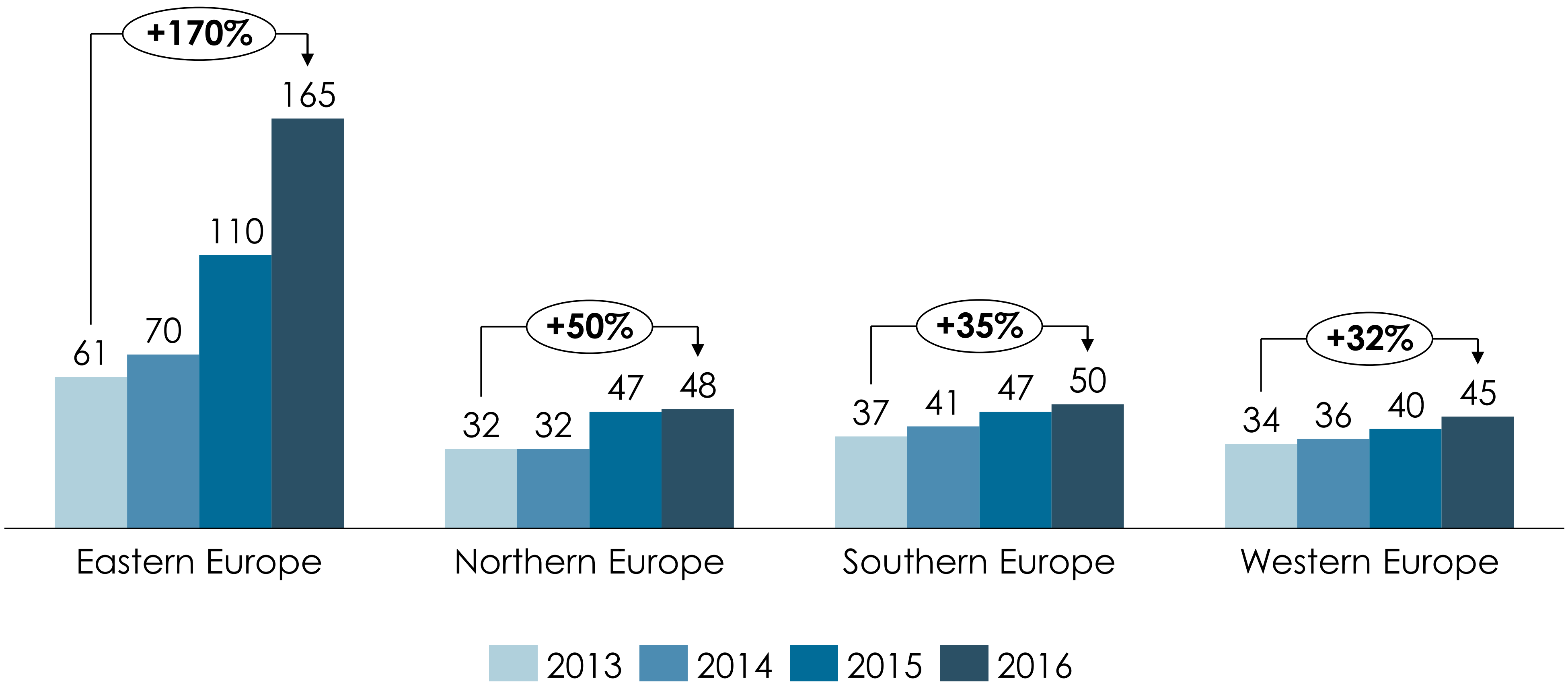


Copenhagen Economics

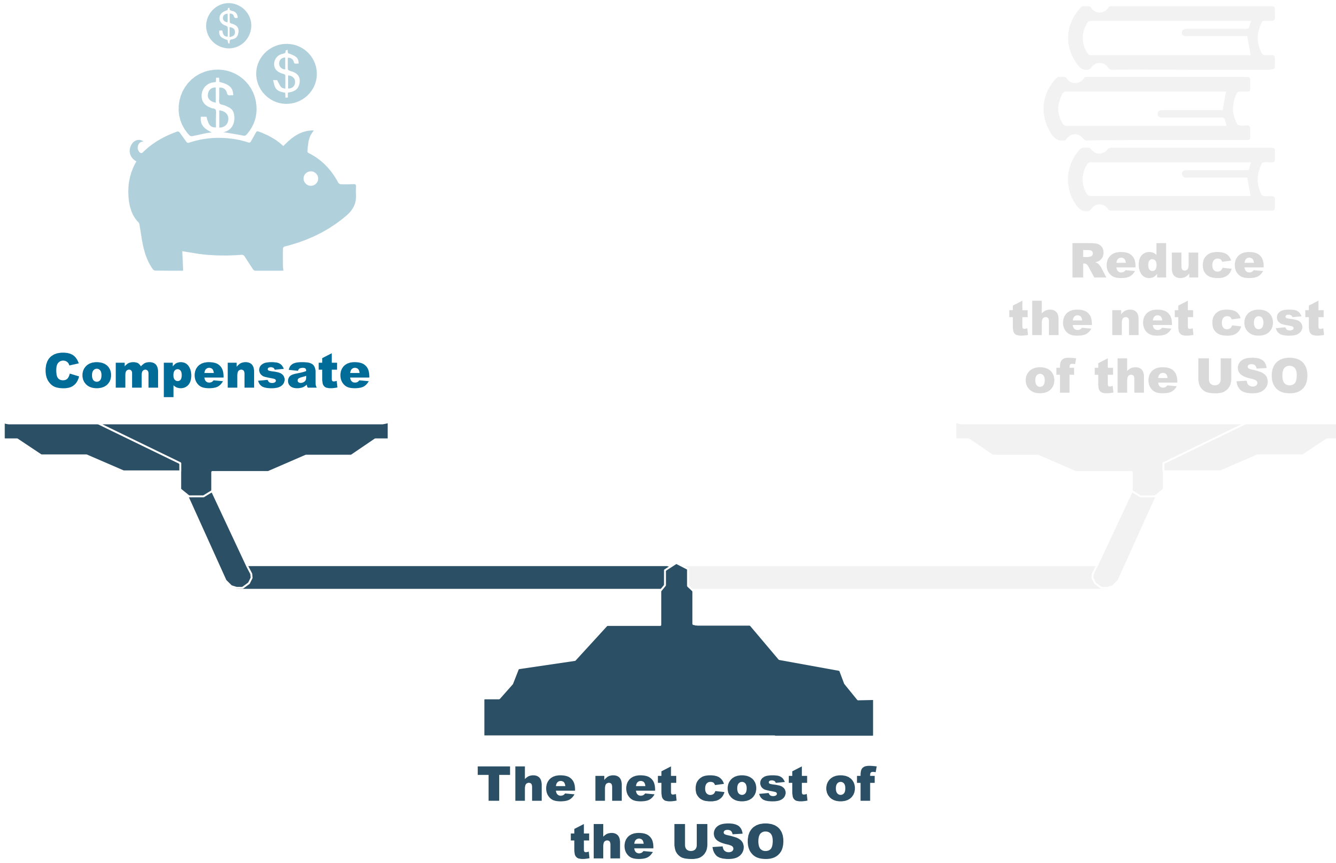
#3

Large increase in user complaints across the board

Evolution of user complaints sent to NRA and USP
Average number complaints per 1 million domestic letter post items



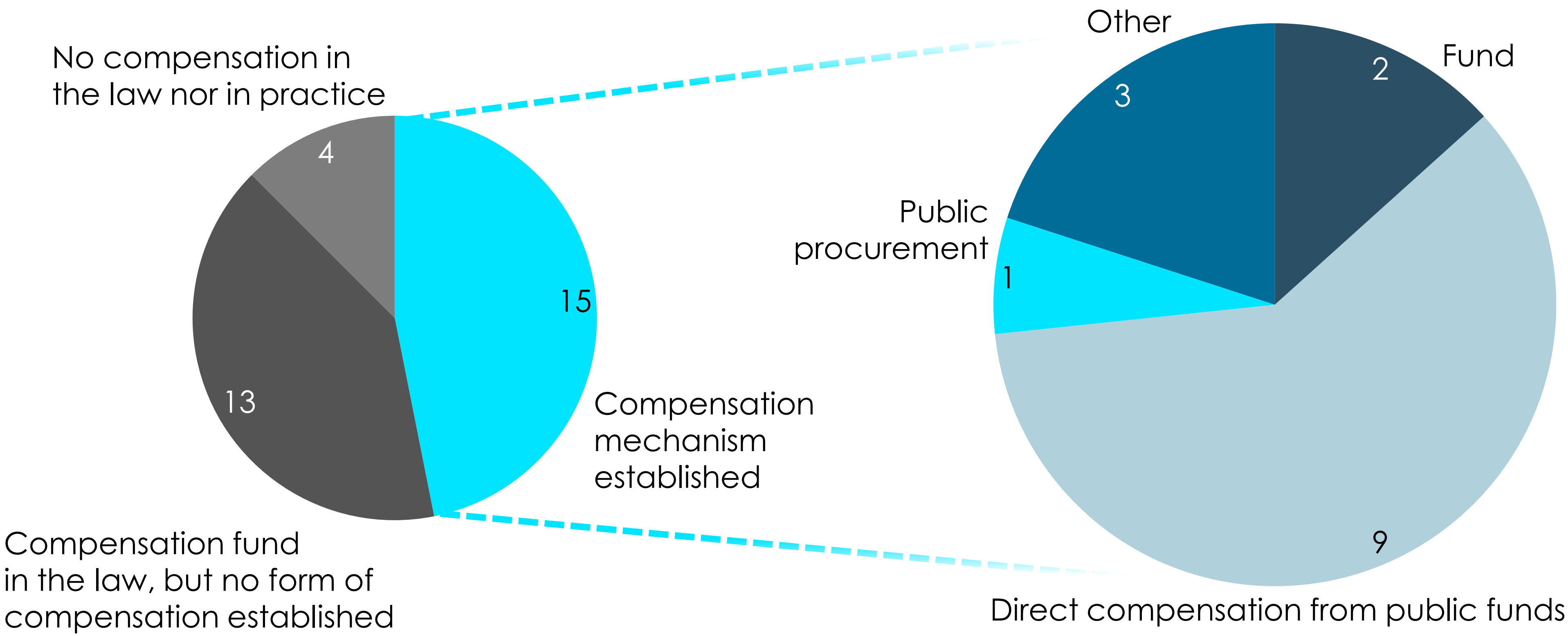
Policymakers and regulators are searching for the appropriate reaction to market developments



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



1 Important market developments

2 The competitive landscape in the postal sector

3 Employment and environmental developments

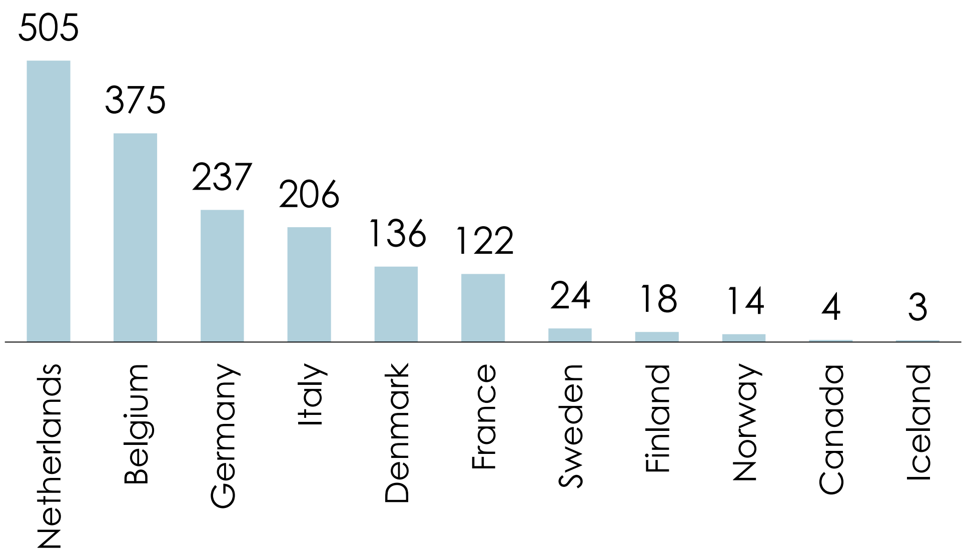
4 Developments in universal service

5 Scenarios for the future provision of the USO

Low population density and few items per capita make mail delivery expensive

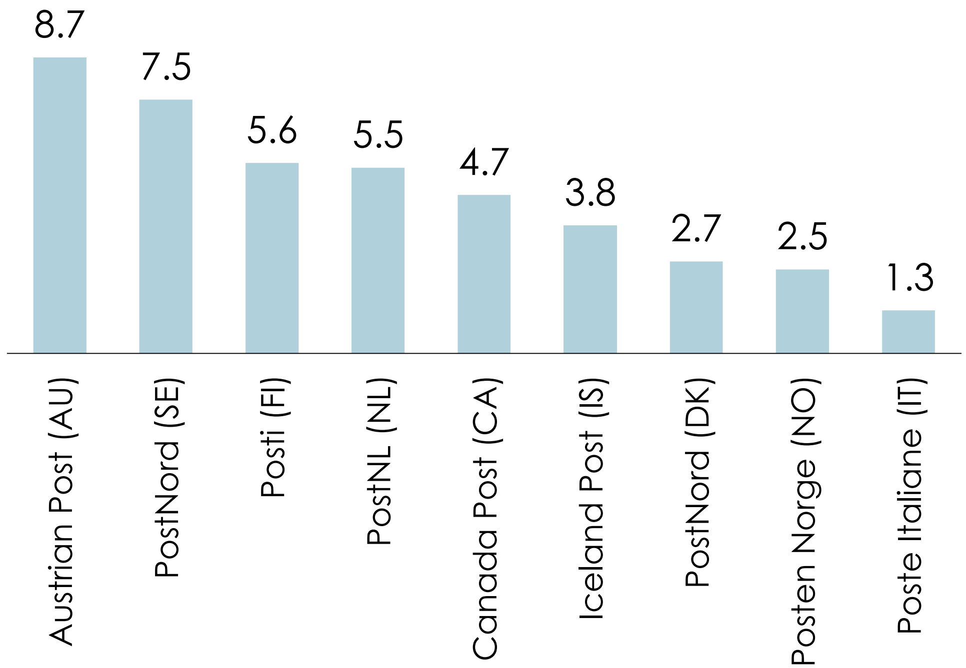
Population densities, 2016

People per sq. km of land area

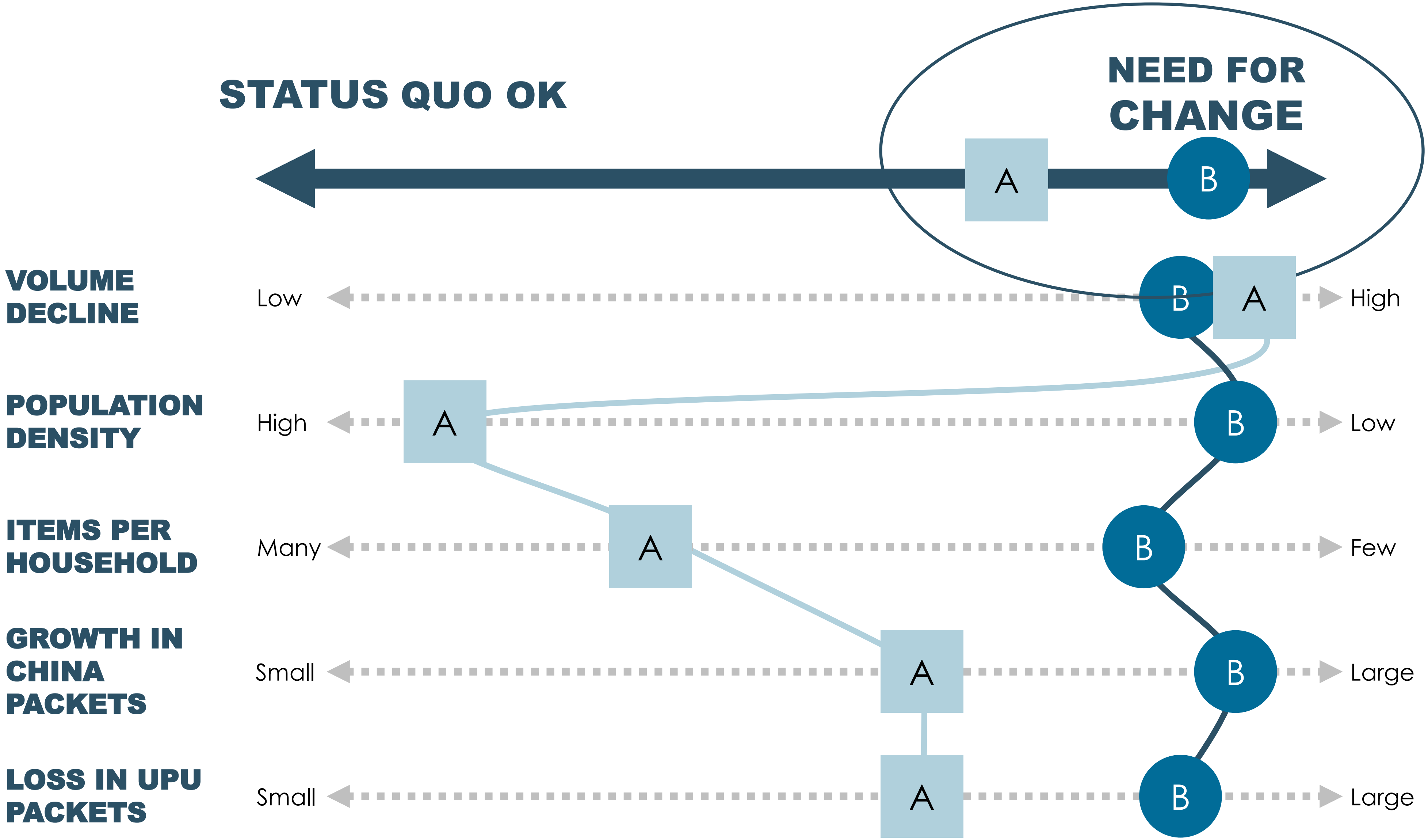


Addressed mail items per household per week, 2016

Items



The scoreboard



Roadmap to impact assessment

01

Define potential scenarios for the future provision of the USO

02

Assess the impact on net costs of USO

03

Assess impact on users, employees and other stakeholders

Roadmap to impact assessment

01

Define potential scenarios for the future provision of the USO

1. Define current national USO requirements
2. Define regulatory options based on the initial screening of costs and benefits

02

Assess the impact on net costs of USO

03

Assess impact on users, employees and other stakeholders

Step 1: Define potential scenarios for the future provision of the USO

1 Status quo	• Maintain the current scope and minimum requirements of the USO
2 Reduce delivery frequency	• From 6 to 5 days nationwide • From 5 to 2.5 days nationwide • From 5 days nationwide to 3 days in rural areas, 5 days in urban areas • From 5 days nationwide to 3 days in urban areas, 5 days in rural areas
3 Reduce speed of delivery	• From D+1 to D+2 • From D+2 to D+5
4 Allow different forms of delivery	• From delivery to the door, delivery to the street • From delivery to the street, delivery to the post office • From delivery to the street, delivery to the communal centre
5 Remove uniform prices requirement	• Remove the price uniformity requirement, i.e. allow geographic price differentiation for SP and bulk letters
6 Relax ubiquity (accessibility) requirement	• Reduce the required number of post offices in rural areas by 25% to 50% • Reduce the required number of post offices in urban areas by 25% to 50% • Allow alternative models, e.g. mobile post offices, franchise model

Roadmap to impact assessment

01

Define potential scenarios for the future provision of the USO

02

Assess the impact on net costs of USO

1. Assess cost effects
2. Assess revenue effects
3. Assess effects on intangible benefits

03

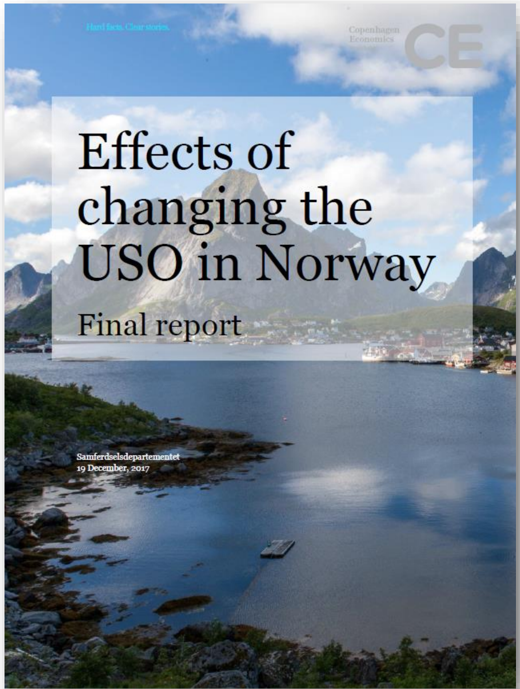
Assess impact on users, employees and other stakeholders

Step 2: Assess the impact on net costs of USO

Net cost of the USO, 2016
Million EUR

	Cost effect	Revenue effect	Value of intangible benefits	Net effect
Delivery speed and frequency	68	- 56	-	**12**
International mail	-	73	-	**73**
Delivery in the most rural areas	42	- 5	-	**36**
Shipments for the blind	-	2	-	**2**
Reserved area	-	-	- 23	**- 23**
Total	**110**	**13**	**- 23**	**100**

Step 2: Assess the impact on net costs of USO

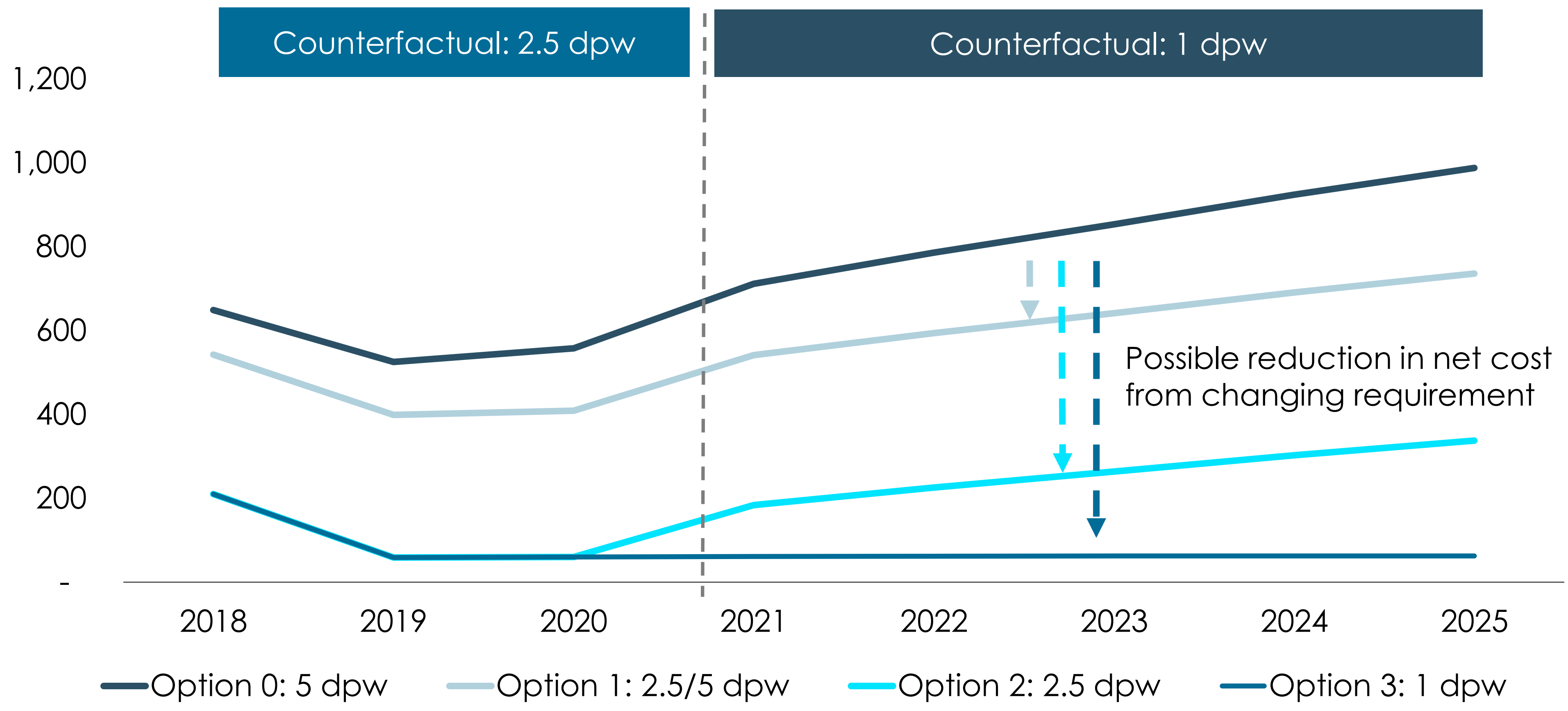


Counterfactual scenario, 2018
Million EUR

	Net Cost 2018, MEUR (% of total)
Delivery Speed	16 (22%)
Delivery Frequency	60 (70%)
International mail	3 (5%)
Delivery to blind people	2 (<3%)
Basic bank services	1 (<3%)
Total	73

Development of USO net costs largely depends on the delivery frequency

USO net costs (MNOK) 2018-2025



Roadmap to impact assessment

01

Define potential scenarios for the future provision of the USO

02

Assess the impact on net costs of USO

03

Assess impact on users, employees and other stakeholders

1. Identify services affected
2. Identify vulnerable users
3. Identify targeted measures providing the best cost-benefit

Step 3: Assess impact on users, employees and other stakeholders

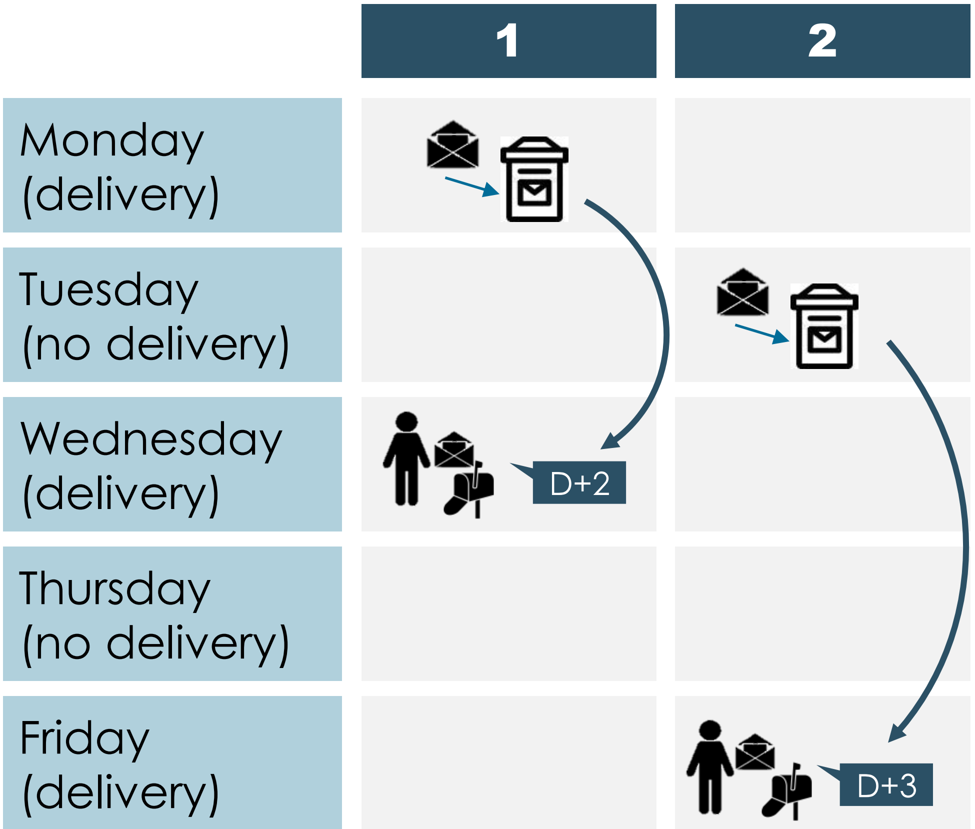
Clear international pattern regarding users most negatively affected by reduced delivery frequency:

- Elderly citizens,
- Citizens in rural areas,
- SMEs (primarily in rural areas)
- Other frequent senders of mail

Interviews to investigate in detail how different user groups are affected:

- Association for the blind
- Pensionist association
- Norwegian farmer association
- Industry association

Illustration of effects of delivery every second day

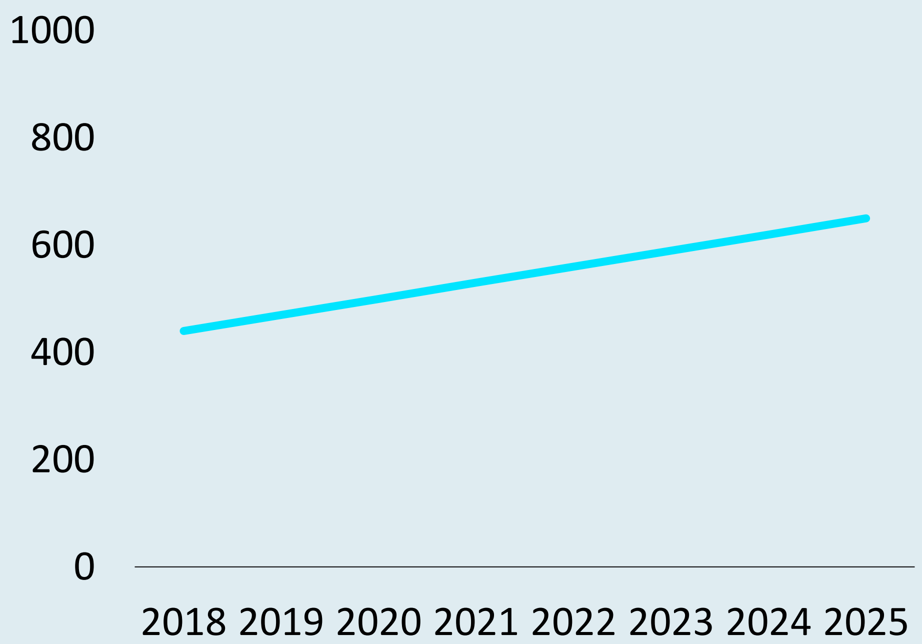


Some specific deliveries may be candidates for targeted measures

Newspapers	Home delivery of medicines	Urgent hospital notifications or invoices (at delivery 1 dpw)
• Promote alternative technologies (tablet) or use of alternative networks (public transportation) • Limited number of vulnerable users dependent on Posten for accessing news (conservative estimation)	• Monetary compensation (for express delivery) or use of alternative network (home care assistance)	• Electronically and express service

2.5 deliveries per week: Large cost savings will likely outweigh costs for targeted measures

440-650 MNOK reduction in net cost relative to status quo



Negative effect on some users in rural areas

- Negative effect on immobile/elderly citizens in rural areas
  - Difficulties to access existing alternative service offerings
- 2 critical services in rural areas w/o alternative networks
  - Delivery of newspapers to non-digital citizens
  - Urgent delivery of medicines to elderly and disabled citizens
- Limited number of vulnerable users

The full report is available online

Hyperlinks:

Main report

http://publications.europa.eu/publication/manifestation_identifier/PUB_ET0318267ENN

Country fiches

http://publications.europa.eu/publication/manifestation_identifier/PUB_ET0318268ENN

Q&A


THANK YOU!