8TH ANNUAL COPENHAGEN ECONOMICS POSTAL & DELIVERY CONFERENCE 2022

THANK YOU

Thank you once again for your participation in the annual Copenhagen Economics Postal and Delivery Conference 2022!

For the eighth year in a row, Copenhagen Economics brought together representatives from industry, regulators and other policy makers to dive into the most pressing topics in the postal and delivery sector in an event that afforded a unique chance to reconnect and strengthen networks with leaders in the field.

Returning to a physical setting after two years of virtual conferences, this year's conference saw some 70 people come together from 23 countries around the world for insightful and informative discussions on topics such as changes in the competitive landscape, future regulation, challenges of transformation, and vertical and horisontal collaboration to foster environmental sustainability in the postal and delivery sector.

As promised, we hereby share a summary of the conference with you.

Please let us know how you felt the conference went and what topics you would like to see investigated in next years event by filling out the very brief survey here or by contacting us directly.

Once again, thank you for a wonderful event: we sincerely hope that you enjoyed the proceedings and that you will join us again next year.

LIST OF SPEAKERS

SESSION 1: Changes in the competitive landscape: New business models, new players in the last mile, coopetition across the delivery value chain
Brian Palmer
Head of Public Policy, EU Last Mile, Amazon

- **Henrik Theil**
  Senior consultant, Danish Chamber of Commerce/ Digital Commerce
- **Łukasz Turczyński,**
  Strategic Global Account Sales Director, InPost
- **Sandro Mendonça**
  Member of the Executive Board, ANACOM

SESSION 2: The future of the USO and the role of the state in postal and delivery markets

- **Tanya Harrington**
  Chief Regulatory Affairs Office, An Post
- **Petros Galides**
  ERGP Chair (2023) and Deputy Commissioner, OCECPR
- **Tuija Åkerman**
  VP Consumer Services and International Affairs, Posti Finland
- **Lucy Eyre**
  Economic Principal, OFCOM

Executive viewpoints: Challenges and opportunities of transformation in the postal and delivery sector

- **Peter Kjær Jensen**
  CEO, PostNord Denmark
- **Dr Ghassan R. Khalifa**
  Chief Strategy & Transformation Officer, Saudi Post – SPL
- **Andreas Thöni**
- EVP Group Strategy, Digital & Innovation, Österreichische Post

SESSION 3: Progressing e-commerce delivery value-chain sustainability via horizontal and vertical agreements

- **Elena Fernandez-Rodríguez**
  Deputy Director International Affairs and Sustainability, Correos & Chair, European Union Affairs Committee, PostEurop
- **Gero Furchheim**
  President, bevh & Speaker of the Board, Cairo AG
- **Pauline Kuipers**
  Partner, Bird&Bird

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Changes in the competitive landscape: new business models, new players in the last mile, coopetition across the delivery value chain industry

In recent years, the already growing e-commerce trend has been further accelerated by the global pandemic. As a result, consumers have become more demanding with respect to parcel delivery, and new players have entered the delivery market, often focussing their activities on selected parts of the traditional postal delivery value chain. These developments have created an increasingly dynamic and complex competitive landscape for e-commerce and parcel delivery.

In our first panel session, we discussed what the key market developments are and what they imply for e-commerce players, delivery operators and regulators. The following are the take-aways from our panel:

Covid and climate focus have raised expectations on e-commerce and delivery drastically

Competition in online retail has traditionally been focused on providing a wide selection of products, low prices and trust. Though these are still important competition parameters, more have been added. In particular, convenience and predictability of deliveries are important competition parameters for online retailers, and thereby also for providers of delivery services.

Compared to only a few years ago, consumers expect faster, more flexible and predictable delivery of products bought online. This means next day (in some cases even same day) delivery to a preferred location (e.g. at home, to the office, to a specific parcel locker) and full traceability of deliveries. Several of our panellists argued that should online retail fail to match the characteristics of brick-and-mortar retail in terms of selection, convenience, reliability, speed and trust, consumers will not continue to buy online to the extent observed during the pandemic.

Another parameter which has become a top priority for investors (and for many consumers) is environmental sustainability. However, although a large share of consumers claim to value environmental sustainability highly when buying online, the willingness to pay more, or wait longer, for a more sustainable delivery option still seems to be limited.

Retailers' competitive concerns relate to 'free' delivery, sustainable packaging, and offering different delivery options

To stay competitive, online retailers need to adapt to the changing consumer preferences. In terms of logistics, this means that e-retailers are taking steps to:

- Bring products closer to the customers to ensure efficiency, sustainability and speed.
- Ensure efficient and immediate dispatch of products from warehouses to live up to expectations regarding delivery speed.
- Partner with providers who can offer environmentally sustainable solutions.
- Partner with several different delivery providers to cater for different customer preferences.

The gap between stated and actual consumer preferences for environmental sustainability, however, creates challenges for both retailers and delivery operators who want to improve environmental sustainability while still remaining competitive in the market.

Coopetition and entry of new, innovative players create both benefits and challenges

The booming e-commerce market has resulted in new types of players emerging in the delivery market. These players include, large online platforms, specialised log tech companies, and local instant delivery providers, among others.

Our panellists all agreed that the emergence of new players contributes to faster innovation, a greater push towards environmental sustainability, development of user-oriented solutions, and more choice for users in general. At the same time, however, this development also challenges the status quo of postal sector regulation.

Challenges mentioned in our discussion include difficulties for regulators in determining which new operators should be considered postal service providers (requiring a license or authorisation) and to what extent they should be subject to monitoring/regulation. New labour models was another area highlighted as creating potential challenges to the competitive landscape and which likely will be the subject of increased attention in coming years.

The future of the USO and the role of the State in postal and delivery markets

The current EU postal services directive was put in place during a time when the main business for postal universal service providers was delivery of letter mail. As the importance of letter mail communication is declining throughout the world, and postal operators instead compete intensely with a variety of service providers in the market for parcel delivery, operators and regulators across Europe are starting to question the adequacy of the current regulatory framework.

In our second panel session, we discussed how postal regulation at EU and national level would have to change to account for changes in the market. Here are key take-aways from our panel.

Changes in the postal landscape require more flexible postal regulation
Despite a general trend of e-substitution and a move to digital communication, postal operators' readiness for changes in the USO varies significantly. Whereas some postal operators experience that the current regulatory framework unduly constrains them from adapting the business to changing user needs, others do not experience the same need to adjust service levels.

To avoid disproportionate increases in USO net costs and claims for financial compensation, it is therefore important to permit regulatory requirements to be relaxed and allow for national, or even regional, flexibility. One question discussed by the panellists was if a one-size-fits all approach in terms of standard minimum regulatory requirements at EU level still is a suitable way forward bearing in mind the minimum level would have to be very low to accommodate for Member States with low letter mail volumes per capita. One potential risk with such an approach mentioned in the discussion was increased uncertainty and the possibility that it would leave too much room for undue derogations in service levels.

Future postal regulation cannot ignore the impact on sustainability
Several panellists noted that the future regulatory framework need to address the link between regulatory requirements and environmental and social sustainability. For example, the environmental implications for maintaining a requirement to deliver mail five days per week were called into question. Similarly, the need to ensure appropriate social conditions for postal and delivery industry workers was highlighted as an important question going forward.

Is the focus of the USO shifting from communications needs to safeguarding economic inclusion across communities?
The postal USO has traditionally focussed on ensuring access to basic letter mail and parcel delivery services. As user needs have developed with more focus on e-commerce, this calls into question whether the future postal USO should have a larger focus on enabling small e-commerce businesses in remote or even rural areas.

All panellists seemed to agree that the fundamental principle when evaluating the need for regulatory intervention should be whether the market itself fulfils the identified basic need. Future regulation must therefore consider what should be considered basic needs, or essential services, going forward, and what type of regulatory intervention (if any) would be needed to ensure proper functioning and development of competition in the market. In this context, it is important to:

- Distinguish between what users want and what actually constitutes reasonable user needs.
- Identify actual market failures that need to be tackled by regulatory intervention.

Source: Postal operators' annual reports, Eurostat population data

Progressing e-commerce delivery value chain sustainability via horizontal and vertical agreements

Global warming is a fact. As significant contributors to carbon emissions, online retailers and delivery operators worldwide have committed to reduce their carbon footprint. This is a challenging task in a world where the amount of products bought online, and thereby the number of parcels requiring transport from retailers to their customers, continues to increase year by year.

In our third panel session, we discussed opportunities and challenges for delivery operators and online retailers when trying to progress environmental sustainability in delivery. Here are the take-aways from our panel.

Everyone calls for environmental sustainability, but who is willing to pay?
According to standard economic theory, sufficient demand and willingness to pay for a certain service will make it attractive for suppliers to provide the specific service in question. Hence, if consumers and/or retailers demonstrate sufficient willingness to pay for more sustainable delivery solutions, companies will compete to provide these solutions.

However, finding sufficient willingness to pay for sustainable delivery solutions seems to be a challenge. The participants in session 3 reiterated the concern that, though consumers are requesting sustainable delivery solutions, willingness to pay for these options is not growing at the same rate. The same observations also hold true for retailers. In fact, fierce competition amongst retailers on parameters other than sustainability sometimes leads to adverse effects on the environment. One such example mentioned were retailers who offer free delivery above a certain consumption threshold – thereby incentivising customers to buy more and return a quantity of the products bought.

In situations like this where the positive externalities of consuming more sustainable delivery solutions are not accounted for in users' willingness to pay, there might be a need to move from "customer-centric" to "planet-centric" thinking. This can be done through regulatory intervention or by allowing increased collaboration between market players.

Competition regulation should not be an excuse for not progressing the sustainability agenda
Collaboration might be necessary to foster progression of environmentally sustainable solutions. The main reason for this is the perceived first mover disadvantage of sustainable innovation, i.e. the fear that other companies will learn from the first-mover's mistakes and then do it better/at lower cost.

Under competition law, companies can (and often *should*) be nervous about making horizontal agreements with their competitors, because they don't want to engage in anything that could be construed as "cartel activity". However, there are still several opportunities for making agreements to enhance sustainability in the industry.

Three such opportunities are as follows:

- Agreements with companies that cannot be deemed actual or potential competitors.
- Agreements with competitors that do not restrict competition.
- Agreements that can be defended due to the benefit of efficiency gains to the consumer.

Competition law should thus not be used as an excuse to refrain from progressing towards more sustainable solutions. Still, companies considered to be dominant need to be extra careful, and state-owned companies need to pay attention to state aid rules.

Core questions to consider

- Where in the e-commerce delivery chain is the willingness to pay for sustainable delivery options?
- Which changes should be driven by regulators and which should be left to market forces?
- To what extent are existing/potential agreements to progress sustainability in line with competition law?

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Postal and delivery markets worldwide are changing rapidly. Market liberalisation, increasing e-commerce and growing e-substitution have led to a new composition of items delivered by national postal operators and a resulted in a competitive setting where innovative business models are competing with traditional ones.

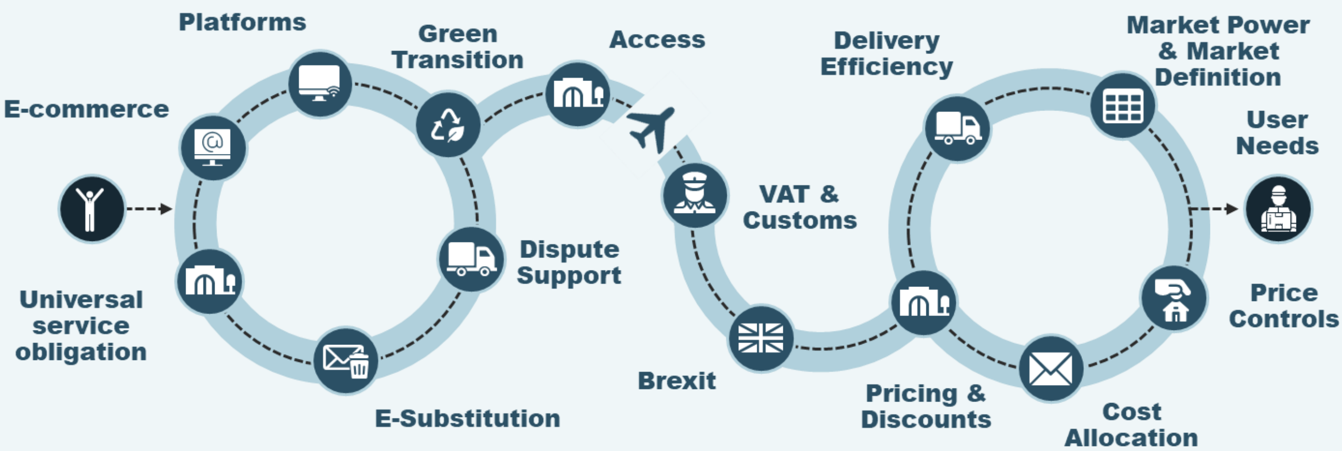
These developments create new opportunities for operators in postal and delivery markets, but they also create challenges – not only for operators, but for regulators and other policy makers too. Our postal & delivery team helps public and private sector clients worldwide to understand, predict and solve problems that occur in postal and delivery markets.

We help our clients with

Postal regulation and reform
- Regulatory design and impact assessment
- User needs and future USO
- Access regulation
- Terminal dues
- Calculation of USO net costs
- Cost allocation
- Tariff regulation
- Regulatory cases

Strategy & business performance
- E-commerce and parcel delivery
- Strategy and business models
- Pricing strategies
- Environmental sustainability

Competition issues and State aid
- Competition/antitrust cases and compliance work
- Anti-competitive discounts
- Relevant markets
- State aid issues



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