Dear all,

Two weeks ago we had the pleasure to host a vibrant discussion amongst leading decision makers and experts shaping the future of postal delivery and e-commerce economic policy (link to conference page and presentations). 15 speakers and 300+ attendees from six continents made this a success and we are very grateful for the interest and time dedicated.

The newsletter below shares more widely what was discussed at the conference, to benefit both as aide-memoire for those who did attend and also inform those who did not. To prepare this, my colleagues Anna, Henrik, Martina, Mindaugas and Stephanie (amongst others) have shared reflections and discussed together the major contributions that emerged at the conference, their implications for strategy and policy and the key questions on the table. We have structured these notes along the three themes covered at the conference, even as contributions from many speakers were, as is natural, cross-cutting.

1. Global questions on the functioning of postal markets – the evaluation of the Postal Services Directive in the EU and U.S. reform proposals.
2. The sectoral impact of Covid-19 measures – strategic developments and implications for society and economy.
3. The role of the State and State Aid in informing and supporting postal and delivery markets across Europe.

1. Global questions on the functioning of postal markets – the evaluation of the Postal Services Directive in the EU and U.S. reform proposals.

Change is coming, but what kind? While there is a consensus that the current regulatory frameworks in postal markets on both sides of the Atlantic require some adaptation, opinions vary with regards to the type of reform needed. One view from the regulatory camp favours building a new paradigm via a Greenfield approach, considering (a) a perspective of the market and competition, (b) a perspective of the user of postal services and (c) environmental changes and social responsibility. On the other hand, the industry viewpoint stresses that any regulatory reforms should only take as cornerstone the actual market situation and be centred around the type of postal services needed and appropriate for the future.

Rethinking sustainability of the universal service (provider). If stakeholders with an interest in postal services seek a level of service that cannot be paid for under the current business model, then changes need to be made to either create self-sufficiency or allow for greater taxpayer support. In fact, when surveyed, the majority of the conference participants stated that more than 50% of postal operators in Europe will receive some form of compensation from the State in the near future.

Flexibility is king. There was broad consensus between industry and policymakers that the EU regulatory framework should provide Member States and national regulators with sufficient flexibility to address national specificities. Indeed, the COVID-19 pandemic highlights even more the need for flexibility to reflect changing market developments and customer needs.

Additional regulation of parcels: quo vadis? There is strong debate whether there is a need for additional regulation of parcels. On the one hand, letter and parcel markets are different in many ways: operationally, economically and competitively. Are there any traditional market failures apparent in the 2020 parcels market in a way that justifies additional parcel regulation? On the other hand, there is ever increasing policy attention and interest in the functioning of parcel markets and the provision of essential services – as the e-commerce and delivery value chain connects a larger number of businesses and consumers across the EU. Hence, a key question is: do policy makers reckon that the market and the existing policy/enforcement frameworks are fit for purpose or is there a case for new forms of intervention?

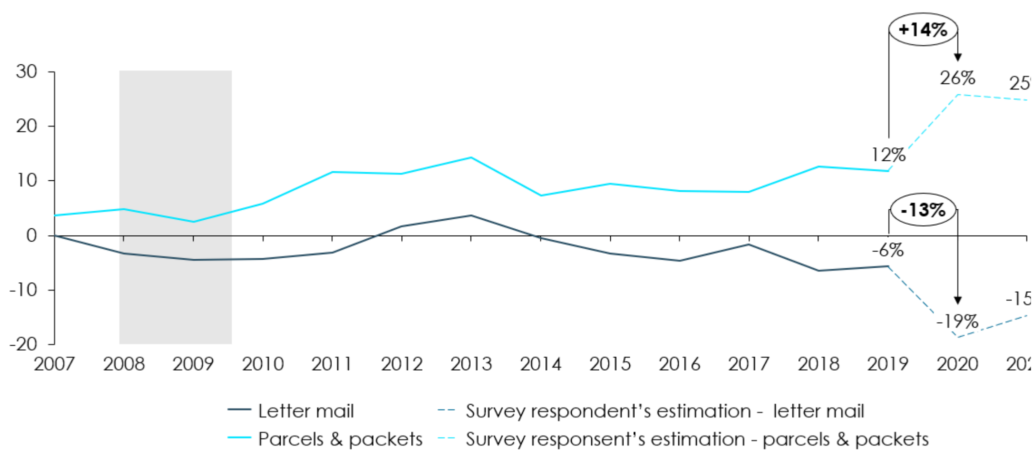
A post with a purpose. Finally, several of the speakers brought up, in different forms, the question about reappraising and clarifying the role of postal services. A still prominent question (perhaps left unanswered since the time of the last major postal reforms in the EU & US) is the following:. Do policy makers want postal operators focusing on serving society and delivering critical capacity in times of need, or do they want a merely profit maximising operator?

2. The sectoral impact of Covid-19 measures – strategic developments and implications for society and economy.

Does the increase in parcel demand compensate for the decline in letter post demand? The impact of Covid-19 measures on postal volumes is two-fold. On the one hand, the crisis has increased demand for e-commerce parcels and packets, as people started shopping more online during the lockdowns. On the other hand, the negative impact of the crisis on the economy has triggered a shift from physical to digital communication, decreasing demand for letter post services and accelerating letter volume decline. Our snap survey amongst postal sector stakeholders reports that:

- Parcel volumes will change by an (estimated) **additional +14%** in 2020 [above and beyond the trend increase expected pre-Covid19]
- Letter post volumes will change by an (estimated) **additional -13%** [above and beyond the trend decrease expected pre-Covid19]

Annual demand change for letters and parcels
Annual percentage change in demand (%)



Source: Copenhagen Economics April-May 2020 survey of forecasts; UPU

The devil is in the detail. At first impression these would appear as countervailing forces, yet:

- Different markets / countries can diverge substantially as to their specific business situation
- The relative size and positioning (and thus starting point) in letter and parcels businesses is key for the Covid-19 impacts
- Last, does one euro lost in the letter business have a comparable impact on profits as one euro gained in e-commerce parcels?

Is the impact of Covid-19 on postal volumes temporary? Covid-19 measures have changed habits of citizens and businesses across the globe. A number of experts, from sociologists to epidemiologists, have argued that changes are there to stay and we will adapt to a 'new normal'. The same question can be asked for the postal and delivery sector: are shifts in the demand for letters and parcels permanent? The answer has implications for postal regulation and the case for and framing of future support by the State to postal markets. Respondents to our survey reported the following as the most relevant elements that will be a greater priority for postal policy makers in the future:

- Ensuring parcel delivery;
- Flexible labour contracts;
- USO sustainability; and
- State aid.

The importance of the postal network in a pandemic. Since the beginning of the crisis, postal operators have proven to be suppliers of services that are essential to provide people with crucial goods and services and thus to keep the economy going. At the same time the postal sector is not immune from the negative impact of the Covid-19 measures on the economy (e.g. lower demand for services), raising the question about how to ensure a sustainable postal network in the future.

3. The role of the State and State Aid in informing and supporting postal and delivery markets across Europe.

Increasing importance of State Aid in the postal sector in recent years. Funding of postal operators' activities through State resources (primarily through compensation of the USO and other services of general economic interest, the provision of state guarantees and pension subsidies) has gained importance in recent years. Whereas the number of notifications to the European Commission of State Aid in the postal sector has increased, there is now also a higher prevalence of State Aid cases centred upon USO services. The Copenhagen Economics study of Main Developments in the Postal Sector 2013-2016, found that one out of three universal service providers in Europe had received financial support from the State in the 2013-2016 period – an increase compared to previous years. Cue to spring 2020: our snap survey of the 300+ conference participants (representing policy makers and industry experts from more than 40 countries), found a consolidated view (70% of participants) that more than half of European postal operators will receive State funding covering the year 2020.

The granting of State Aid is not always straight forward. Although structural changes in the market call for more financial support being granted to universal postal operators across Europe, the process of getting the aid approved by the European Commission is not always easy. Overcompensation and cross-subsidisation, separation of accounts, the application of the net avoided cost approach, the design and quantification of the counterfactual and the use of discounts are all examples of issues that may emerge throughout the Commission's assessment. There is also an increasing trend of complaints to the Commission from competing operators who fear that the financial support from the State will be used for anti-competitive cross-subsidisation in highly competitive market segments. This reflects the close and increased scrutiny on beneficiaries and governments granting financial support.

The need for postal sector State Aid is expected to accelerate due to COVID-19. So far, the COVID-19 pandemic has created an acceleration in mail volume declines in most postal markets. Whereas it remains to be seen to what extent this decline is of structural nature there is a general expectation in the postal community that the role of state funding will increase. Indeed, 83% of respondents to our pre-conference survey, run amongst our wide network of postal sector experts, stated that they believe that State aid will be at least as much of a regulatory focus in the future. In combination with the fact that the competition for public funds throughout the pandemic and in its aftermath will most likely be fierce in most countries, this calls for enhanced awareness and preparation by the parties involved in the process.

Best regards – available for any questions and looking forward to stay in touch
Bruno

Dr Bruno Basalisco
Managing Economist – Head of Digital Economy and Postal&Delivery services
Mobile: +45 5121 2004; bb@copenhageneconomics.com; Langebrogade 1, DK-1411, Copenhagen, Denmark

Copenhagen Economics CE
Hard facts. Clear stories
Offices in Brussels, Copenhagen, Helsinki, Stockholm