





UPU study identified 10 shocks to international postal volumes

- five of them are of regulatory nature

Covid-19 (Feb 2020)

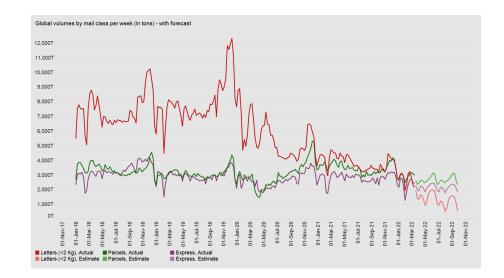
10_{Recession} risks (Jun 2022)

> Inflation pressures (Apr 2022)

Source: UPU "State of the Postal Sector 2023"

New TDs (Jul 2020)

Stop Act (Jan 2021)



Ukraine conflict (Feb 2022)

End of pandemic (Jan 2022)

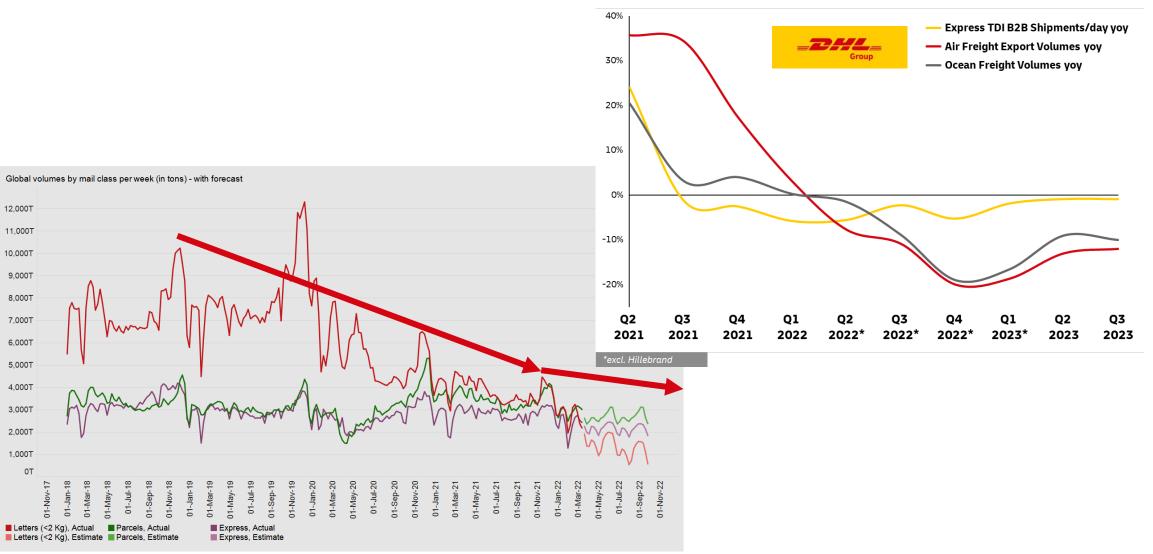








Shocks had a significant negative impact on international postal volumes, but have also to be viewed against similar volume indicators



Source: UPU "State of the Postal Sector 2023", DHL Group Q3/2023 Reporting



Regulatory constraints were triggers for a collapse of postal eCommerce imports from Asia into EU

Trigger

IOSS/ICS2:

Increased focus on Compliance

Market Surveillance Regulation:

Focus on counterfeits / low-quality goods

Union Customs Code, VAT rules:

Less freedom, more complexity and cost

Background

Questionable traders got delisted by marketplaces

Due to increased transparency and increased responsibilities as importer under IOSS, large marketplaces took unreliable or dubious sellers off their platform

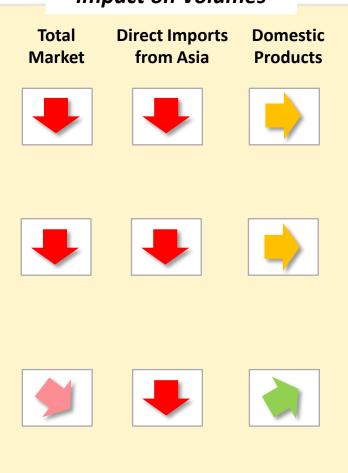
Transparency and execution of Intellectual Property Rights and quality rules

Due to EAD requirements, stricter product quality rules and more enforcement, many Asian products were kept away from the EU market

Abolition of De Minimis rule

Low-value goods became subject to Import VAT and electronic advance data, leading to increased complexity and costs for shipper, merchant, platform and finally the consumer

Impact on Volumes





New logistics models provided additional triggers for collapsing <u>postal</u> <u>cross-border</u> eCommerce imports from Asia into EU

Trigger

Consolidation of small items in larger boxes / "Motherbox"

Intra-EU Fulfillment

Refocussing of Asian platforms on Africa, LatAm or Asia

Background

Optimization of transport cost through item consolidation

Logistics- and Fulfillment providers consolidate multiple shipments to the same addressee in one larger shipment. Consolidation of multiple shipments for domestic processing.

E2E transit-times suffered from capacity bottlenecks

Due to lack of transport capacity during COVID, and amplified by regulatory changes, online platforms switched to intra-EU fulfillment models ("B2B2C")

Challenges in US / EU markets drove volumes to other regions

Given increased cost and complexity of shipping to EU, other international markets became comparatively more interesting

Impact on Volumes

impact on volumes	
Direct Import from Asia	Domestic Products
	Direct Import



Finally, aggressive development of cost, especially of UPU Terminal Dues, supported decline of <u>postal cross-border</u> eCommerce imports from Asia into EU

Impact on Volumes **Background** Trigger **Direct Import** Total **Domestic** Market from Asia **Products Decrease of competitiveness** Increase of Terminal Massive TD increase decided at UPU Geneva Congress 2019 led to **Dues for E-Formats** price hikes of Postal Operators, causing price-sensitive ("Packets") eCommerce platforms to look for commercial alternatives Many non-postal alternatives available in Germany Delivery Customers with significant packet volumes meet a highly Competition competitive delivery landscape in the EU and especially the German market Density and volume, plus airport location Since traditional long-haul China-Europe became very expensive, **Transport Competition** consolidators and logistics arms of online platforms optimised cross-border transit models incl. customs



Lessons learned, or: How to regain postal import volumes? ("to grow where possible")

Price

Terminal Dues and customer pricing based upon them must become more competitive

Quality

End-to-End transit times, reliability, and processes around customs clearance and customer service to be (significantly) improved

(Data) Compliance

Fully compliant and correct data-sets will support swift import processing and reduce costs



Back-up



Main effects of regulatory intervention: Decrease of traditional postal volumes, emergence of new value chains and shipping models

CN

Traditional UPU-based postal cross-border shipments

eCommerce senders ship with China Post, which hands them over to DOs in Europe

Acquisition of volumes by other postal operators @ source

European DOs start sales activities in China and acquire volumes directly from Chinese eCommerce senders → Better price and transit times

Acquisition of volumes by consolidators @ source

- Consolidators collect volumes from smaller senders in China, transport them commercially into EU, and hand over to DOs or alternative delivery networks
- Own infrastructure, sorting, transport, customs clearance and negotiations with delivery providers → Better price and transit times

Consolidators establish operations/hubs in the EU

- Consolidators establish EU subsidiaries, incl. warehousing, Fulfillment, sorting
- Access to intra-EU delivery operators DOs and alternative networks
- → Better price and transit times

EU

Consolidators decentralise ops/hubs within the EU

- Consolidators increasingly operate decentralised infrastructure
- Footprint in larger EU markets with domestic warehouses and subsidiaries
- Large volumes go domestic, cross-border only in smaller markets → Local player