The impact of regulation on postal import volumes

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UPU study identified 10 shocks to international postal volumes - five of them are of regulatory nature

1. Covid-19 (Feb 2020)
2. New TDs (Jul 2020)
3. Stop Act (Jan 2021)
4. Brexit (Jan 2021)
5. ICS2 R1 (Mar 2021)
6. EU VAT IOSS (Jul 2021)
7. End of pandemic (Jan 2022)
8. Ukraine conflict (Feb 2022)
9. Inflation pressures (Apr 2022)
10. Recession risks (Jun 2022)

Source: UPU „State of the Postal Sector 2023“

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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**

- **Total Market**
  - Direct Imports from Asia: Down
  - Domestic Products: Up

- **Market Direct Imports from Asia**
  - Direct Imports from Asia: Down

- **Impact of regulation on postal import volumes**
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New logistics models provided additional triggers for collapsing postal cross-border 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**

<table>
<thead>
<tr>
<th>Total Market</th>
<th>Direct Import from Asia</th>
<th>Domestic Products</th>
</tr>
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<tbody>
<tr>
<td>![Up Arrow]</td>
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Finally, aggressive development of cost, especially of UPU Terminal Dues, supported decline of postal cross-border eCommerce imports from Asia into EU

**Trigger**

- Increase of Terminal Dues for E-Formats ("Packets")

**Background**

- **Decrease of competitiveness**
  Massive TD increase decided at UPU Geneva Congress 2019 led to price hikes of Postal Operators, causing price-sensitive eCommerce platforms to look for commercial alternatives

- **Many non-postal alternatives available in Germany**
  Customers with significant packet volumes meet a highly 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, consolidators and logistics arms of online platforms optimised cross-border transit models incl. customs

**Impact on Volumes**

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<td>![Yellow Arrow]</td>
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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
Main effects of regulatory intervention: Decrease of traditional postal volumes, emergence of new value chains and shipping models

- 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

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<th>EU</th>
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<tr>
<td>Traditional UPU-based postal cross-border shipments</td>
<td>eCommerce senders ship with China Post, which hands them over to DOs in Europe</td>
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<tr>
<td>Acquisition of volumes by other postal operators @ source</td>
<td>European DOs start sales activities in China and acquire volumes directly from Chinese eCommerce senders → Better price and transit times</td>
</tr>
<tr>
<td>Acquisition of volumes by consolidators @ source</td>
<td>▪ 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</td>
</tr>
<tr>
<td>Consolidators establish operations/hubs in the EU</td>
<td>▪ Consolidators establish EU subsidiaries, incl. warehousing, Fulfillment, sorting ▪ Access to intra-EU delivery operators – DOs and alternative networks → Better price and transit times</td>
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