

REGULATION AND SUSTAINABILITY IN THE POSTAL SECTOR?

A GERMAN PERSPEKTIVE




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Group**

Our Sustainability Roadmap

We can't create a lasting positive impact unless we follow a clear strategy. That's why our roadmap to sustainability focuses on meeting three key commitments:

-  Clean operations for climate protection
-  Great company to work for all
-  Highly trusted company

And in addition to the above 3 commitments, we also aim to **create lasting impact** in the communities we operate in **through our Go Programs**

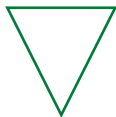


We continue to work on a **CO₂-free infrastructure** along our core business.



TRANSPORT

The majority of shipments **complete the line haul**, i.e. the route between two sorting centers



Alternative transport solutions



SORTING

Structural change from mail to parcel requires **more space and more real estate**

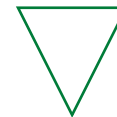


CO₂-neutral designed buildings



DELIVERY

Need for more **relief for city centers** and adaptation of delivery to development of shipment formats



Climate-friendly delivery concepts

Could be done more in the Postal Sector?

- What are aims and instruments of environmental policy?
- Could sector specific regulations be a vehicle to do environmental policy?
- Are the aims of environmental policy compatible with those of sector specific regulation?
- To what extent could regulation enhance sustainable behaviour?

Environmental and Regulatory Economics

- From an economic perspective non sustainable behaviour is a classical problem of market failure due to external effects
- Environmental economics mainly deal with the question of what are the instruments to induce sustainable behaviour. The focus often is impact, efficiency and practicability of the measures to be taken
- Sector specific regulation in the postal sector is the same but different
 - (supposed) market failure resulting in tariff regulation
 - merit goods, i.e. universal services

Environmental Policy: Aims and Instruments

Instrument	Aim	Incentives	Advantage	Drawback
Certificates	Reach a given level of emissions	Trade or abate	Given level of emissions	Monitoring, initial allocation of certificates unclear
Taxes on input or output	Internalising external effects (production/ consumption)	Pay for the damage	Generates income	What is the right tax?
Technology standards	Reduce emission in production	Avoid fine	Easy to implement	Less innovation, inefficient
Subsidise new technologies	Reduce emissions in production	Technology becomes more attractive	Easy to implement	Inefficient
Definition of emission caps	Reduce emissions in production	Avoid fine	Easy to implement, no adverse effects on innovation	Inefficient

First conclusion for sector specific regulation

- From an economic perspective instruments of environmental policy should be applied to avoid efficiency losses by market distortion
 - In terms of efficiency, environmental policy should not be regarded as a vehicle to impose further restrictions on the regulated firm
 - The measures to be taken have apply at least to all relevant market participants in the sector

- To take into account ecological aspects in sector specific regulation it is necessary to
 - identify conflicting goals
 - analyse where ecological criteria are relevant concerning the instruments of sector specific regulation
 - examine if sector specific regulations hinders sustainable behaviour and how you can remedy to that by setting

The German perspective: Aims of sector specific regulation (Art. 2 Postal Act)

- safeguard the **interests of customers** and to maintain postal secrecy;
- ensure equal-opportunity and **workable competition**, in rural as well as urban areas, in postal markets;
- ensure provision throughout the Federal Republic of Germany of **basic postal services** (universal service) at **affordable prices**;
- safeguard public safety interests
- meet social requirements.

Sector specific regulation and possibly conflicting goals

Aims of regulation according to Art. 2 Postal Act	Possibly adverse effects on environment
Foster equal-opportunity and workable competition	Adverse effects if economies of scale are large
Basic postal services at affordable prices	Additional adverse effects of production/consumption if obligation is binding
Safeguard of interests of consumers, public safety interests, social requirements	No apparent conflict

With the current USO in Germany options to avoid emissions are limited

Aspect	Obligation
Transit time	Letter mail: 80% D+1, 95% D+2 Parcel: 80% D+2
Frequency	Letter mail: every working day
Point of delivery	Residence or business premises (doorstep)
Density of network	<ul style="list-style-type: none">• retail outlets within a maximum 2,000 m radius• letter boxes accessible within a maximum 1,000 m radius minimum number of retail outlets: 12,000
Affordability	Letter mail: Real prices since 1998 Parcels: Costs

Limited Options for

- Alternative means of transport
- route optimisation
- climate friendly delivery concepts

The well known adverse effects of tariff regulation may also hinder climate protection

Aspect	Postal Law	Adverse Effects	Impact
Procedure	Price-Cap Ex ante approval Review	Inflexibility Uncertainty	New ecological services are harder to implement
Benchmark	Efficient costs plus neutral expenses (e.g. for USO) incl. appropriate gains	<ul style="list-style-type: none">• Efficiency of new technology unclear• Benchmark does not take risk into account	Less investment in sustainable production if costs cannot be reversed

The impact of network access on sustainable production is unclear

- Avoid duplication of infrastructure, but
 - As a means to foster regional competition, network access does not avoid the duplication of infrastructure
 - Incentive for low cost supplier to enter the market for some parts of the value chain

Conclusion

- The aims of sector specific regulation are sometimes in conflict with environmental aims
- One has to balance carefully possible trade offs especially with regard to universal services and the aim of workable competition
- Environmental aspects can be taken into consideration even within the existing regulatory framework
- Further incentive for environmentally friendly behaviour have to be designed carefully as to avoid further market distortion
- E.g. new services could be exempt from regulation under certain circumstances
- It must be ensured that the additional risk of investing in clean operations is taken into account in the benchmark for “appropriate gains”

THANK YOU

New Sustainability Roadmap: Ambitious CO₂ reduction goals until 2030.

- We are investing at least **7 billion EURO by 2030** to reduce our carbon footprint below 29 million metric tons by 2030.* We are acting as part of the Science-Based Targets (SBT) initiative.
- All divisions contribute to the targeted CO₂ reduction - significant contribution through reduction of emissions from aviation.

* In our CO₂ emissions in 2020 were 33 million tons; given the expected growth in logistics, this would amount to around 46 million tons by 2030 without further measures.

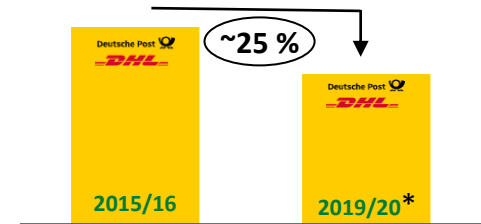


Post & Paket Deutschland has been working on environmentally friendly solutions for years and is a pioneer in Germany.

- Today, we have an annual footprint of around **1.3 million tons** of CO₂ (TtW¹) - we have been able to keep this constant in recent years despite increasing shipment volumes
- CO₂ emissions per package have been reduced by 25% since 2015/16, are now estimated to be on average at least 30% lower CO₂ emissions per package than the competition.
- With **GoGreen**, we have been offering **CO₂-compensated mail and parcel products** since 2007. Unavoidable CO₂ emissions are offset by certified climate protection projects.

¹ Tank-to-Wheel; entspricht rd. 1,7 Mio. Tonnen CO₂ Well-to-Wheel (WtW)

CO₂ emissions per package in comparison



TRANSPORT: For a climate-friendly line haul

On the rail

- Primary energy consumption of the rail system is very low with effective track routing
- Share of parcels transported by rail at 6% today
- Medium term: tripling of the share
- Long-term target: up to 20 % of all parcels by rail



On the road

- Short term: Use of lighter and more efficient transport equipment (e.g., light pallets) for small-format shipments.
- Use of biofuels (especially bio-CNG)
- Long-term use of alternative drive systems and fuels (e.g. hydrogen trucks)
- Use of other vehicle models (e.g. long trucks)



TARGET: TRANSPORT UP TO 20 % OF ALL PARCELS BY RAIL.

DELIVERY: Expand climate-friendly last mile delivery.

E-Vehicles



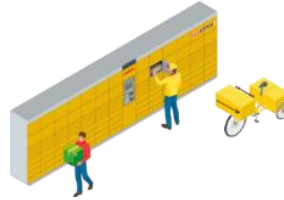
- Parcel and compound delivery
- Beginning of 2021: 15.000 e-vehicles
- Target 2022: 21.500, 2025: 37.000 e-vehicles
- Parallel expansion of charging points (today: 20.000)

E-Trikes/E-Bikes

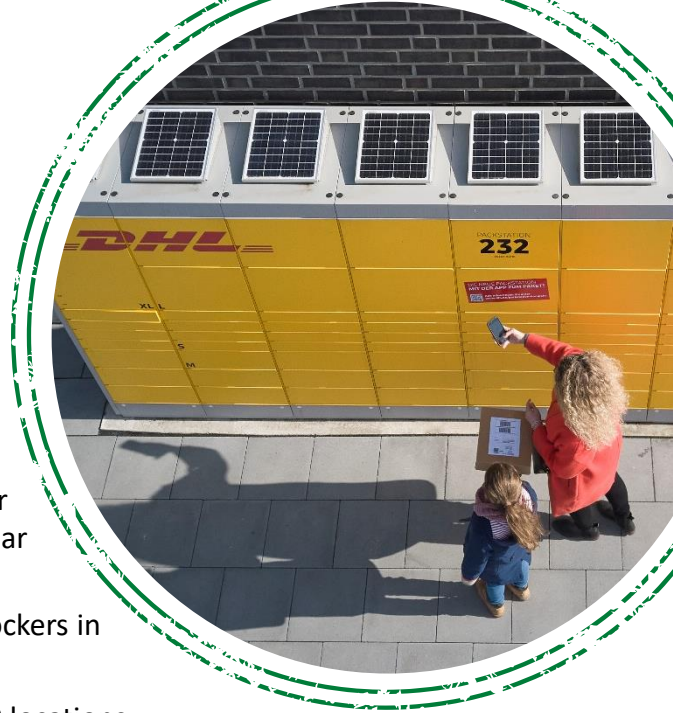


- Mail delivery incl. small-format, goods-carrying items (today: up to 2 mn. per week)
- Beginning of 2021: 8.000 e-Bikes und 9.000 e-Trikes
- Target 2025: total 14.000 e-Trikes

Parcel lockers



- Newer lockers cover their own energy needs via solar panels
- Currently: 8.000 parcel lockers in Germany
- Until 2023: About 15.000 locations
- 30 % CO2 savings in the last mile with direct shipping to the parcel locker compared with doorstep delivery



TARGET 2025: CO2-FREE DELIVERY IN 70% OF OUR DELIVERY DISTRICTS.