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PostEurop's Input to the Prospective Postal Study – Comments on 5 scenarios

1. Introduction

PostEurop welcomes the opportunity to contribute to the design of future scenarios for the Postal sector.

As a background for this contribution, PostEurop's Members would like to recall their previous positions and contributions to ERGP public consultations as well as their position on the **Evaluation Report of the Postal Services Directive**, which are recent and still very valid to reflect their approach towards the revision of the postal framework and the different scenarios posed by RPA and RAND Europe. In addition, to better understand the contribution of the PostEurop members, we invite you to have a look at our "**Sustainability Vision**", which reflects the economic, social and environmental impact of postal operators in Europe.

Furthermore, we would like to express our willingness to contribute to the study process and the need to take into account the views and experiences of national postal operators as a critical infrastructure and most importantly, as the only stakeholders assuring the implementation of the Universal Postal Services around the EU/EEA.

Within the EU context, PostEurop represents the 27 national postal operators of EU Member States, as well as of the 3 EFTA EEA members. Its members are committed to supporting and developing a sustainable and competitive European postal market accessible to all customers and ensuring a modern and affordable universal service.

The postal sector is a labour-intensive industry with more than 1,1 million workers in the EU dedicating almost 60% of their workforce to delivery. In a context of market dynamics, increasing competition and the challenges arising from geopolitical developments, increasing energy costs and inflation, postal operators keep playing an instrumental role by developing new products and services while heavily investing on limiting their environmental footprint.

In the scenarios, there is a lot of attention for the expected impact of a changing environmental context. Although we agree that this impact is significant, we do want to highlight that the main challenge we see for our sector in the future, is to guarantee the sustainability of the Universal Service when letter volumes are continuously declining.

When looking at environmental performance, it should be kept in mind that USPs are front runners in the green transition and they have been investing in green technologies for more than a decade now. Their commitment towards a low emission value chain have led them to heavily invest on fleet decarbonization. Thus, currently in the EU, more than 60.000 vehicles from national postal operators are powered by alternative fuels, of which more than 30.000 vehicles are fully electric. In addition, more than 170.000 postal employees deliver on foot and 100.000 by bikes or e-bikes, therefore, with zero emissions.

In terms of energy efficiency, 60% of USPs produce renewable energy for self-consumption and 77% of the energy used by them also comes from renewable sources. Finally, when looking at their operations, they have integrated the principles of circular economy and they have been offering for many years now a wide range of sustainable products.

2. Study objective

Consultants have identified 14 critical factors and 5 different possible scenarios. Within this context:

Postal operators play in a dual scenario, with different trends for letter and parcel segments: On the one hand, they face a declining letter market, with continuously shrinking mail volumes in a segment that relies on economies of scale; this urges universal service providers (USPs) to keep adapting their business models to ensure an affordable and high-quality universal service. Due to its decline, the letter mail segment has naturally become a highly concentrated market, where new entrants do not find incentives to invest and therefore, trying to promote competition will not generate new postal demand.

On the other hand, the parcel segment is highly competitive as postal operators compete among themselves, as well as with parcel integrators, vertically integrated online platforms and other new business models such as on-demand delivery players.

When drafting scenarios, it is important to understand this double dimension and how the postal value chain functions. This means that what could be plausible in a scenario for the parcel market, would be very unlikely in the letter market and vice versa. Within a European context, with ageing population in many countries, increasing inequalities and different development levels in terms of access to digital means and e-government, the physical network provided by national postal operators is likely to increase its social relevance, as we have experienced during the Covid crisis, where USPs delivery networks were considered an essential infrastructure.

PostEurop would like to stress that the 5 different scenarios proposed so far are not mutually exclusive but indeed, may exist in parallel, and for some of them, we are already experiencing today the identified “future trends”. In the following pages we will describe some considerations that need to be considered in the way forward. However, as a general remark, we would like to point out that in several scenarios there is an assumption on the lack of need to designate a USO provider in the future. This consideration is not consistent with the current status of the EU postal market or the expected future developments, and while there are recent experiences with non-designation, they must be assessed carefully to avoid hasty preliminary conclusions at this stage.

3. Scenarios

Scenario 1 – New Normal (baseline)

“Policymakers, citizens and the postal sector aspire to progressive growth and innovation, but global mega risks and technical challenges mean change across national postal sectors is incremental at most.”

Though we could somewhat agree with the description above, we have several considerations on the different topics addressed.

Universal postal service

- Indeed, postal operators have been warning of the increase of unit costs in the letter market due to volumes decline and the need to assure the sustainability of the USO. The European Commission has consistently acknowledged the importance of the USO and its increasing cost. Therefore, one of the key policy objectives for this sector should be to ensure long-term sustainability of USPs considering the dramatic drop of mail volumes. In this scenario, flexibility in legislation is key to enable USPs to adapt to market developments and user needs, and balance them with social and economic cohesion policy objectives, to which the physical network of national postal operators (workforce and infrastructure) remains a key asset.

- Despite the increasing unit costs of USO provision, due to the specificities of EU countries, we observe no trend towards a regional consolidation of operators. We believe this assumption for the future is unlikely, as there is only one current example of merged postal providers which affects only two countries, making it difficult to speak of a “regional” integration trend, neither today nor in the future.
- In a “new normal” scenario we see lack of evidence to introduce even as a plausible possibility that in a small number of MS there will not be a USP designation. Though specifically recognized as a possibility in the current Directive, economies of scale, uniformity, and integrity of the network make the option to leave the USO provision to market forces difficult and doubtfully cost effective. Moreover, the social impact of a non USP designation has to be taken into account, as there is a high risk that in a context of growing urban concentration, non-designated postal operators continue “cherry picking” (operating only in profitable areas) and therefore, market forces cannot adequately service rural, isolated or vulnerable users. Also, it is highly unlikely that in the case of non-designating the USO, the market will be able to provide these services more efficiently than the USPs currently do.

Internal postal market

- The principle of **affordability** as stated in article 12 of the Directive, makes it impossible to consider letter mail as a “niche premium” service when included in the USO. We acknowledge that letter mail usage may continue a downward trend in the future (at different speeds depending on the country), but we think it is highly unlikely that letters will become a luxury service, provided that we still see a justified need for keeping letter mail within the USO, and therefore, guaranteeing its affordability.
- Lately we are observing a decrease of the parcel volumes coming from third countries by the global postal network (UPU), due mainly to European regulation (ICS2 and VAT) and increasing competition. This does not mean volumes of goods imported from third countries are decreasing, but they are moving to alternative channels, such as cargo and intra-EU warehousing, where a competitive advantage is found. Moreover, there is no current evidence that sustainability concerns, linked to higher emissions, are impacting the consumer final decision to buy products from third countries, as price advantage is still the key decision driver. Though consumers tend to show an increasing concern for sustainable deliveries, according to the most recent IPC Cross-border e-commerce survey, 87% of consumers were unlikely to pay extra for a sustainable delivery.

Harmonized regulatory principles

- Given the diversity in the EU the Postal Directive recognizes the principle of subsidiarity that necessarily leads to a diversity of USO approaches by the Member States while respecting the key objectives of the Directive.

Other remarks on the narrative

- **Postal sector in phase of integration and “co-opetition”**: Specially after the liberalization and more significantly with the increase of e-commerce, postal operators have been “co-opeting” among themselves for decades, this is not a future trend, but an existing one. When referring to e-retail platforms and new market entrants there is also a dual relation as clients (USPs are usually delivery providers for platforms) and competitors, as platforms are increasingly building their own domestic delivery networks.

This scenario also suggests that in the future, doorstep deliveries will be “a niche premium service where non-designated providers gain market share”. There is already a wide range of parcel lockers networks owned by operators, platforms and independent providers. While we recognize the potential of smart letter boxes and deliveries to parcel lockers and pick-up points to keep evolving in the future, we find this suggestion too general and

opposed to current and future expected trends, with many EU countries showing strong preferences towards doorstep delivery versus out of home alternatives. Home delivery is expected to remain the preferred option for most on-line shoppers, especially in the new normality with increased teleworking. There is however an increasing solution that already allows changes of address in real time, or choosing the exact day of delivery or a specific delivery window.

- **“Vulnerable citizens” needs** and the digital divide is already increasing the need for more proximity services and probably, for the definition of new Services of General Interest. Within this context, the role of the postal infrastructure as a **guarantee of social and economic cohesion** will remain essential, and synergies between postal infrastructure and services to citizens may become even more relevant in the future. Indeed, postal operators’ role as “one stop shop” for proximity services will probably require updated skills for postal staff in the future.

Scenario 2 – Poly-crises escalate (challenge wild-card)

“Fracturing of the climate, markets and sociopolitical order put pressure on postal demand and operations from many angles.”

PostEurop believes that some part of the worst-case scenario is already somewhat underway and it is gearing toward the new normal.

Universal postal service

- As discussed in the narrative of the scenario provided by the consultants, harsh economic conditions will lead to rising unit operational costs. In the past decade, the digitalization of society, the pandemic and the difficult economic conditions due to the hardest world energy crisis in the past forty years (leading to two years of very high inflation and shrinking disposable real income) and difficult geopolitical situation (Arab Spring, Syria, Ukraine, Israel, terrorism in capital cities like Madrid, Paris and Brussels) have led to increases in the cost of transportation and at the same time a dramatic drop in volumes in a sector highly dependent on economies of scale. Furthermore, the fracturing of the climate and growing national or regional disasters is also already underway, the wildfires, the floods and the extreme weather conditions have already impacted many European countries.

Internal postal market

- **PostEurop believes that the narrative does not sufficiently recognize the role that postal operators are already playing in time of crisis (pandemic, natural, refugee) and that will be eventually continued during the Wild Card scenario.**

Due to its nature, a Postal service (ubiquity of service, only infrastructure in contact with all the citizens, you can opt-out from other services but not from postal services) is a crucial infrastructure and the Covid **pandemic has shown** that the wild card happens. During Covid, postal services were in many countries often the only physical network running and it was used for different purposes (e.g. delivery of medicines, delivery of vaccines, homedelivery of cash and goods for elderly and sick people).

During **natural disasters**, such as wildfires, operators even outside Europe such as Australia Post have provided services of mobile banks and redirection of mail and parcels. Similarly, during earthquakes some postal operators have used mobile post offices connected with satellite to provide basic services in heavily damaged areas.

In recent years, Europe has experienced two **major refugees’ crisis** one after the Syrian crisis where millions of people have been forced to move and have reached Europe and the second one after the outbreak of the war in Ukraine. In the first one, the postal network has played an important role in communicating with the refugees while in the second one

a major drive to cooperate between European postal operators has guaranteed the seamless network and postal operators have cooperated to guarantee mail and parcels from and to Ukraine.

- Furthermore, it should be underlined that Postal operators **are already playing a role in the transition from physical to digital**. Thus, they can play a relevant role in case of resurgence in physical communication as an auxiliary communication network when digital communications are down.
- Finally, it is important to draw the attention to the fact that a lot of postal operators have diversified their business strategy beyond mail, they have become regional or global logistic players and/or regional or global courier express operators, and/or players in the digital world (e.g. digital identity) and in the telecommunication sector (fix, mobile, fibre) and/or major players in domestic financial and insurance services. This diversification strategies have made postal operators more prone to be impacted by extreme scenarios but at the same time it has given an **enhanced role beyond the delivery of mail**.

Scenario 3 – Platforms drive technological revolution

“Data-rich multinational tech platforms grow in size and scope, moving sideways into postal value chains. Government and postal operators follow suit to develop their own innovations.”

This scenario will likely become true to some extent; however, the further descriptions of this scenario require some clarifying remarks:

Universal postal service

- It is undisputable that, due to increased digitalization and continuing technological advancements, letter volume decline will continue and further accelerate in the coming 10-20 years. Some letters, however, will remain, such as letters for special occasions (birthday cards, invitations, elections, etc.) but also letters as a means of secure or special (post for the sight-impaired) communication.
- Today’s USPs will not only not be left behind, but will play a significant role in the future postal market, especially in the market for parcel delivery, both business-to-consumer and consumer-to-business. They will adapt to become parcel service providers which also carry letters instead of letter service providers also carrying parcels.
- It is unlikely that platforms will take over significant parts of the parcel delivery markets. While it can already be observed today that platforms operate continent-wide warehousing and logistics systems, efficient final-customer delivery requires large volumes resulting from the consolidations of items from different senders. This will remain the core-competency of specialized parcel delivery services. Where platforms do compete directly with USP parcel delivery, it is important that policy regulation ensures that the level playing field is always guaranteed.

Internal postal market

- Postal service providers do not know what is inside a parcel, but they have great knowledge and data on the total flow of postal items., Therefore, traditional postal operators will have an advantage compared to platforms in creating an efficient postal delivery network structure.
- Thus, in 10-20 years’ time, parcel delivery markets will continue to be competitive and USPs will still play an important role in these markets.
- It is true already today and will remain true in the coming decades that business-to-business, business-to-consumer, and consumer-to-business parcel flows between Member States (and from outside the EU) are strong.

- Parcels sent by consumers form only a small part of the overall market (<10 %). Even if a “blossoming shared economy” would develop, it is unlikely that the share of C2X parcel in the total market volume will rise to a significant extent.

Harmonized regulatory principles

- Postal service providers are continuously developing and adapting to new technical standards in a pace that is difficult for regulators to follow. We have however in recent years seen an increase in red tape resulting from regulatory oversight. The costs of compliance are therefore consistently increasing and putting even more pressure on the USO. Regarding policy options: reducing the administrative burden could be of great impact in ensuring the reliability, affordability and (financial) sustainability of the Universal Service.

Scenario 4 – Post-carbon discipline

“Environmental concerns render zero-digit and negative economic growth palatable, resulting in step changes in regulation, logistics, consumer norms and products.”

Universal postal service

- PostEurop and its members place sustainability at the core of their actions and are fully aligned with the EU objectives of achieving a significant reduction of Greenhouse gas (GHG) emissions by 2030 and to become climate-neutral by mid-century, with special emphasis on reducing emissions generated by buildings and transport activities.
- For the delivery of letters, many of the USPs are already delivering these on foot or by bike, or with the use of light electric vehicles. Most operators already have emission reduction targets in place, and integrating sustainability in all aspects of our operations, has been the baseline for years.
- At the same time, we see adaptations to the USO service levels and frequency of deliveries being made. Which is not due solely to the costs of the green transition, but primarily due to the drop in letter volumes leading to higher costs per postal item, in combination with increases in costs (including increased costs of the green transition), which in turn generate a net cost for the USP to be compensated.
- We do see a rise in C2C services due to increasing demand in *recommerce*¹ and C2C parcel delivery is in most countries part of the USO.
- An increase in *recommerce* activities, which also comes from new legislative obligations on sellers and producers to organise take-backs of their products when they are at the end of their life-cycle, is also providing opportunities for USPs. PostEurop members are already implementing waste management models and prioritising the circular economy in their operations.

Internal postal market

- We strongly believe that increased attention for the environmental impact of consumption might indeed increase. As USPs are well on their way to deliver these services in the (near) future in a carbon-neutral manner, we do not agree with the scenarios that B2B and B2C volumes will decrease strongly because of this. Business and households will always be in need of supplies and by using technology to optimise route planning and pooling rate of vehicles allowing to reduce the number of kilometres travelled, USPs are in the best position to deliver while reducing their environmental impact.
- We have recently seen a drop in volume flows from non-EU countries. Not because consumers demand for these products has decreased (to the contrary), but due to

¹ “Recommerce” is the selling of previously owned items through online marketplaces to buyers who reuse, recycle or resell them.

regulatory interventions like the abolishment of the VAT-de minimis threshold. These interventions merely shifted the import of these products from postal operators to freight operators.

Harmonised regulatory principles

- All USPs are currently working hard on implementing increased monitoring obligations stemming from new legislation like the Corporate Sustainability Reporting Directive (CSRD). Increased transparency and comparability of USPs sustainability efforts like reducing CO2 emission will become reality in the next few years.
- The risk for the sector is not that there will not be enough transparency and reporting on sustainability efforts, but that different Member States will set up their own reporting and transparency obligations on top of existing EU obligations.
- *“Steep rises in consumer-to-consumer parcel volumes place a strong focus on postal user safety and security, as dark web products, unsafe home-made goods, and 3-D printed take advantage of the cover the high volumes of sharing economy items provide. Novel taxation regimes for the informal economy and C2C goods also require checks – overall parcel delivery providers are expected to provide substantial evidence to regulators on their compliance.”* With regard to the paragraph, checking the safety of goods implies being aware of the content of a sent good. The secrecy of letters is an important cornerstone of the reputation and trustworthiness of UPS services. Checking content of parcels of letters, can never become the responsibility of USPs. Not only because this conflicts with the obligation to maintain secrecy of letters but mainly because assessing conformity or compliance of goods is and will be a task well beyond the capabilities and responsibilities of USPs.

Other remarks on the narrative

- We have already experienced unprecedented climate events (as well as a pandemic) in the last few years where the sector has proven its agility, and flexibility to adapt its networks to changing and unforeseen circumstances.

Scenario 5 – Public value innovations

“The successes of Europe’s Digital Decade lead to a new era of socially valuable innovations across the public sector, and State-supported postal providers. The growth of eCommerce platforms and other multinational tech companies is capped by regulations and consumer mistrust.”

Universal service postal service

- The scenario assumes that the designated operators will have to invest massively in **reskilling their workforce** in the light of technological developments. We agree with this. Today, reskilling is already a priority for postal operators, which are facing an evolution in their core business. Historically, postal networks were designed to transport mail. With the decline in letter volumes, the growth of parcels and the digitalization, the job of the mailman (and the entire postal chain) is no longer the same. We refer to the EC-funded project “Postal Skills and Work Environment in the Digital Era”² which investigated in 2022 the evolving relationships between digital transformation, new skills and work environments. In a Joint Declaration, postal employers and unions formalized the common vision of the European social partners on the impact of digitalisation on training and the work environment.

² PostEurop, Uni Post & Logistics and Cesi sign a Joint Declaration on Training and Work Environment in the Digital Transition: <https://www.posteurop.org/showNews?selectedEventId=44731>

- The scenario 5 foresees that operators will **modernise their activities** and that **reliable, high-quality services will be key** to remaining active in the market. This is in fact what postal operators have been working on for many years: massive investment in modernising their infrastructures and in new technologies (such as new sorting centres to cope with the increase in the volume of parcels and the decrease in letters), reorganisation of distribution models, massive investment in a more sustainable fleet of vehicles, and so on.
- We do not agree with the assumption that the **designation of USO postal operators** should be replaced by calls for tender or left to the market in order to avoid a net cost or poorly performing designated operators. The main purpose of the USO is to guarantee a basic postal service, especially for mail, the volume of which is in irreversible decline. To date there is no evidence showing that a tendering system or a system left to the market would offer a better service to citizens at minimal cost as mentioned earlier, such hypothesis should be carefully analysed. In general, the principle of subsidiarity should allow each Member State to define the level of USO in its country, taking into account the needs of users and the net cost potentially generated by the level of service required.

Internal postal market

- More **integration, shared technological systems and standards**. Postal operators are already integrating and interconnecting their networks on the basis of multilateral (UPU, IPC, etc.) or commercial agreements. Operators are also major contributors to the development of postal standards (in CEN), providing resources, knowledge and testing possibilities. Worldwide efforts to create and use common universal postal standards are set at UPU level³. This will continue, but we do not believe that the definition and coordination of standards should be regulated by the Postal Services Directive.
- With regard to the emergence of **transnational operators** in the letter mail segment, it is unlikely that this scenario would materialise, given the decline in volumes implying a lack of economic attractiveness and specific national characteristics, unlike the growing and very dynamic parcels sector.
- The scenario also assumes that the decline in mail is mainly due to **eGovernment**. But it should not be forgotten that enterprises, historically large mailers, are also massively digitising their communications. The rate of digitalisation of public services varies from one Member State to another. In some countries, eGovernment has become the norm, reminding us of the need for subsidiarity on the part of Member States in translating the USO into national law. However, it is questionable whether the assumption (explained in the scenario) of a "**minimum digital divide**" (3% of the population) in 2040 is realistic, given that according to Eurostat figures, 54% of EU citizens had basic or above basic digital skills in 2021⁴.
- [As discussed in the workshop, it is also questionable whether it is realistic to say that citizens will lose confidence and have less appetite in the future to use large platforms (potentially in favour of government applications), and that this would lead to a resurgence of C2C mail, which in any case represents a small fraction of the volumes handled by operators].

Harmonized regulatory principles

- Renewed **emphasis on advanced technology, social value and worker rights**⁵. These 3 elements are part of the daily reality of postal operators. As explained above, operators are investing and will have to continue to invest in new technologies and innovation, and will often continue to play a role of proximity and link between citizens and public services,

³ See also PostEurop Position on the Evaluation Report of the Postal Services Directive <https://www.posteurop.org/NeoDownload?docId=565710>

⁴ <https://ec.europa.eu/eurostat/web/interactive-publications/digitalisation-2023>

⁵ [PostEurop Sustainability Vision \(November 2022\)](#)

while ensuring that they offer quality jobs, in contrast to the precarious status found in particular in the “new economy” sector.

- In various Member States, postal operators play and will continue to play an essential role in providing **proximity services to citizens** and in helping to bridge the social and digital divide. Various postal operators have launched projects aimed at maintaining or offering (new) proximity services, particularly for more vulnerable citizens or in less densely populated areas. Examples include:
 - Poste Italiane: the Polis project which aims to achieve digital inclusion for all⁶;
 - La Poste France: mission to support digital use in the face of exclusion⁷;
 - Correos Spain: access to selected government services via post offices⁸;
- *“Postal regulators now have responsibilities for authorising access to shared data pools [...], integrated technology systems and monitoring environmental performance”*. With regards to this paragraph, as some of the European USPs are (fully) privatised listed companies, access to potentially business sensitive data by regulators should always be restricted and only when relevant and targeted, thoroughly justified and in line with the NRA’s mandate.

EU-policy solutions (valid in every scenario)

- **When looking at policy solutions, the diversity in Member States, markets and USPs needs to be taken into account.**
- **The focus of any future regulation should be on the sustainability of the Universal Service, a.o. by simplifying the state funding of net-costs.**
- **Increased flexibility on USO requirements will give USPs more possibilities to adapt their services to new market realities (decreased volumes, increased sustainability demands).**
- **On cross-border transit times the focus should shift towards reliability rather than speed, to allow consistency with nationally defined transit times while meeting user needs.**
- **Also funding of the green transition, investing in (charging) infrastructure, alternative fuels, new technologies, will be of vital importance to the sector.**
- **Additional administrative measures need to be avoided and as the costs and burden of regulatory oversight have continuously increased, a reduction of administrative burden related to the USO would be beneficial to the sustainability of the USO.**
- **Adding sectoral regulation (on environmental, labour or competition standards) should be avoided, particularly as horizontal legislation on all these topics already exists.**

⁶ <https://www.upu.int/en/news/2023/march/poste-italianes-polis-project-aims-to-achieve-digital-inclusion-for-all>

⁷ <https://www.lapostegroupe.com/fr/la-poste-2030-engagee-pour-vous>

⁸ <https://www.correos.es/es/es/particulares/para-el-ciudadano/tramites-con-la-administracion-publica/servicios-orve>