EXECUTIVE SUMMARY

Research for TRAN Committee – Postal services in the EU

KEY FINDINGS

- The EU postal and delivery sector is significant to the EU economy, yet not to be taken for granted, given the important transformations it is going through.

- Digitalisation has been dictating the main transformations of the postal sector in recent years, leading to a decrease in letter post volumes and an increase in e-commerce parcels.

- In response to the developments of the EU postal sector, postal operators have been innovating their business models and national postal regulations have changed substantially.

- To ensure that there is a viable postal operator going forward, the postal regulatory paradigm must be kept in sync with changing market realities, shifting the priority of policies from the promotion of competition to the sustainability of the sector, accounting for national market realities.

EU postal sector main developments

The postal and delivery sector is generating revenue of EUR 79 billion per year\(^1\) and employing around 1.7 million people across the EU\(^2\).

The present document is the executive summary of the study on Postal services in the EU. The full study, which is available in English can be downloaded at: [http://bit.ly/2rupi0O](http://bit.ly/2rupi0O)

\(^1\) Data for 2017.
\(^2\) Data for 2018.
At the same time, the postal industry is being disrupted by technological developments. Digital transformation is affecting the postal sector on two fronts. On one side, digital means of communication are replacing paper-based ones, decreasing the demand for letters. On the other side, the possibility of shopping online and getting goods delivered is increasing the demand for parcels and packets.

These contrasting pressures underpin different challenges for all stakeholders in the postal sector. Whereas letter volume decline has created challenges for the postal sector and continues to drive changes, the growing e-commerce industry creates new opportunities and demands for the postal sector to respond to and to minimise the negative impact of letter volume decline.

The competitive landscape of the EU postal sector is evolving as a consequence of the digital transformation. The letter segment is still highly concentrated, but is shrinking overall, as digital communication alternatives compete with letter post products.

The situation in the parcel segment is different: markets are fragmented, universal service providers’ (USPs’) shares of deliveries are relatively low, and new delivery players enter the parcel segment, challenging incumbents’ business models and profitability.

At the same time, more attention is paid to the impact of industries on the environment. The postal sector is an important stakeholder in driving carbon efficiency, although its net impact on the environment has not been appraised in a facts-based analytical manner.

In response to these developments and due to declining profitability, postal operators are in a phase of transformations. They increasingly provide new services and products and use new business models, including more efficient technologies, environmentally friendly ways of transportation, and new employment contracts.

In several instances, digital transformation has also called for substantial changes in postal regulation.

**EU postal sector policy debates and responses**

Market developments vary across countries and over the past decade we have seen three main trends in policy debates and responses in the various Member States and at the EU level.

*First*, the financial viability of the USPs comes under pressure because the growth in the parcel segment does not outweigh letter revenue decline for most of the USPs. The policy debate considers whether this requires a fundamental change in the prioritisation of policy objectives, and usually evolves in two stages. First, reduce the burden of the Universal Service Obligation (USO) by giving the USP more operational and/or pricing flexibility. Second, shift the prioritisation of the policy objectives from stimulating competition to the sustainability of the USO.

*Second*, changing user needs have challenged the role of the USO. The policy debate evolves around what the appropriate scope of state intervention in the postal sector is, questioning what the needs are that the market cannot meet, and whether there are any new needs that emerge.

*Third*, with the increase in cross-border e-commerce shipments, policy makers are debating whether and how to adapt regulatory frameworks to ensure an efficient cross-border parcel delivery. This policy debate considers international postal regulations and non-postal regulations impacting the postal sector, such as rules on transportation and customs procedures.

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1. The so-called “e-substitution”.
Challenges and opportunities for the EU postal sector

The transformations in the EU postal sector create challenges and opportunities. On the one hand, the EU postal sector faces many challenges that make it fragile:

- The sector is transforming at different pace in different Member States, making it challenging to regulate and not possible to apply a one-size-fits-all solution. At the same time, the needs of postal users are changing, questioning the scope of the USO.
- Changing the USO raises the challenge of how to safeguard consumers who might still need access to basic postal services and who should pay for it.
- The postal sector’s network is still made of people, as opposed to sectors such as telecoms, meaning that (1) if its sustainability is not viable it cannot be resold to a next buyer, and (2) it will be a challenge to shift the postal workforce to other jobs.
- Different delivery operators are subject to different rules and exemptions, such as customs, VAT, transport rules and State funding. At the same time, the EU postal sector faces pressures from outside the EU and from other sectors’ regulations, such as environmental targets and employment conditions, raising the challenge of creating a level playing field.

On the other hand, the EU postal sector can reap the opportunities that arise:

- The growing e-commerce increases the demand for packets and parcels delivery, representing an opportunity for postal operators to increase profits.
- The value of the USPs’ network and brand can be used to provide other commercial services, e.g. banking, and publicly-relevant services on behalf of the State, in a more efficient way than the State would itself.
- Finally, new operational technologies, e.g. robotics, can improve postal operators’ efficiency without sacrificing service quality.

Recommendations for EU postal policy makers

Based on the developments analysed, we propose three main recommendations for EU postal policy makers both at national and EU level.

First, provide flexibility to ensure a sustainable USO and define its role in light of changing user needs. Changing user needs and developments in the EU postal sector have an impact on the sustainability of the USO and challenge its role in the society. Furthermore, different Member States experience these developments and challenges at different pace. Some countries have displayed a steep letter volume decline and extensive e-government use, e.g. Denmark, while others have had a more stable letter post volume development, e.g. Germany.

Consequently, policies at EU level should provide flexibility for Member States to design postal policies at national level. These may include reviewing and reducing the scope of the USO where needed. Moreover, policies at EU and national level should provide more flexibility to USPs on how to provide and price the USO.

Furthermore, we expect that State aid rules will play an important role in securing the sustainability of universal postal services. In these regards, State aid rules should ensure a fast provision of funds, given the high pace of change of the postal sector, without harming competing non-USP operators.
Second, mind the impact on the environment and social conditions when designing postal policies. Postal policies can (i) be a driver of the environmental footprint and (ii) have an impact on social conditions. (i) USO requirements may increase the environmental impact per postal item if they require the USP to offer other services or structure its operations differently than it would have done absent the USO. (ii) Policies that promote competition as the main focus may encourage entry of players that offer poor conditions to their postal workers.

Consequently, the impact on the environment and social conditions should be considered and measured when designing postal policies.

Third, create an international level playing field for the EU postal and e-commerce sector. Beside EU and national postal regulations, the EU postal sector has to comply with global postal regulations and policies external to the postal sector. These policies might constrain the EU postal sector’s profitability and impact social welfare:

(i) Assessing the EU-wide impact of the significant reforms introduced to the UPU terminal dues system, as well as a future united position of EU Member States in the UPU is likely to bring a better understanding on how to protect EU consumers’ needs and provide a stronger negotiating position.

(ii) It should be ensured that any exemptions granted to USPs in transportation regulations, VAT, and customs procedures are economically justified and do not harm competing postal operators. Also, it is important to ensure that differences in national policies do not create unfair competition and degradation of social conditions within the EU.

(iii) It should be ensured that any regulations in related areas do not create barriers for innovation and development of new technologies and services.

Further information

This executive summary is available in the following languages: English, French, German, Italian and Spanish. The study, which is available in English, and the summaries can be downloaded at: http://bit.ly/2rupi0O

More information on Policy Department research for TRAN: https://research4committees.blog/tran/

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* Such as the Universal Postal Union (UPU) system for terminal dues.
* Such as transport and taxation regulations.