

## **Scenario 1: New normal (baseline scenario) – narrative description**

*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.*

Life is not perfect in Europe: **extreme weather events are increasingly common and intense**, social relations are somewhat strained, and most economies are feeling the squeeze. But communities, policymakers, and the postal sector, are making honest efforts to adapt in the interests of economic resilience and – to a degree – environmental sustainability.

The **postal sector is in a phase of heightened integration** and “co-opetition”, where multi-modal transport and sprawling parcel collection locker networks are collectively owned, pooled or shared by multiple delivery operators. In one region where political and cultural relationships are strong, and markets and infrastructure are similar, designated postal providers follow precedents in Northern Europe and consolidate into transnational regional providers. Cross-border parcel flows in this regional bloc are consistently high, a dynamic that is also aided by the strong performance of non-designated pan-European parcel network operators. Some smaller operators feel vulnerable, while others seek foreign direct investment from the Middle East and Asia to give themselves a financial buffer.

Multiple interconnected forces drive this dynamic. Europe is in the midst of a **cautious green transition**, where a consensus on the Green Deal is undermined by the short-term view taken by some Member States on the return on the investments it necessitates. Carbon taxes and urban air quality standards are stringent in some urban areas, leading to rising to-the-door delivery costs and prices. Electrification of postal fleets is the norm with many Member States outlawing the purchase of new diesel engine vehicles, and smart letter boxes and “bus delivery models” (where batches of parcels are delivered to fixed networks of locker hubs) take the place of to-the-door home delivery in some highly-congested European “mega-cities”. Out-of-home delivery is not limited to these hubs, with small proximity retailers, workplaces and metro stations now commonly offering parcel service points, too.

Competitors in adjacent markets eat into parcel service revenues of Universal Service Providers: beyond the privately-owned express courier delivery services, powerful online retailers developing delivery capabilities, logistics and transport operators importing in bulk from outside the EU, and consumer-to-consumer delivery gig work also claim parts of the market. Costs of regulatory compliance, higher insurance premiums, energy costs, investments in cyber-resilience, and fierce competition to access limited cloud computing resources for AI-driven activities collectively add up to create financial pressures. Some Member State USPs took early steps to transform postal networks from letter-centric to parcel-centric systems, but in other regions where net costs are high providers are still grappling with this knotty transition.

Parcel flows between business and consumers within Europe are alive and well, however. DIY maker communities and anti-consumption “degrowth” movements exist in small pockets, but **fast consumerism (and e-commerce) are still the norm** for most Europeans. Business-to-business parcel flows, reflecting a broader plateauing of growth in many Member states, are steady. **Intra-union trade is prioritised by European policymakers** in the interests of supply-chain resilience and sustainability, but the economies of scale and increasing global competition in manufacturing supply chains means imports, and parcels, from outside Europe are creeping upwards across much of Europe. Increasingly prolific manufacturing hubs in Central America and the Middle East complement established consumer goods supply chains in Northern and East Asia.

In contrast, **letter mail is more of a niche service segment** primarily provided by USPs who have de facto monopolies. Bulk to-consumer letters for marketing are negligible as hyper-personalised digital marketing dominates, with letters mostly used for a minority of people to communicate with each other. Analogous to vinyl records in decades gone by, the letter is seen as a novelty item rather than necessity for all but the most vulnerable, or as an added-value service for important legal documents. Tariffs and net unit costs are high, and deliveries shift from daily to weekly in some rural areas. Consumers actually do not want the letter to arrive too quickly– it’s all part of the nostalgic experience.

The numbers of **“vulnerable citizens”** **respective to postal services are incrementally increasing** these days with ageing populations (1 in 4 Europeans are over 65 now) and complexifying mental health burdens. This trend is softened in regions with higher GDP, digital literacy and “silver economies”, where retirees with substantial savings create significant demand for products such as smart home solutions, genomics-based “precision medicine”, and at-home assistive technologies. In many of those countries, USPs focus primarily on low-volume letter mail for the most vulnerable. Postal worker numbers for these providers are gradually declining across these regions. In Member States investing heavily in **public sector digitisation in efforts to catch up with digitally-advanced nations**, some providers assist with verification and on-boarding processes for national digital health platforms.

<b>The internal postal market</b>	Letters volumes are down across Europe, with letter mail predominantly seen as a small-volume premium service. Consumer parcel volumes within Member States are strong - and Business-to-Consumer parcel deliveries from third countries outside Europe are also high as manufacturing centres across South-East Asia and Central America compete with already-strong manufacturing hubs elsewhere to offer cheap global consumer goods. Traditional postal service providers capture an overall smaller part of the market for parcel delivery services as competitors across the value chain compete for markets.
<b>The universal postal service</b>	The net cost of financing the Universal Service Obligation (USO) is rising in many Member States in response to heightened unit operational costs. Elsewhere consumer service standards - including frequency of deliveries and postal network coverage and office opening hours - are gradually lowering across designated providers’ services to mitigate to the impacts of rising costs. USPs are designated across all Member states, but the scope of universal services they provide is on average narrower relative to the 2020s and 30s – in many regions USPs have de facto monopolies over what remains of the letter mail segment, and in others they hold relatively low shares of to-consumer parcel markets.
<b>Harmonised regulatory principles</b>	There are varied approaches to implementing the Postal Service Directive among Member States: Most broadly support some form of universal service, but its scope and methods to providing it diverge. The priorities and activities of postal regulators are similarly diverse, but a common strategic priority is ensuring sustainability and competition in the context of rising net costs for universal services. Modest progress is being made on the development of postal technologies and accompanying adoption of technical standards is incremental – standardisation more commonly happens within regional blocs, where intra-country postal networks are more integrated.

**Summary of potential developments under Scenario 1**

<b>Table1: Summary of potential developments by indicator - New normal (Scenario 1)</b>			
<b>Indicator group</b>	<b>Indicator</b>	<b>Potential developments</b>	
Demand	Volume delivered	Letters: Significant decline but some demand remains (small-volume premium service and	Parcels: Overall strong (intra-EU B2C strong, B2C from outside

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Indicator group	Indicator	Potential developments	
		vulnerable users). Bulk to-consumer letters for marketing purposes negligible.	Europe are also strong, B2B steady)
Environment	CO <sub>2</sub> emissions	The Green Deal targets leads to reduction in emissions, with electrification of fleets becoming the norm.	
	Local air pollution	Electrification of the fleet and more stringent air quality standards in many urban areas leads to reduced air pollution	
Employment	No. employed	USP: Declining numbers overall. To a small extent, pressures lessened by some USPs taking on secondary public functions.	Non-USP: Employment remains strong. There is some possibility of employment shifts from USPs to non-USPs.
	Quality of employment/ working conditions	Employment quality gradually declining. New employment models where USPs provide a range of public services.	
Coverage and access to services	Scope and features of USO in the Member States	Decrease in scope and features of USO through more and more derogations at the Member State level.	
	Access for consumers	Post office opening hours are gradually decreasing but new business models create extra drop-off and pick-up points with more flexible access	
	Access for business	Remains similar, B2B parcel flows remain steady.	
Quality of service	Quality of service (incl. delivery frequency and speed)	Letters: Delivery speeds reduced as demand falls. To-the-door delivery frequency reduced.	Parcels: Delivery speeds and frequency remain high, sometimes via novel drop-off and pick-up points
	Complaint handling (number of complaints)	Letters: No change to past trends	Parcels: No change to past trends
Affordability	Prices	Letters: Prices are likely to increase due to increased unit cost, reduced economies of scale, and general cost pressures	Parcels: Price developments unknown but innovative infrastructure sharing models may decrease prices.
User needs	User needs met?	Consumers: User needs are expected to change with letters becoming a niche service but the needs of vulnerable users are likely to remain. Parcel demand likely to remain	Businesses: Letters: reduced need. Parcels: Consumerism is likely to prevail.
	Vulnerable consumers	The numbers of vulnerable consumers are increasing due to population ageing and mental health burdens	
Costs	Net cost of USO and its sustainability	The net cost of USO is likely to increase due to increased unit costs, in particular for letters, although fewer letters and reduced scope of USO are likely to offset this development to some extent.	
Market competition	Shared infrastructure	Co-opetition: extensive sharing of infrastructure (warehouses, transport, parcel lockers), smart letter boxes and bus delivery models	
	Market concentration	Letters: Consolidation including at regional level, letters primarily delivered by USPs	Parcels: Consolidation at regional or European level, smaller market share for

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Indicator group	Indicator	Potential developments	
			traditional providers with companies in adjacent sectors (e.g. e-commerce) gaining market shares
Investment	Investment	Smaller operators need investment to adapt to changing circumstances. Some investment to be shared due to increased reliance on shared infrastructure	
Diversification	Diversification and vertical integration of USPs	Diversification into non-postal public services	
Revenues/profits	Revenues/profits	USP: Downward pressure	Non-USP: Increased revenues for non-traditional companies
Harmonisation	Harmonised regulatory provisions and standards	Overall, diversification of approaches between Member States but some harmonisation in some regional blocks.	

