

Understanding the Impact of the USO in the Postal Sector

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2nd European postal benchmarking workshop on regulatory and legal affairs

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Agenda

- The scope of the postal USO
 - Obligations for one single operator
 - Licensing conditions for all operators
- Effects of the USO
 - Direct effects on the costs and benefits of the USP
 - Indirect effects on the postal market
- USO costing and financing
 - The net cost of universal service obligations
 - The concept of the „unfair burden“
 - How to finance or adapt the USO?
- Conclusion

What Really Matters...

How to comply with the Third Postal Directive and the CERP guidelines

with respect to

- **the scope of USO?**
 - usual dimensions
- **calculating the net cost of the USO?**
 - difference in the USP's profit level w/ and w/o USO
 - no double counting
- **compensating the USP?**
 - in case there is an unfair burden

Scope of the USO

Current scope:

- Delivery on five days per week
- Specified service quality
- Accessibility to access points
- Affordable prices
- Uniform prices

Future scope?

Effects of the USO

Direct costs

- High number of post offices
- High area coverage
- Loss-making products

Indirect costs

- Non-competitive price-structure

Direct benefits

- Broad customer range
- Broad product range

Indirect benefits

- Brand loyalty

Intangible benefits

- VAT exemption?
- Economies of scale and scope?
- Ubiquity?

Determine revenues

USO Costing and Financing

“Where a Member State determines that the universal service obligations [...] entail a net cost [...] it may introduce:

- (a) a mechanism to compensate the undertaking(s) concerned from public funds; or
- (b) a mechanism for the sharing of the net cost of the universal service obligations between providers of services and/or users.”

Article 7 of the third postal EC Directive

What to do:

1. Calculate net cost
2. Determine unfair burden
3. Compensate USP / share net cost if needed

→ What is the net cost / reference scenario?

→ What is an unfair burden?

→ Is the net cost of the USO independent of its financing?

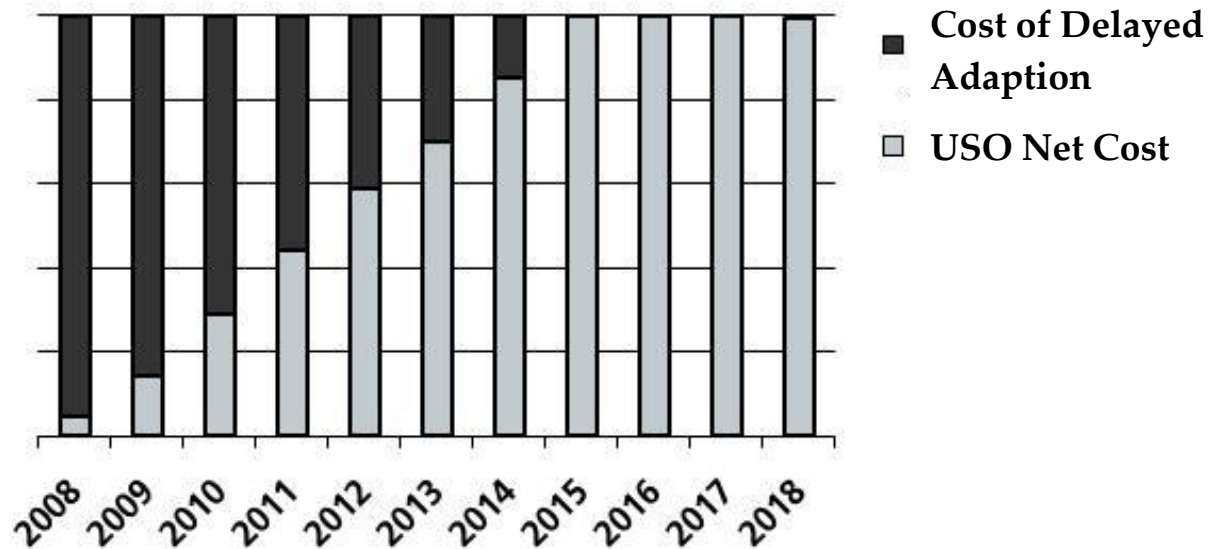
USO Costing and Financing

Determining the Reference Scenario

Market outcome without USO.

But: Which one is relevant:

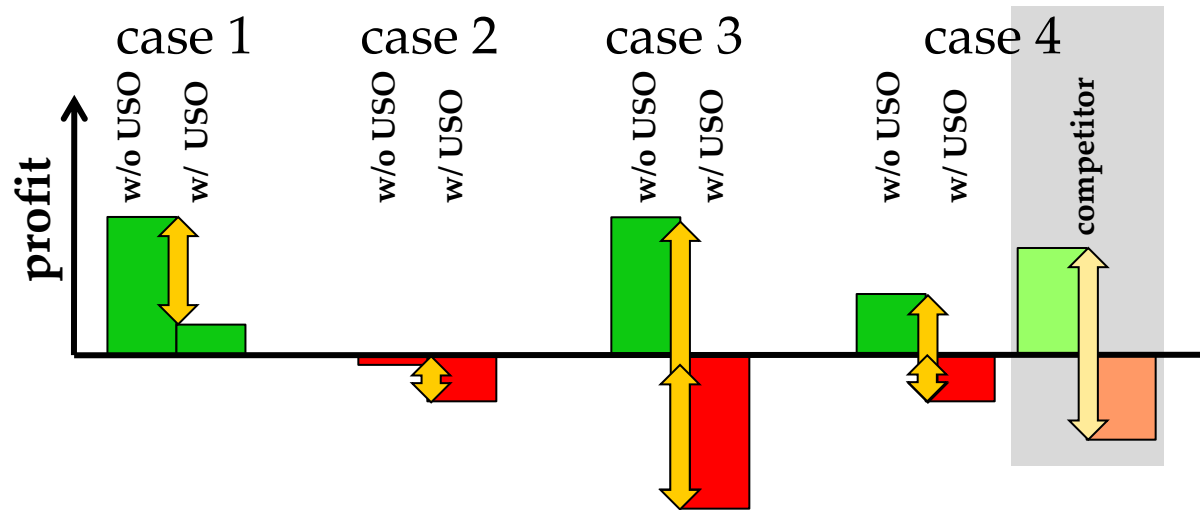
- Situation of the USP after full adaption to non-USO world?
- Situation of the USP during transition?



USO Costing and Financing

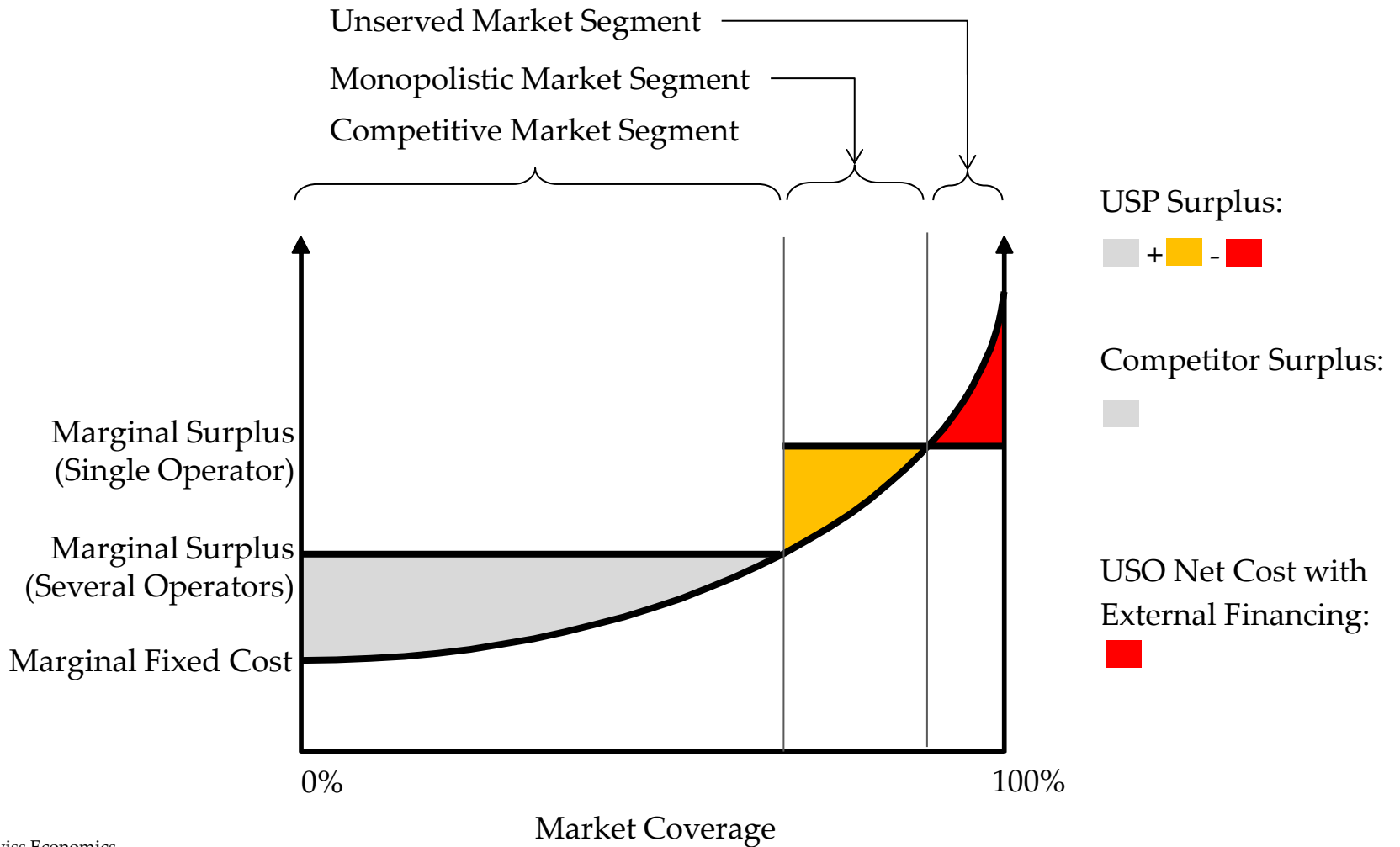
What Exactly is an „Unfair Burden“?

- CERP: Fundamental deviation from reference scenario, current service level must not exceed requirements of the USO.
- De Donder et al (2009): Market outcome with USO where USP does not break even.
- In which case is there an unfair burden?

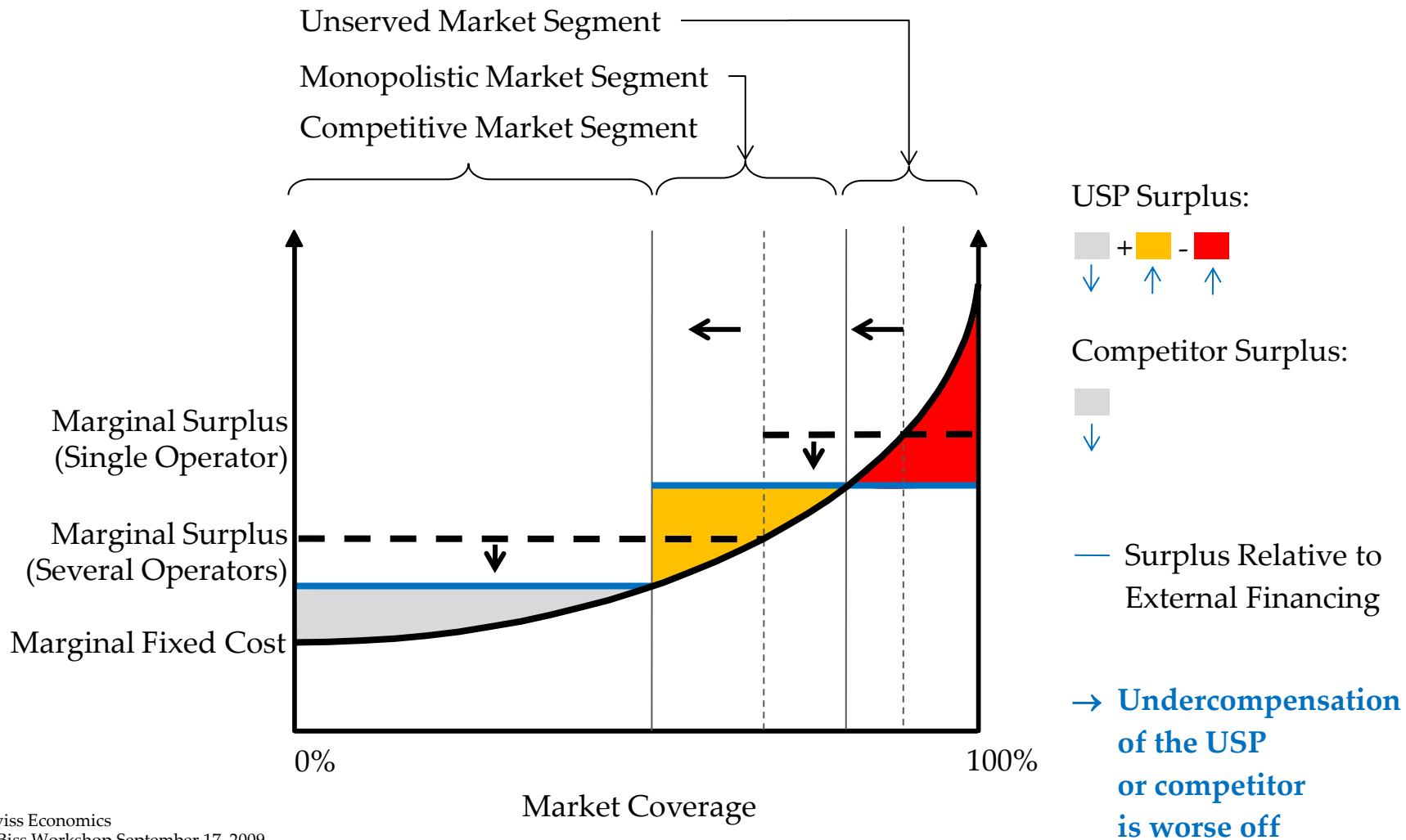


De Donder et al. (2009)	no	yes	yes	yes	!
CERP	yes	no	yes	yes	●

USO Costing and Financing Compensation from Public Funds



USO Costing and Financing Cost Sharing



USO Costing and Financing

Dealing with the Burden of the USO

There is no net cost (no binding restriction)

Adaptation of the USO,...

e.g. Sweden

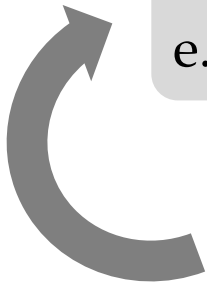
There is no unfair burden (NC borne by USP)

Licensing conditions for all operators,...

e.g. Belgium, Germany

External financing needed

Compensation / cost sharing,...



Adapting the USO Towards Electronic Delivery?

Printing The NYT Costs Twice As Much As Sending Every Subscriber A Free Kindle

Nicholas Carlson | Jan. 30, 2009, 4:35 PM | 121

Print

Tags: Media, Media, New York Times, Newspapers

Not that it's anything we think the New York Times Company should do, but we thought it was worth pointing out that it costs the Times about twice as much money to print and deliver the newspaper over a year as it would cost to send each of its subscribers a brand new Amazon Kindle instead.

Here's how we did the math:

According to the Times's Q308 10-Q, the company spends \$63 million per quarter on raw materials and \$148 million on wages and benefits. We've heard the wages and benefits for just the newsroom are about \$200 million per year.

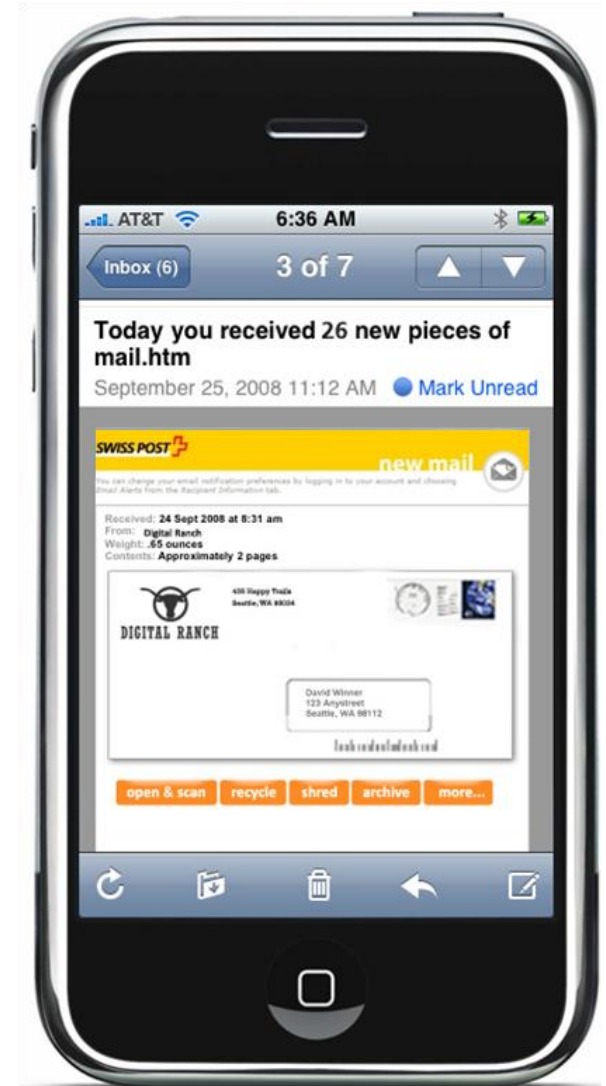
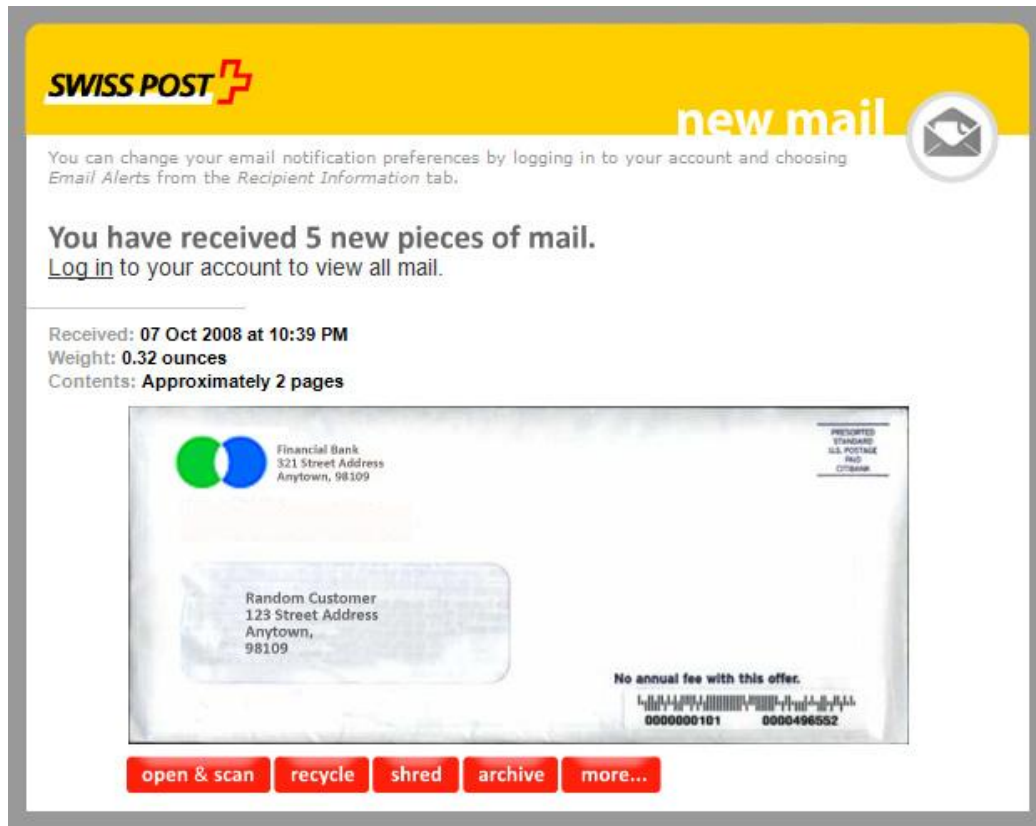
After multiplying the quarterly costs by four and subtracting that \$200 million out, a rough estimate for the *Times's* delivery costs would be \$644 million per year.



Source: businessinsider.com

Adapting the USO Swiss Post Box

The receiver has the choice to open & scan, recycle, archive, transfer securely or ship to a physical address.



Adapting the USO

It's all about choice



Mail received
on behalf of
customers



Envelope images are
immediately sent to
recipients



Users view their
mail online and
"click to process"



Scan
contents to
PDF file



Forward-ship
to another
location



Deliver to
employee's
desk



Deposit
check



Recycle
or
shred



Securely
archive
paper
original



Securely
archive
PDF

Conclusion

- In theory, there is no difference between theory and practice. In practice, there is:
 - What is part of the USO, what are „political constraints“?
 - What is the reference scenario?
 - What is an unfair burden?
- USO costing and financing is important:
 - Technical dimension
 - Political dimension
- In the long-run, developing the USO further may be even more important.

Thank you very much!

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