



Future of USO

Economic rationale for universal services and implications for a future-oriented definition of universal service obligations

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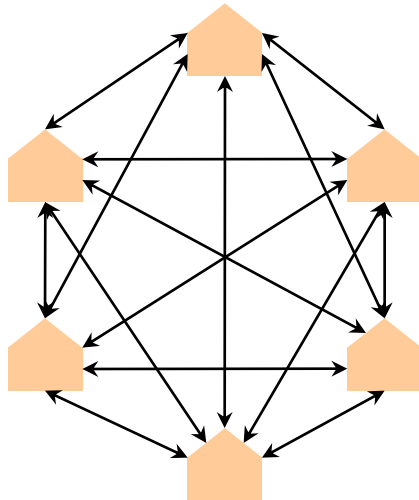
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Agenda

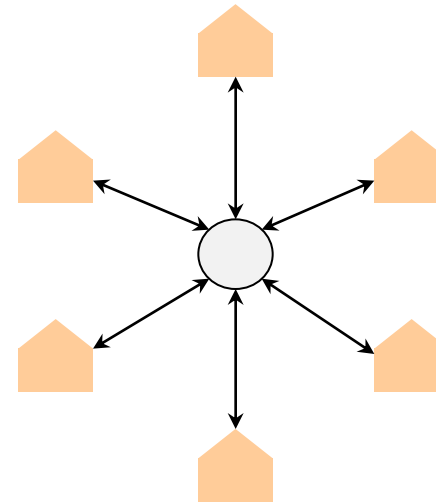
- Role of postal services
- Economic rationale of the USO
- Defining the USO in an electronic age
- Outline of a future-oriented USO
- Summary

Traditional role: Enabling through a reduction of transaction costs

Delivery without intermediary
Number of Links: $(n, 2) = 15$

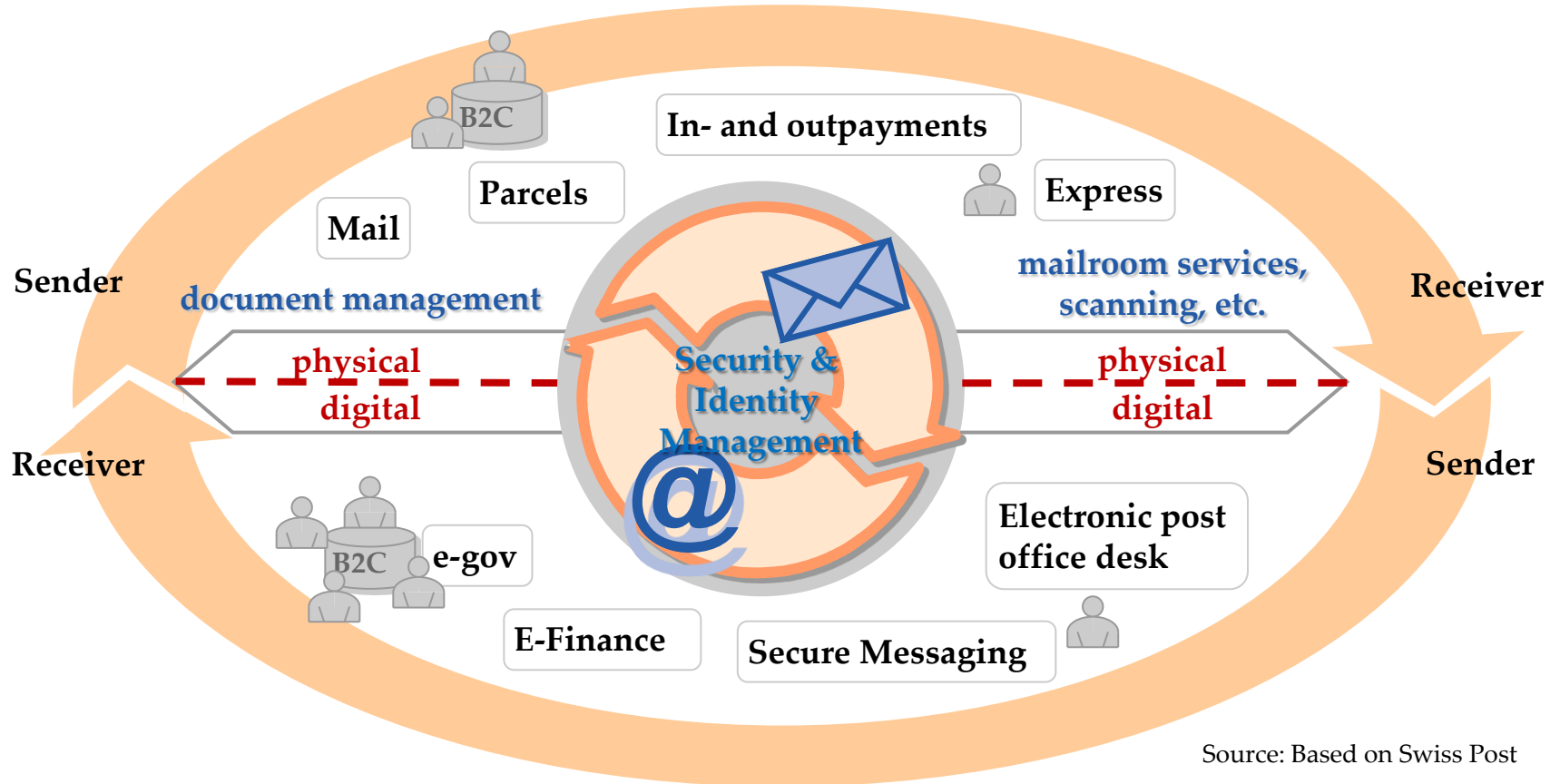


Delivery with intermediary
Number of Links: $(n, 1) = n = 6$



$$\lim_{n \rightarrow \infty} \left(\frac{\binom{n}{1}}{\binom{n}{2}} \right) = 0\%$$

More recent role: “Transformer of last resort”



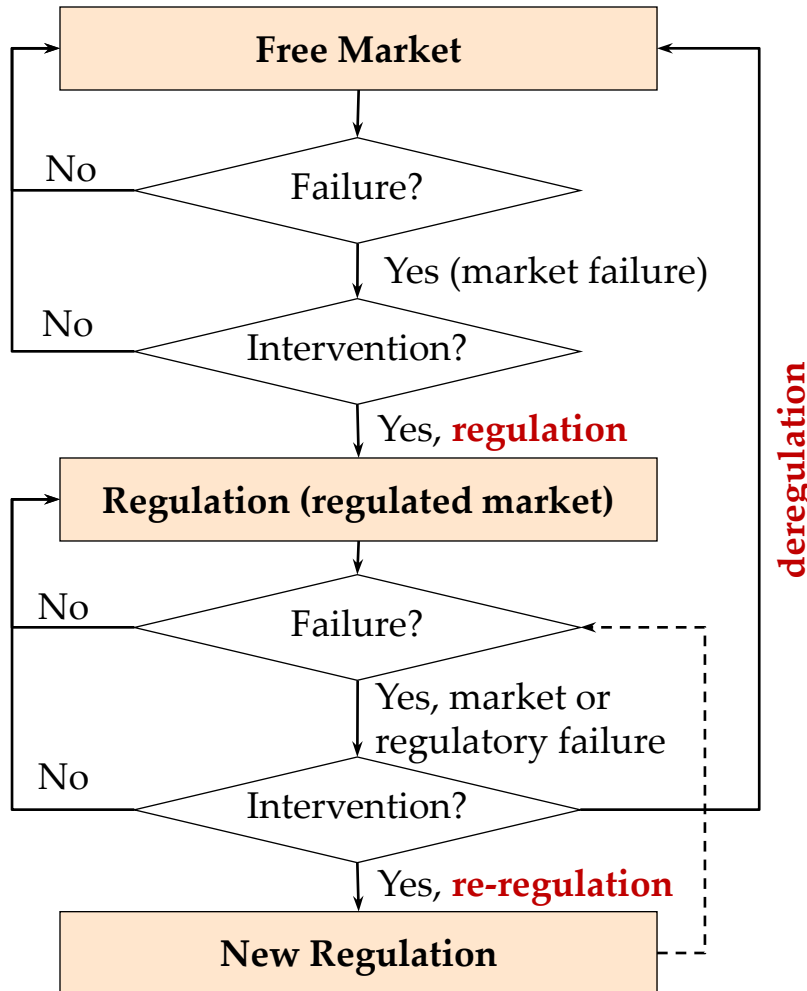
Source: Based on Swiss Post

Posts increasingly ensure the link between the physical and the digital world. They act like “transformers of last resort”, providing a physical insurance of digital means.

Social and competitive role

- **The social role...**
- **The competitive role** in fully or partly liberalized markets: USO...
 - moves away prices from the competitive equilibrium which may lead to a deadweight loss (Cremer et al., 2001);
 - may determine the business model of the largest player in the market and thereby change the market structure (cf. Dietl et al., 2011b);
 - requires a financing mechanism to compensate for the net cost of the USO, which may lead to over- or under-funding of the USP and change the profitability of competitors (cf. Jaag and Trinkner, 2011a).
- **Why USO?**
- **How USO in an electronic age?**

Why USO? Potential underpinnings



Potential USO foundation in this approach

If market perfect:

- 1) **USO regulations based on redistribution** → Uniform pricing

If market not perfect:

- 2) **USO regulations based on general market imperfections**
 - Asymmetric information / enforcing property rights
→ Ubiquity of registered mail
- 3) **USO regulations based on sector-specific market imperfections**
 - Externalities → Ubiquity, accessibility, scope, quality, pricing
 - Asymmetric information: → Quality
 - Transaction cost → Uniform pricing

USO in perfectly competitive markets: Redistribution

- first fundamental theorem of welfare economics:
no pareto improvement possible, no need for regulation
- second fundamental theorem of welfare economics: lump sum transfers to achieve different wealth distribution
 - Scope for redistribution through lump sum transfers
 - Cremer et al. (2001, 2008): **Uniform pricing** as a 2nd best redistributive policy

USO in imperfect markets – general market imperfections

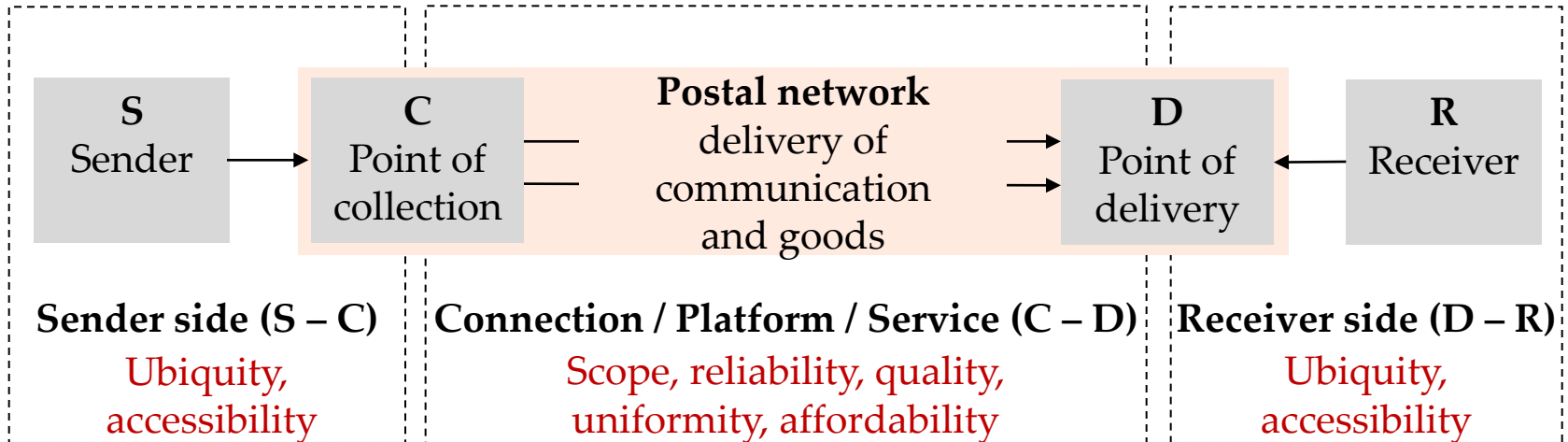
- Asymmetric information and incomplete contracts lead to a need to enforce property rights
- Important part of civil code and other law deals with the definition and enforcement of contracts
- Relevant for postal sector:
 - Role of physical and electronic signature
 - Role of registered mail
 - USO regulation might ensure **availability and ubiquity of registered mail service**

USO in imperfect markets – sector-specific imperfections

- **Postal market is two-sided** (e.g. Panzar, 2006, Cremer et al., 2008, Jaag and Trinkner, 2008)
 - Postal operators as platforms/intermediaries that link senders and recipients. The larger the recipient base, the greater are the business opportunities on the sender side and the more attractive are letters as a platform. Conversely, recipients may be more likely to empty their mailbox if they can expect a large sender base.
 - Issues:
 - Suboptimal coverage and quality might call for respective USO obligations in **ubiquity, accessibility and quality** (Cremer et al., 2008)
 - Importance of **free home delivery** and potential positive effect of **uniform pricing** (Jaag and Trinkner, 2008)
 - **Affordability** to ensure access of every sender
- **Postal network as a public/merit good** (Gori et al. 2002, Cremer et al. 2001, 2008) might justify certain **input regulations**
- **Hidden characteristics** of postal services and need for **external/regulated quality monitoring**
- Lowering of **transaction costs** through **uniform pricing** (C/K 1998)

Consequence of two-sided marketness

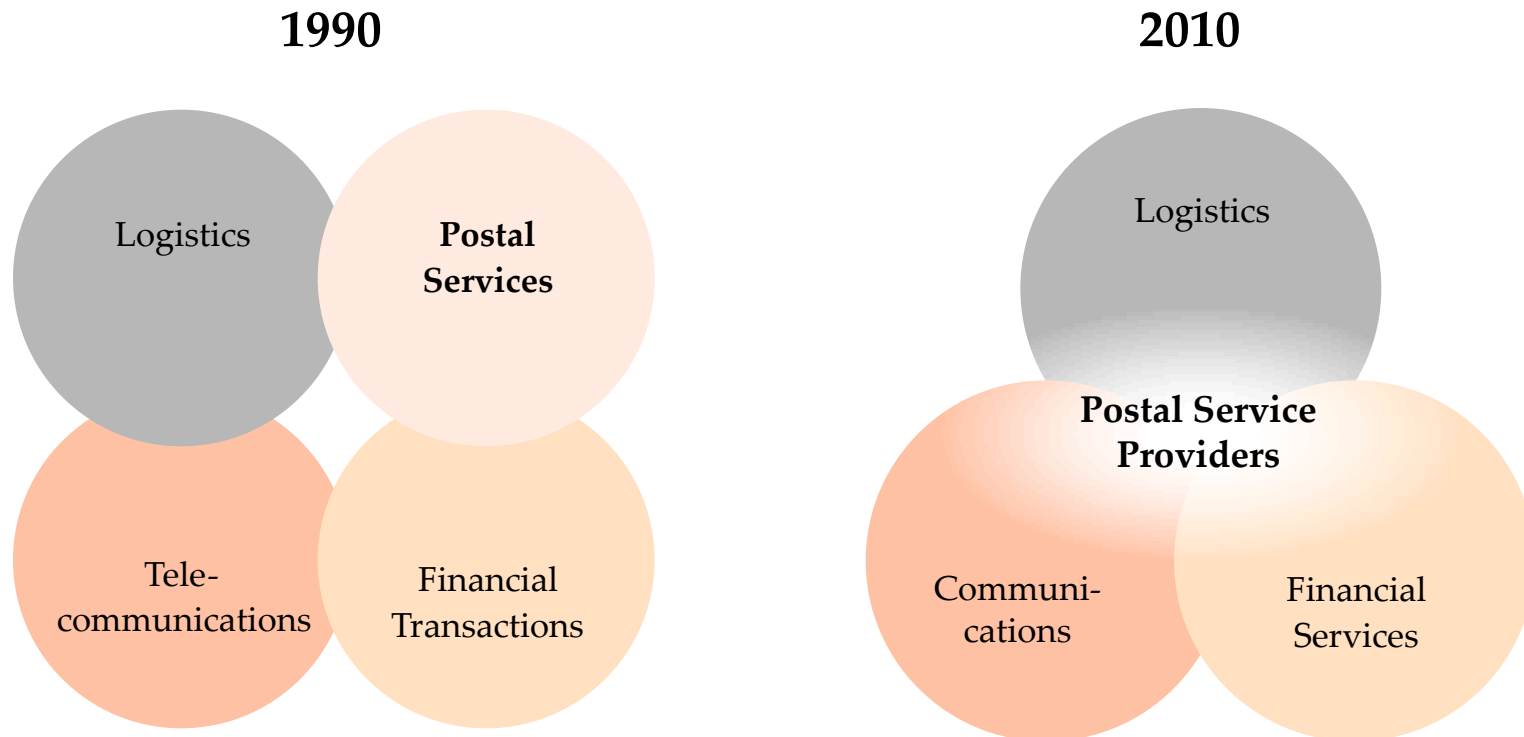
– Discussion of USO along three dimensions:



→ “Economic rationale of USO”:

“Ensuring standard services (“uniform”) for the delivery of written communication and goods (“scope”) that enable everybody in the economy to reach everybody else (“ubiquity”) under reasonable accessibility for both sides (“accessibility”) within a reasonable timeframe (“quality”) on a reliable basis (“reliability”) at affordable rates (“affordability”).”

Regulating the USO in an electronic age

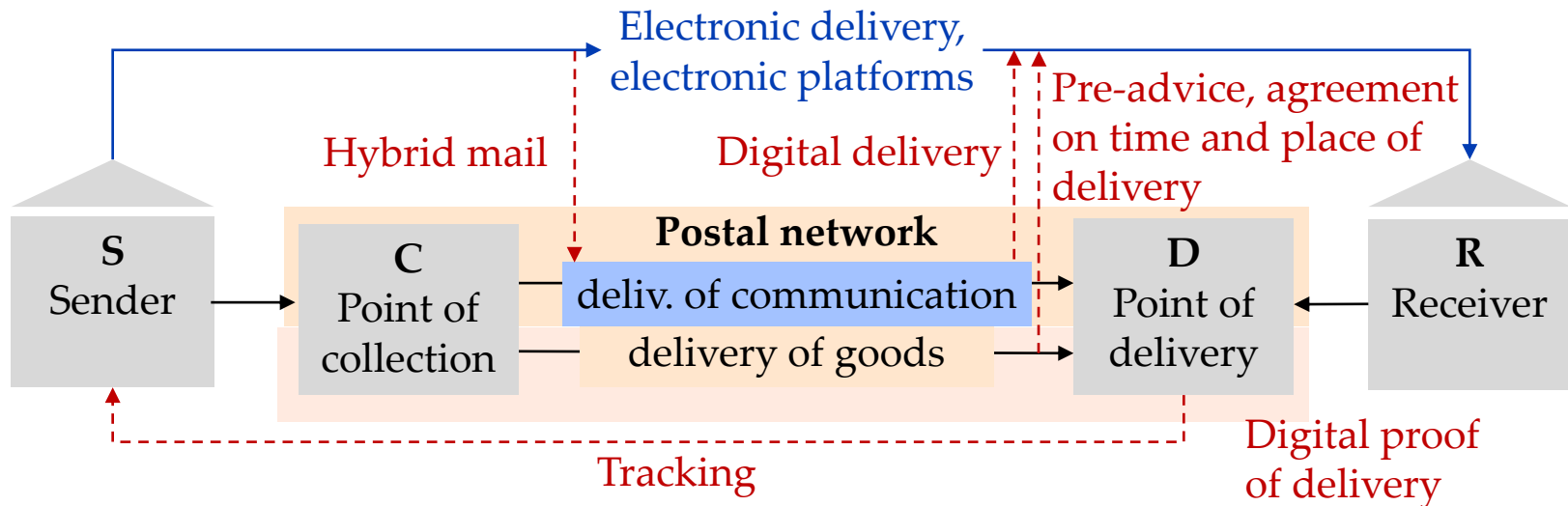


Source: Dietl et al. (2011)

Scope of presentation:

- Not: Whether regulation is necessary
- **Rather: How to adapt USO if still needed?**

Impact of new means



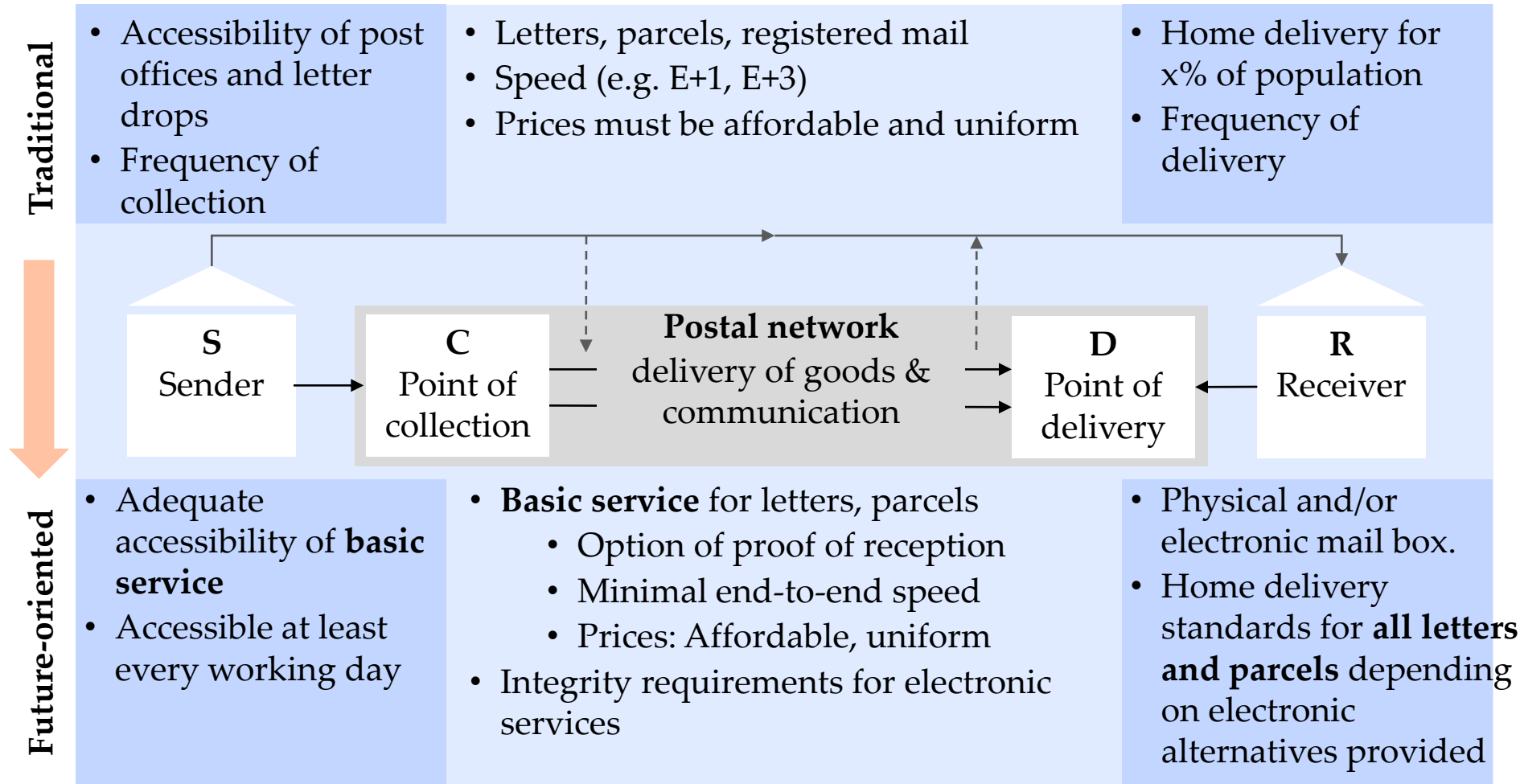
New digital means...

- lead to **intermodal/platform competition**
- **are not able to substitute physical delivery**, hence physical delivery will remain of importance
- **enable improvements of traditional delivery**
 - Traditional addresses will not be needed anymore
 - Rather: Digital Sender-ID, therein embodied standard delivery address

Principles to changes in the USO

- **Output-orientation:** Regulating outputs rather than inputs
- **Technological neutrality:** Output-regulations should be defined independently of the technology applied
- **Product neutrality:** The output-regulations should be formulated in a rather generic way in order to allow the universal service provider to amend its product portfolio over time
- **Necessity:** Universal services are to be defined as a basic service (“desserte de base” in French) addressing the most basic needs of the consumers. On top of these basic services, the USP can and will provide differentiated products on a purely commercial basis
- **Viability:** The obligations should be defined in a viable way in order to avoid an excessive external financial need

Outline of a future-oriented USO



Role of USP and Regulator

Role of USP:

- Adapt **accessibility** for senders and recipients to new technologies and changing needs of consumers
- Define product portfolio such that **basic service** requirements are met

Role of regulator / ministry:

- Control adaptations subject to output-oriented and technology neutral criteria
- Assess whether the products offered by the USP result in compliance with basic service requirements

Conclusions

- The primary role of postal services is to reduce transaction costs in an economy while supporting the enforcement of property rights
- A future-oriented USO should be based on a comprehensive understanding
 - of the economic rationale of USO regulations
 - of consumer preferences
 - of the current and future role of electronic complements and substitutes
- The definition of the USO should follow 5 generic principles (output-orientation, technological neutrality, product neutrality, necessity and viability)
- Following these principles, there is a need to adapt the USO in most countries

Thank you.

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