The future of Universal Postal Services and their regulation

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• An **argumentation** for the redefinition of the Universal Postal Service in the “communications era”
• [not yet a precise definition of its exact content]
• An **opinion** about its future regulation
• Applies only to industrialized countries
Main arguments

- Tradeoff between further liberalization and current definition of the Universal Postal Service (financing)
  → redefine (reduce scope of) UPS and liberalize
- The Universal Postal Service of the future will be defined as a “postal safety net” for the most vulnerable customers
  → business customers need no Universal Postal Service protection
- The UPS of the future will correspond to what the most vulnerable customers really need, as their consumer behavior changes in the communications era (internet)
  → speed less important (substituted by the internet)
  → reliability is important
  → individual, flexible solutions (mobility)
Structure of presentation

• My 3 underlying approaches
• Views of the Universal Postal Service
• History and definition of the UPS in Europe
• Evolution (markets, technology, and society)
• Implications for the UPS
• Implications for regulation
• The question of the postal network
• Future regulatory institutions
My 3 underlying approaches

- **Public policy**: Universal Postal Service as a public policy objective – from “safety net” to “luxury”, depending on what a country/public authority can afford
  → Universal Service = EU-wide safety net financed out of the sector
  [→ Services of General Interest = subsidiary public policy objectives financed by the (local, regional, national public authorities)]

- **Technology and culture**: Universal Postal Service as an evolving societal need/demand

- **Market efficiency**: Universal Postal Service as …
  - distortion of competition
  - reduction of market efficiency, and thus innovation (incl. regulatory costs)
  → its extent should be minimized
2 views on postal services

- **UPU, historical operators:**
  - Postal services are a network (analogous to the telecommunications network)
  - The network is the Universal Service
  - The network has to be safeguarded (see below)

- **European Commission** (at least initially):
  - Postal services are a commodity (with some political characteristics)
  - But some vulnerable consumers may not be able to afford the commodity
  - Thus a protective “safety net” for these most vulnerable consumers
Definition

• First conceptualization of the UPS in the EU Green Paper in 1992, plus mechanism of financing (monopoly)
• Definition of the basic UPS that historical operators are obliged to deliver in the First Framework Directive of 1997
  → clear guidelines on weight, prices, speed, clearance and delivery
  → significant national differences (historical reasons)
• First analyses as to the relationship between post and new communication technologies, but not taken any further
  → USP codification of national practices at (pre-) 1980 levels
Evolution

- **E2E liberalization** (EU model):
  - express and parcels: market, competition
  - letters: no (yet) competition
  → historical operators modernize (use of ICTs)
  → customers win, big customers win even more (B2C & B2C = 85% of mail and parcels volumes)

- **ICTs interfere ever more with postal developments:**
  → induction on parcels and express
  → substitution on quality letters
  → induction on low quality letters (publicity)

- **Culture and society:** rapid and profound uptake of ICTs → changing consumer behavior
  - urgent two-way communications are increasingly substituted (internet, SMS, Skype)
  - the rest becomes less urgent (mail, parcels); except for courier services (business customers)
Implications for the UPS

- UPS as a “postal safety net” only:
  - only the ones who cannot take advantage of postal liberalization should be protected, i.e., households and perhaps SMEs?
- This postal safety net needs to be adapted to the evolving needs and demands of the customers
  - urgent two-way communication needs: part of telecom regulation (e.g., internet access)
  - less urgent postal needs = postal safety net
- The “safety net services” should be offered in a flexible way taking into account the consumers’ behavior (e.g., mobility)
Implications for the UPS II

Scope of the modern postal safety net:
individual households (and small businesses?)
→ single-piece letter and parcel items

Characteristics of the modern Universal Postal Service:
- increased flexibility
- increased adaptability

Principles of the traditional Universal Service:
- accessibility
- quality (reliability)
- affordability

The Universal Postal Service of the future
Implications for regulation

• Definition of the postal safety net is a political task (EU level):
  - identification of the groups that are most vulnerable (households not business)
  - identification of the relevant products/services: (less urgent) letters and parcels
  - definition of the criteria: quality (reliability, rather than speed), accessibility, and affordable price

• Supervision of the operator (concessionaire) as the regulatory task

• Regular adaptation of this safety net (5-10 year compulsory revision?) as a political task?

→ Does this justify a sector specific regulator?
Question of the network

- Originally not defined → network as an instrument
- However: the high quality of the historical postal operators (5-6x/week delivery of all mail incl. bulk mail):
  → makes delivery appear as a network
  → economies of scale
  → taking the other network industries as a model
  → US model
  → requiring ultimately network access regulation
- But such access regulation is not necessary …
  - with less frequent delivery (2-3x/week)
  - flexible customer oriented accessibility (upstream and downstream) (ICT-based)
Future regulatory institutions

• National concession for UPS as safety net
  - no fragmentation (otherwise interconnection problems)
  \(\Rightarrow\) even EU-concessions (analogous FBAs)

• No sector specific regulation
  - simply verification of concession
  - market distortion (but minimal because of safety net)
  \(\Rightarrow\) eventually EU regulator?

• Subsidiarity principle possible:
  - EU for UPS
  - subsidiarity for services of general interest (to be tendered and subsidized by public money)