

WIK's 9th Königswinter Seminar
Liberalized Postal Markets – Need for Regulation?
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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

Principles of the traditional
Universal Service:

- accessibility
- quality (reliability)
- affordability



Characteristics of the modern
Universal Postal Service:

- increased flexibility
- increased adaptability



**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 (concessionnaire) 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)
→ even EU-concessions (analogous FBAs)
- No sector specific regulation
 - simply verification of concession
 - market distortion (but minimal because of safety net)
→ eventually EU regulator?
- Subsidiarity principle possible:
 - EU for UPS
 - subsidiarity for services of general interest (to be tendered and subsidized by public money)