

# PRICING AND REBATES AFTER FULL MARKET OPENING

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\* The views expressed in this presentation are those of the authors and not of La Poste





# PRICING AND REBATES AFTER FMO

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1. **FMO : an opportunity for the postal sector ?**
2. **Pricing flexibility and innovation**
3. **A necessary pricing flexibility after FMO**
4. **Pricing flexibility and Competition law (1) (2)**
5. **Pricing flexibility and sector specific regulation in the postal sector (1) (2)**

**Pricing flexibility and commercial freedom :  
a necessity for USPs and an opportunity for the postal sector**



# 1. FMO : an opportunity for the postal sector ?

- **Current situation : Downward trend in mail volumes**
- **Well-designed liberalisation may foster innovation and mail demand**
- **Two alternative scenario for the development of the postal sector**



## Mail considered as a **commodity**

- **Standard product => no innovation**
- **Competition on price => may jeopardise quality and mail demand**



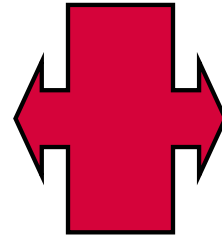
## Mail considered as a **customised value-added service**

- **Product / Service innovation**
- **Commercial / Pricing innovation**



## 2. Pricing flexibility and innovation

Uniform Tariff (Geographic)  
Uniform Tariff (/customer)  
Demand patterns ignored



Zonal tariff  
Conditional rebates  
Yield management, etc

### *Pricing flexibility has positive effects*

- Increased overall demand
- Increased total welfare, notably for customers who did not have access to the service before the pricing policy
- Innovation for customers
- For the USP : increased margin



### 3. A necessary pricing flexibility after FMO

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- Pricing flexibility benefits USPs and consumers even in a monopolistic market situation
- But pricing flexibility is a necessity in a liberalised environment, for :
  - *Assuring a Level playing field*

“All operators, including the public postal operator, should have the same commercial freedom and the same regulatory requirements” WIK 2005, p72
  - *Preserving viable and efficient USPs*

*PWC Report* (2006) indicates that “increased commercial freedom and pricing flexibility will be one of the condition for financial equilibrium of USP in FMO”

=> Especially true if an alternative way for financing USO is not secured
- After FMO, pricing flexibility and commercial freedom for USPs is limited by (4) Competition Law and (5) sector specific regulation



## 4. Pricing flexibility and Competition law (1)

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### USPs : from Monopoly to dominant position

- ***Monopoly time : Competition law applicable for USPs pricing policy, focus on discriminatory practices and vertically-related markets***

Discriminatory pricing : dissimilar conditions for equivalent transactions, placing trading parties (direct customers, consolidators) at a competitive disadvantage

- ***Full Market Opening : additional constraints on pricing policy, linked to horizontal competition protection***

*Focus on quantitative rebates that deter competition : individualised, retroactive rebate scheme, development rebates, etc*

**=> Paradoxically, FMO reinforce constraints on pricing policy for USPs as competition law is now fully applicable**



## 4. Pricing flexibility and Competition law (2)

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### Focus on quantitative rebates

- **Michelin II** : A quantitative rebate scheme, corresponding to cost savings, may have fidelity effect and constitute an abuse of dominant position if :
    - The spread between the lowest and the highest rebate is important in the scheme
    - The reference period for the scheme is long
    - Reaching the superior threshold give right to rebates on all purchases (not only incremental purchases)
  - **The Discussion Paper from the Commission (2005) presents a test quantifying the fidelity effect of quantitative rebates. This test introduces competitors on the reasoning as “commercially viable share” are taken into account**
- **This example shows that USPs – in dominant position – face increased price control in a liberalised environment with competition law**
- **In this context, FMO should be accompanied with a softer sector specific pricing regulation**



## 5. Pricing flexibility and sector specific regulation in the postal sector (1)

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Aim of postal regulatory framework : regulating USO  
(Article 1 of 1997 Directive, not amended by Commission's 2006 proposal)



**Affordability**



**Commercial freedom**

**A Global Price cap  
mechanism is relevant**

- Some distortions may appear between single-piece items and bulk mail prices, competitive pressure being on bulk mail only
- But a global price cap can be accompanied with a case by case ex post control on specific products (single piece ?)



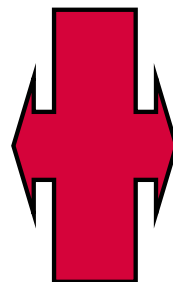


## 5. Pricing flexibility and sector specific regulation in the postal sector (2)

- **Uniform tariff should not be an obligation for bulk mail**
  - If maintained, massive cream skimming would occur
  - “Removing price uniformity constraints for business mail and giving some appropriate pricing flexibility to universal service providers will assist them significantly in adapting to market opening”  
*Commission Report, 2006*
- **Avoided cost rule (Article 12) is not viable in a liberalised environment**
  - Artificial link between two distinct markets : single piece letter and bulk mail
  - With competitive pressure, USP would face an impossible trade-off :

**Cut all prices to be competitive on bulk mail and...**

**Loosing contribution on the single piece**



**Preserve current prices for both categories and...**

**Massive cream-skimming by new entrants**



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## CONCLUSION

- ❑ Pricing flexibility and rebates constitute a necessity for USPs and an opportunity for the postal sector development
- ❑ Considering competition law only, liberalisation will reduce pricing flexibility and commercial freedom for USPs, in dominant position
- ❑ Additional sector specific regulation on pricing would jeopardise USPs financial viability and demand in the postal markets