



New French postal law, market situation and regulatory issues


**Guillaume Lacroix
Joëlle Toledano**

Regulation and Business in a Changing Postal Market

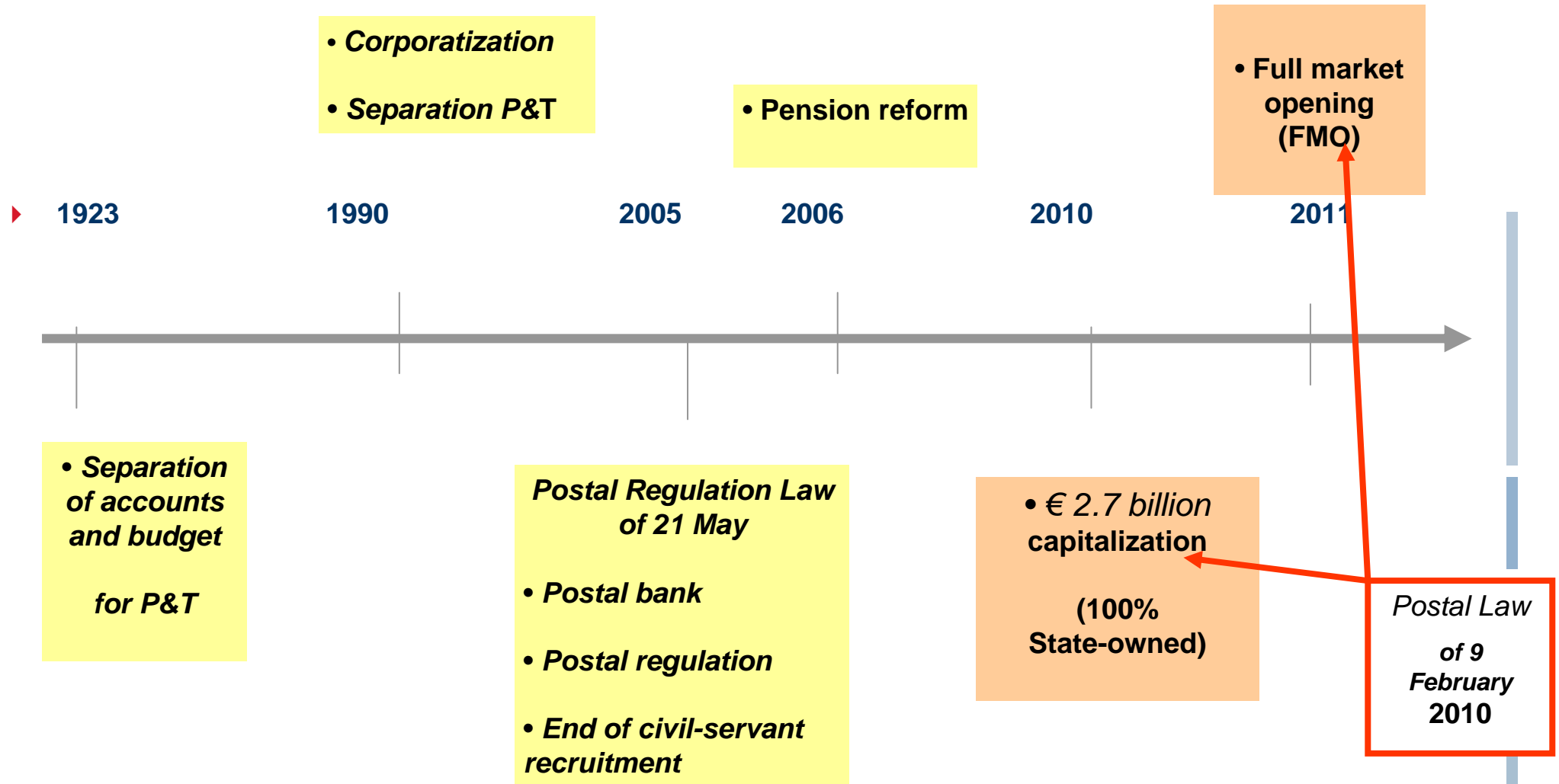
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ARCEP
www.arcep.fr

Autorité de régulation
des communications
électroniques et des postes



French postal laws : No D-Day..... a gradual reform.



Key points of the Postal Law of 9 February 2010

▶ LA POSTE

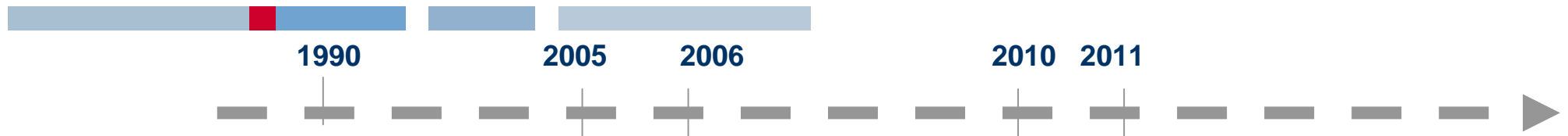
- Incorporated company from 1 April 2010
- **Capitalization** by Treasury and “Caisse des Dépôts et Consignations” (French public financial institution. State-owned entity which administers government-backed savings funds for financing housing or infrastructure).
- Minimum of **17,000 post-office counters** (including franchised counters).

▶ POSTAL REGULATION (effective 1 January 2011)

- **Full market opening (FMO)**
- La Poste: USP for a **limited 15-year period**
- **Amendment** of the regulatory framework, including compensation fund: former turnover-based taxation switched to volume-based => bigger financial contribution from alternative operators whose average single-piece item prices are lower than those of La Poste
- ARCEP to process **user complaints** if operators fail to provide a satisfactory response

- ▶ **ARCEP** evaluates yearly costs of La Poste's contribution to **regional planning policy** i.e. cost of counters in excess of USO (Universal Service Obligations).

PENSIONS / ASSETS / TARIFFS : details of successive reforms



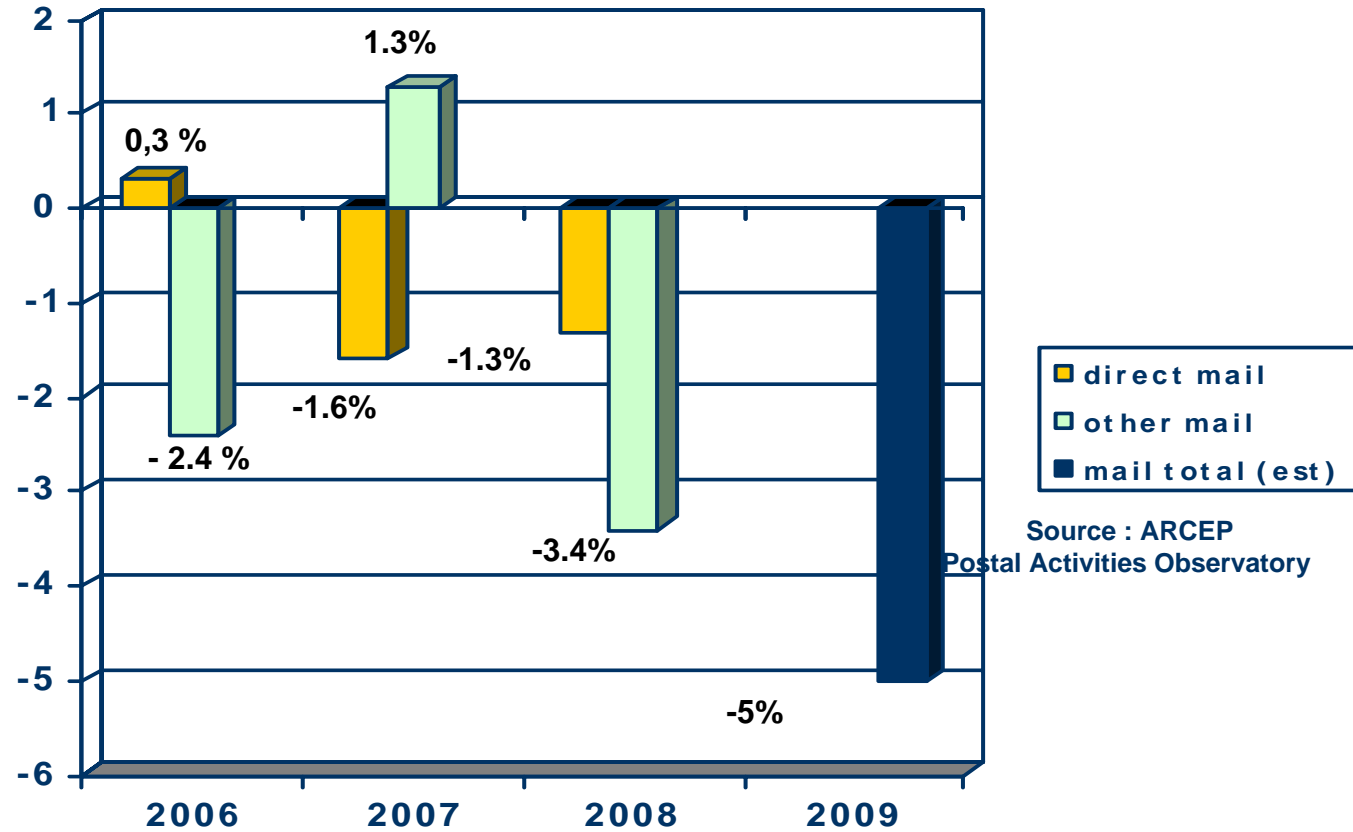
❖ PENSIONS	<ul style="list-style-type: none"> • Civil servants => payment by la Poste • Others => common social security contributions and benefits. 	<ul style="list-style-type: none"> ▶ Common contributions and benefits for both civil servants and other employees (=> all paid by the social security (SS) pension system). La Poste makes a supplementary payment for civil servants. (EU Commission Decision of 10 October 2007) • €2 billion cash payment to SS in 2007 • Taxes decrease gradually to the average common gradient 	
	<ul style="list-style-type: none"> • Debt is the only external resource for La Poste's long-term needs (no access to capital) • Accumulated net income (reserves) 		<ul style="list-style-type: none"> • €2.7 billion capital from Treasury and "Caisse des Dépôts"
❖ TARIFFS	Ex-ante approval by Ministers of Posts and Economy	Price cap on universal service + ARCEP's approval requested for monopoly services	
			<ul style="list-style-type: none"> ▪ Price cap on US (two baskets for PC 2009-11) ▪ ARCEP may request reconsideration of a proposal that is clearly ("manifestement") contrary to US tariff principles

2010 reform

La POSTE's obligations (and funding) under the 2010 Law

Obligation	Source	Funding
❖ Universal service	Code des postes et télécommunications	<ul style="list-style-type: none"> • Cost-oriented tariffs (uniform single-piece price) • Possibility of setting up compensation (contribution by delivery operators)
❖ Special tariffs for newspapers/periodicals	<ul style="list-style-type: none"> • Tariffs may not cover costs • Article L.4 	<ul style="list-style-type: none"> • Government subsidy €242 m => €180 m in 2015 • Tariffs to increase by CPI + 2% to 5% yearly, under agreements between La Poste and press publishers ("Accords Schwartz" (2009-2015))
❖ Keep rural outlets in excess of USO	<ul style="list-style-type: none"> • Article 6 of the 1990 Law on La Poste, as amended by Article 2ter of the 2010 Law • 90 % pop for every "département". - 5 km 	<ul style="list-style-type: none"> ▶ Article 2ter of the 2010 Law : Exemption from local taxes of between 75-95%, based on yearly evaluation by ARCEP
❖ Provision on request of the "Livret A" savings account	<ul style="list-style-type: none"> • Code monétaire et financier, as amended by law on 4 April 2008 	<ul style="list-style-type: none"> ▶ La Poste paid commission by "Caisse des Dépôts" at a higher rate than banks, to reflect characteristics of postal customers (proportion of poor/elderly people)

FOCUS on mail trends (volumes)



Postal activities (Revenue from items)

	2005	2006	2007	2008	Change 2006-2007	Average annual growth rate
<i>(in millions of euros before tax)</i>						
Delivered in France						2005-2008
Items of correspondence	8 470	8 435	8 581	8 382	-2,3%	-0,3%
Letters and parcels against signature	1 302	1 382	1 432	1 458	1,8%	3,8%
Parcels	3 464	3 698	3 760	3 972	5,6%	4,7%
of which "ordinary" parcels	1 440	1 585	1 610	1 702	5,7%	5,7%
of which express light parcels*	2 000	2 122	2 150	2 269	5,6%	4,3%
Postal delivery of press items to subscribers**	492	484	483	464	-3,9%	-1,9%
Total addressed items delivered in France	13 728	13 999	14 256	14 275	0,1%	1,3%
Delivered for export						
Items of correspondence	496	419	398	392	-1,6%	-7,6%
"Ordinary" parcels	74	85	96	108	12,1%	13,3%
Press items	31	29	29	27	-5,8%	-4,4%
Total addressed items exported	601	533	523	526	0,7%	-4,3%
Total addressed-items market	14 329	14 532	14 779	14 802	0,2%	1,1%

Imports are included in total items of correspondence, items delivered against signature, parcels, press items and unaddressed advertising delivered in France.

**Estimates, domestic traffic and imports.*

*** Not including revenue from non-postal delivery of press items*

23 authorizations granted since June 2006; freeze since 2008. Competition is very limited, except for export.

- ▶ 13 authorizations : domestic delivery of letter mail
 - ADREXO based on its nationwide network for unaddressed mail
 - ALTERNATIVE POST tried to develop a nationwide network, but filed for bankruptcy in November 2009
 - 11 local operators (courier services, mail processing ,collection/early delivery/pick up, mailing houses).

- ▶ 8 authorizations : outward cross-border mail
 - IMX France (private operator) ;
 - 7 foreign Posts.

- ▶ 2 authorizations for both activities:
 - La Poste
 - Let France Routage in Metz and Luxembourg

- ▶ Demand freeze since 2008 (delayed FMO, economic crisis ...)



CibleX



COURRIER PLUS
service postal local



Main regulatory issues for 2010



- ▶ Continuous development of regulatory tools: cost allocation in the postal value chain (weight/shape), public consultation during February 2010 (http://www.arcep.fr/uploads/tx_gspublication/consult-reg-compta-laPoste-220110-eng.pdf).
- ▶ Adapting regulatory procedures to FMO: consulting on future guidelines for postal regulation?
- ▶ Development of new economic tools for evaluating USO and competition scenarios (economic modelling).

Business /Regulation as usual



Conclusion :The new regulatory challenge

What role will the regulator play in developing the postal business model?

- ▶ For many years, operators have been highlighting additional cost issues in connection with delivery frequencies or post-office counters.
- ▶ Will traffic trends necessitate updating of the regulatory framework?
- ▶ With diseconomies of scale, there are not so many ways of compensating for volume slump:
 - Price increases
 - Efficiency enhancement (technical productivity, marketing ...)
 - Quality downgrading
 - A combination of all the above
- ▶ Better identification of social needs and their evolution is crucial to be able to prepare good choices!



Annex

<http://www.arcep.fr/index.php?id=8837>



Postal activities (Volume of items)

	2005	2006	2007	2008	Change 2007-2008	Average annual growth rate 2005 - 2008
<i>(in millions of items)</i>						
Delivered in France						
Items of correspondence	16 806	16 540	16 616	16 154	-2,8%	-1,3%
Letters and parcels delivered against signature	276	279	289	276	-4,6%	0,0%
Parcels	638	665	673	688	2,3%	2,6%
of which "ordinary" parcels	346	355	361	363	0,6%	1,7%
of which express light parcels*	275	302	314	325	3,6%	5,7%
Delivery of press items to subscribers**	2 789	2 710	2 724	2 688	-1,3%	-1,2%
Total addressed items delivered in France	20 509	20 194	20 302	19 806	-2,4%	-1,2%
Delivered for export						
Items of correspondence	523	475	462	464	0,3%	-3,9%
"Ordinary" parcels	7	8	8	10	24,5%	12,6%
Press items	28	27	29	23	-20,4%	-6,1%
Total addressed items exported	558	510	499	497	-0,5%	-3,8%
Total addressed-items market	21 067	20 704	20 802	20 303	-2,4%	-1,2%

Imports are included in total items of correspondence, items delivered against signature, parcels, press items and unaddressed advertising.

** Estimates, domestic traffic and imports*

*** Including volumes delivered through non-postal channels (home delivery)*

The POSTAL MARKET: turnover 2005 – 2008 (€billions)

