Postal Policy in Europe

National approaches to deal with shrinking letter markets

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Bad Honnef, 15. November 2023
Objectives of the EU Postal Services Directive

Changes in national USO requirements …

… and their impact on the provision of letter services
Objectives of the EU Postal Services Directive
(1) Ensuring a common level of universal postal services for all users,
(2) Achieving an internal market of Community postal services,
(3) Setting harmonised principles for the regulation of postal services

Amendments
• Last amendment in 2008
• Basic requirements for the universal postal service remained unchanged
• New: EU Cross-border Parcel Regulation in 2018

Market changes
• Letter markets are open, but little competition (even declining)
• Massive decline in letter volumes since ~2010 but at different speed
• Increased B2C e-commerce deliveries, further pushed by the pandemic
• 2022/2023: Back to normal?
Member States define the details of the postal universal service

**Universal service: Requirements of the Postal Services Directive**

<table>
<thead>
<tr>
<th>Category</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery frequency</td>
<td>Not less than five working days a week (with exceptions)</td>
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<tr>
<td>Quality of service</td>
<td>Member States set quality of service standards for domestic universal postal services (consistent with intra-EU QoS standards)</td>
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<td></td>
<td>Quality of service standards for intra-EU services (binding for the Member States)</td>
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<tr>
<td>Access requirements</td>
<td>Member states shall ensure that the density of the points of contact &amp; of the access points takes account of users’ needs</td>
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<tr>
<td>Price regulation</td>
<td>Universal service tariffs must be 1. affordable for all users, 2. transparent and non-discriminatory, and 3. cost-oriented and should give incentives, for an efficient universal service provision</td>
</tr>
</tbody>
</table>

**Principle of subsidiarity:**

**Member States define the details of the universal postal service**

- The universal service shall evolve in response to the technical, economic and social environment and to the needs of users
- Scope of universal postal service and regulation of postal tariffs
- Access to postal services
- Delivery frequency and domestic quality of service standards
USO for **letter services** under pressure: How can the USO remain financially viable?

### USO Requirements and Regulation

- Delivery frequency
- Quality of service standards
- Access to postal services
- Regulation of postal tariffs
- USO compensation
Reduction of the delivery frequency – even below the standard of the EU Postal Services Directive

- **Denmark**
  - 2016: Reduction from 6 to 5 delivery days

- **Netherlands**
  - 2014: Reduction from 6 to 5 delivery days (delivery from Tuesdays to Saturdays)

- **Italy**
  - 2015: Reduction from 6 to 5 delivery days
  - Exception: Delivery frequency of 2.5 days in rural areas (25% of the population)

- **Finland**
  - 2018: 5 delivery days in rural areas (exceptions for ~1,000 households) & 3 delivery days in urban areas
  - Since October 2023: 3 delivery days nationwide
General Trend:
Reduction of quality of service standards for domestic US letters?

France
- 2023: New US standard D+3 ('Lettre verte' changed from D+2 to D+3)
  - Overnight service only as hybrid letter product ('lettre rouge')
  - D+2 only for business customers

Sweden
- 2018: New US standard D+2
  - Overnight service = express service (non-US)
  - Discussion: Change US standard to D+3 (to facilitate alternate-day delivery)

Finland
- 2017: New US standard D+4

Denmark
- 2016: New US standard D+5
  - Overnight service = express letter (non-US)
Impact on Quality of Service: Deterioration in cross-border letter transit time

- Cross-border transit time depends on national delivery standards
- Downgrading QoS of US letter services reduces cross-border transit time of letters

Other reasons:
- COVID-19 resulted in a substantial drop in speed and reliability of cross-border letters
- Not yet recovered in 2022 (first half of 2022 still affected by COVID-19)

Source: IPC, International Mail Quality of Service Monitoring, UNEX CEN 2022 results, March 2023, p.3.
Delivery frequency and reduced quality of service standards
Impact on letter operations and costs

- Universal service providers maintain a nationwide infrastructure with daily delivery but not necessarily for US letters
  - ‘Slow’ US letters are not delivered every day, but only every second, third, … day
  - Less fixed delivery costs for US letters (if an appropriate cost allocation methodology is applied – subject to regulatory oversight)
- Applied by, for example: bpost, Posti, CTT Correios, Poste Italiane, PostNord Denmark and Sweden, Norway Post
- Consequences for B2C parcel delivery:
  - Reduces opportunities for joint delivery of letters and parcels (less economies of scope)
  - Postal operators risk losing their key cost advantage in B2C parcel delivery
Access to universal postal services
Apparently less affected by service level reductions, so far

Netherlands
- 2015: Reduction of the number of full-service postal outlets from 2,000 to 1,000 and street letter boxes from 19,000 to 8,700

Denmark
- 2016: Requirements on the minimum number of postal outlets abolished (previously regulated in Post Danmarks license)

- Apparently not many changes in access requirements (more on the scope of postal services provided by postal outlets?)
- State compensation (outside the postal USO): e.g. for La Poste / France and for the Post Office Ltd. / UK
- Postal outlets: National approaches ranging from light-handed to very detailed requirements on the number and density of postal outlets
Tariff regulation: More headroom for letter price increases

France
- 2015: more headroom due to letter volume decline (part of the price cap formula)
- Recent decision:
  - Price cap period was reduced from 4 to 2 years
  - Cap allowed to rise by 17% (max. 10% p.a.)

Denmark
- 2016: Price approval of stamped domestic letter product (<50g)
- Under discussion: Proposal to stop regulating US letter tariff from 2024 onwards

Sweden
- Before: Cap for US letters ≥ 500g (tariffs rising with CPI)
- Since July 2019: US letters ≥ 250g & letter volume decline part of the price cap formula

- Other countries that explicitly take into account the decline in letter volumes in price cap formulae: for example Belgium, the Netherlands and Portugal
Tariff regulation: More headroom for letter price increases

- Acceleration of tariff increases since 2018/2019 in many countries, depending on the regulatory regime
- Business customers also face price increases but less than consumers (depending on the level of competition)
- Prices for overnight delivery increase more than for slower letter services

Source: Eurostat

Developments in the CPI and in the price index for letter handling services, 2015-2022 (2015=100)

Source: Eurostat

Note: La Poste – Tariffs of 2022
### State compensation to finance the postal USO net cost (examples)

<table>
<thead>
<tr>
<th>USP</th>
<th>PostNord Denmark</th>
<th>La Poste</th>
<th>Poste Italiane</th>
<th>Correos</th>
<th>Czech Post</th>
</tr>
</thead>
<tbody>
<tr>
<td>State compensation for the USO (2022)</td>
<td>SEK 187m (~€17m)</td>
<td>€520m (of which €20m for meeting QoS targets)</td>
<td>€262m</td>
<td>€114.5m</td>
<td>CZK 1,500m (€61m)</td>
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<tr>
<td>Other state compensations (2022)</td>
<td>+ Regional development mission €73m</td>
<td>+ Press contribution €54m</td>
<td>+ Press contribution €84m</td>
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<td>% of segment revenues (2022)</td>
<td>2.3% USO compensation</td>
<td>6.6% 5.1% USO compensation</td>
<td>3.7% 3.1% USO compensation</td>
<td>5.8% USO compensation</td>
<td>9.5% USO compensation</td>
</tr>
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Sources: Annual Reports of the USPs & state aid cases of the European Commission.

### Other examples
- Greece / ELTA (before 2015)
USO for letter services under pressure: How can the USO remain financially viable?

Combination of measures to shape the transition from a paper-based to a digital society

- Lowering USO requirements (delivery frequency / quality of service) to reduce cost in letter operations and ensure affordability
- More headroom for postal tariff increases
- State compensation for USO as last resort
- More ‘radical’ solutions: The approach of DK

BUT: Lower quality combined with higher postal tariffs leads to a vicious circle of accelerated decline in letter volumes

The EU postal landscape is changing quickly
- Increasing fragmentation of universal service levels across the EU: Ensuring a common level of universal postal services is no longer an issue
- What could be the future of the universal postal service? What could be a future role of an EU Postal Services Directive?