

# Postal Policy in Europe

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National approaches to deal with shrinking letter markets

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- Objectives of the EU Postal Services Directive
- Changes in national USO requirements ...
- ... and their impact on the provision of letter services

# EU Postal Services Directive – a framework for the eternity?



## 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?

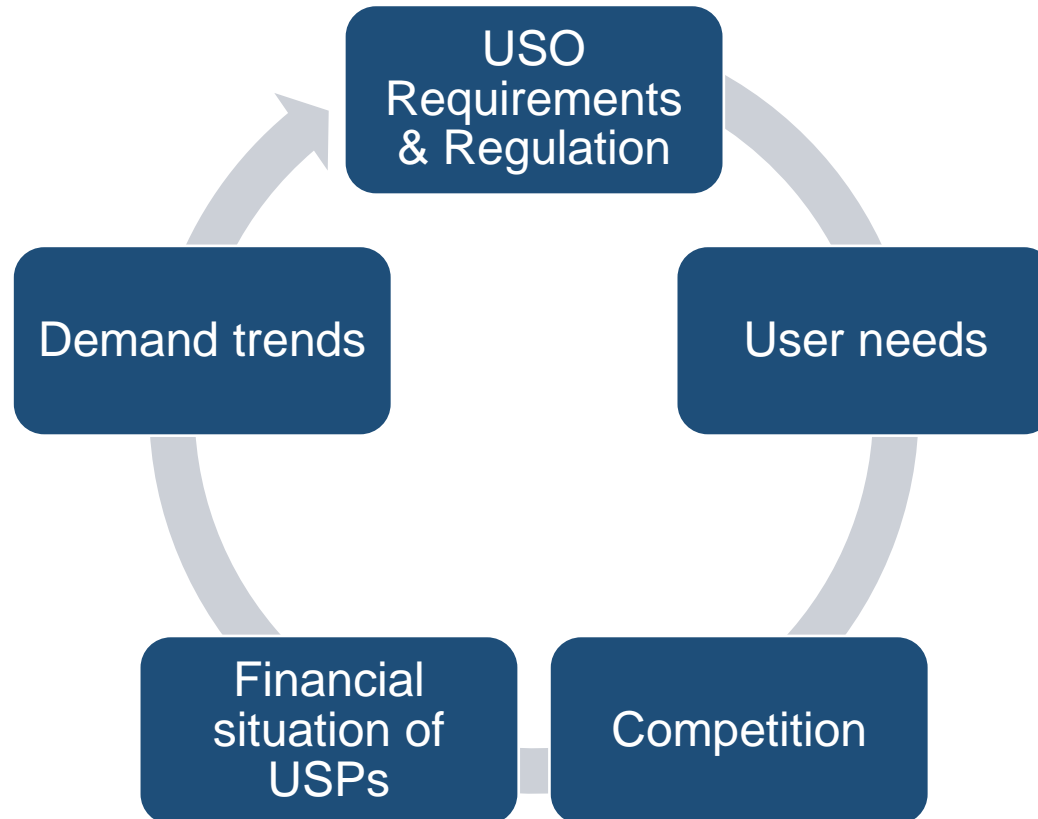
# Member States define the details of the postal universal service

<b>Universal service: Requirements of the Postal Services Directive</b>	
<b>Delivery frequency</b>	Not less than five working days a week (with exceptions)
<b>Quality of service</b>	Member States set quality of service standards for domestic universal postal services (consistent with intra-EU QoS standards)
	Quality of service standards for intra-EU services (binding for the Member States)
<b>Access requirements</b>	Member states shall ensure that the density of the points of contact & of the access points takes account of users' needs
<b>Price regulation</b>	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



<b>Principle of subsidiarity: Member States define the details of the universal postal service</b>	
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	

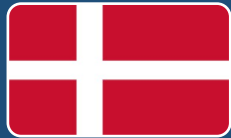
# USO for **letter services** under pressure: How can the USO remain financially viable?



## 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

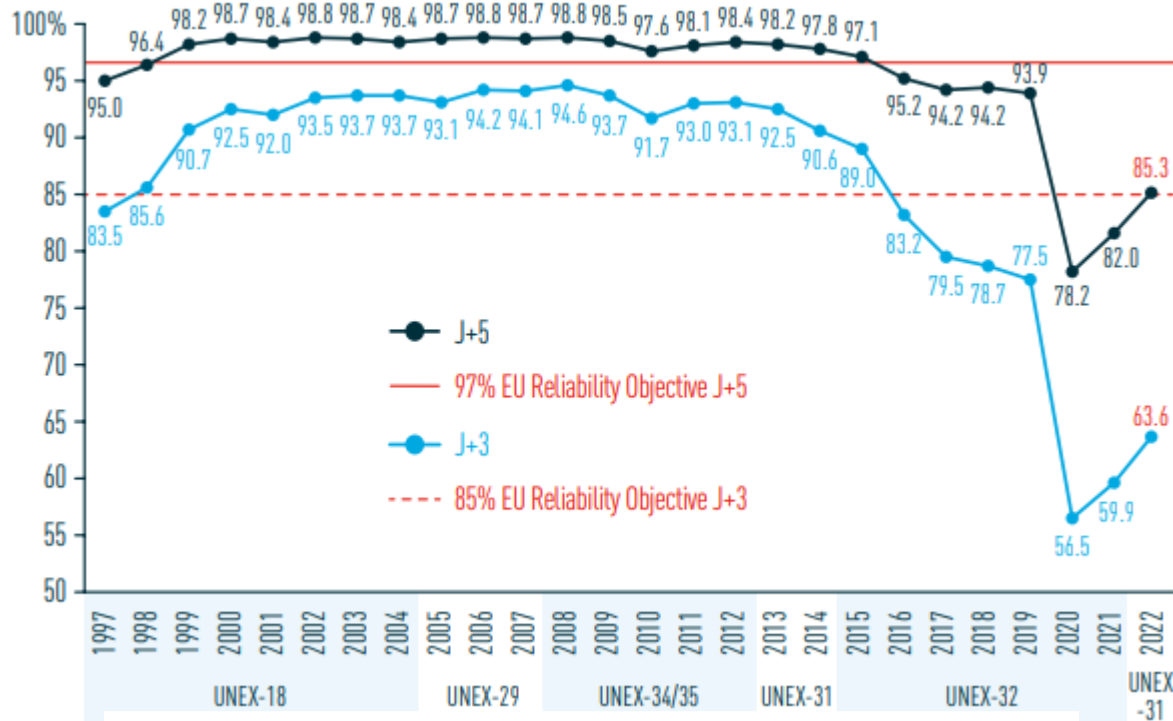


## Denmark

- 2016: New US standard D+5
  - Overnight service = express letter (non-US)

# Impact on Quality of Service: Deterioration in cross-border letter transit time

## D+3 & D+5 performance of EU cross-border letters (1997-2022)



	UNEX-18 <sup>1</sup>	UNEX-29 <sup>2</sup>	UNEX-31 <sup>3</sup>
J+3, speed indicator	66.9%	59.1%	63.6%
J+5, reliability indicator	87.8%	83.0%	85.3%

- 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)



# 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



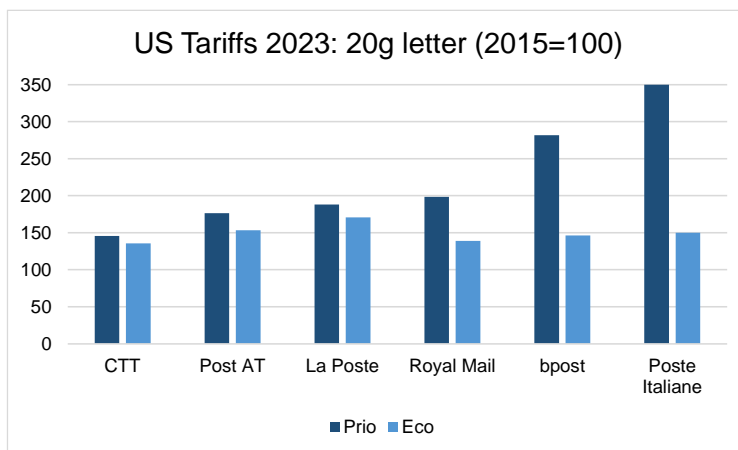
### Sweden

- Before: Cap for US letters  $\geq 500\text{g}$  (tariffs rising with CPI)
- Since July 2019: US letters  $\geq 250\text{g}$  & letter volume decline part of the price cap formular

- Other countries that explicitly take into account the decline in letter volumes in price cap formulaes: for example Belgium, the Netherlands and Portugal

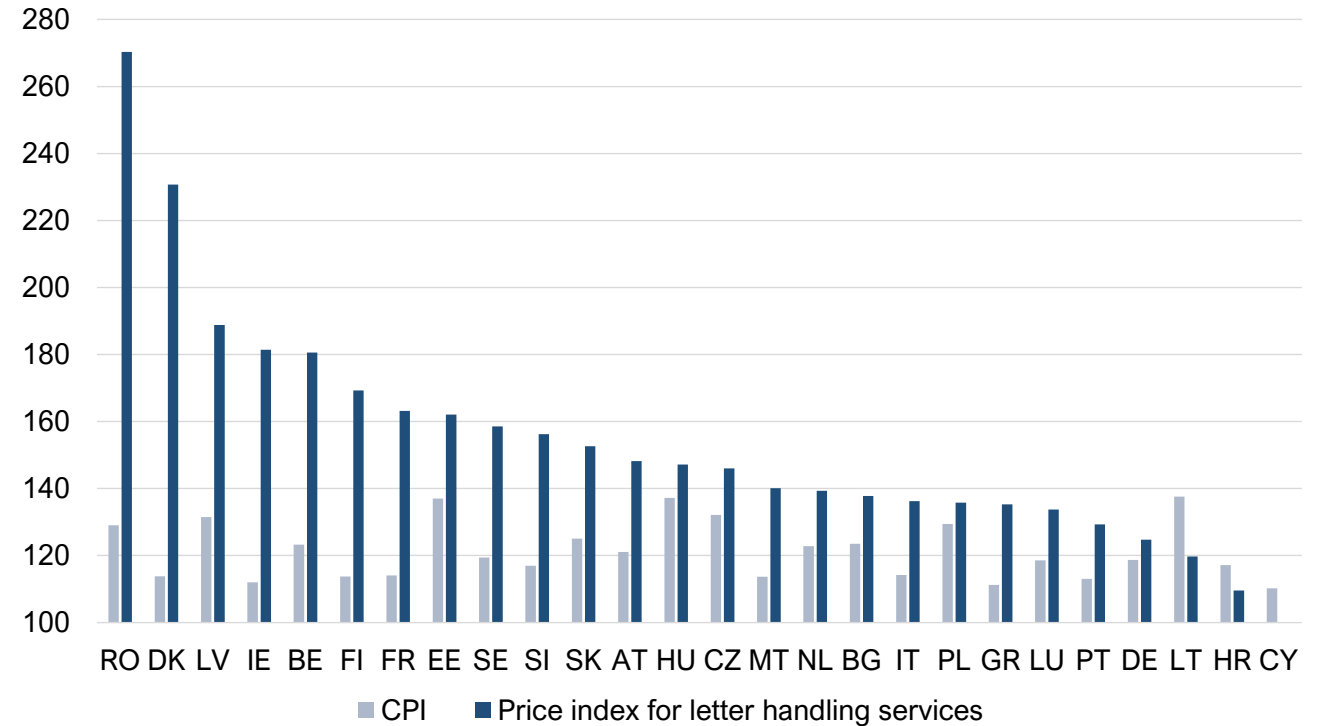
# Tariff regulation: More headroom for letter price increases

- 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: Price lists  
Note: La Poste – Tariffs of 2022

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



Source: Eurostat

# State compensation to finance the postal USO net cost (examples)

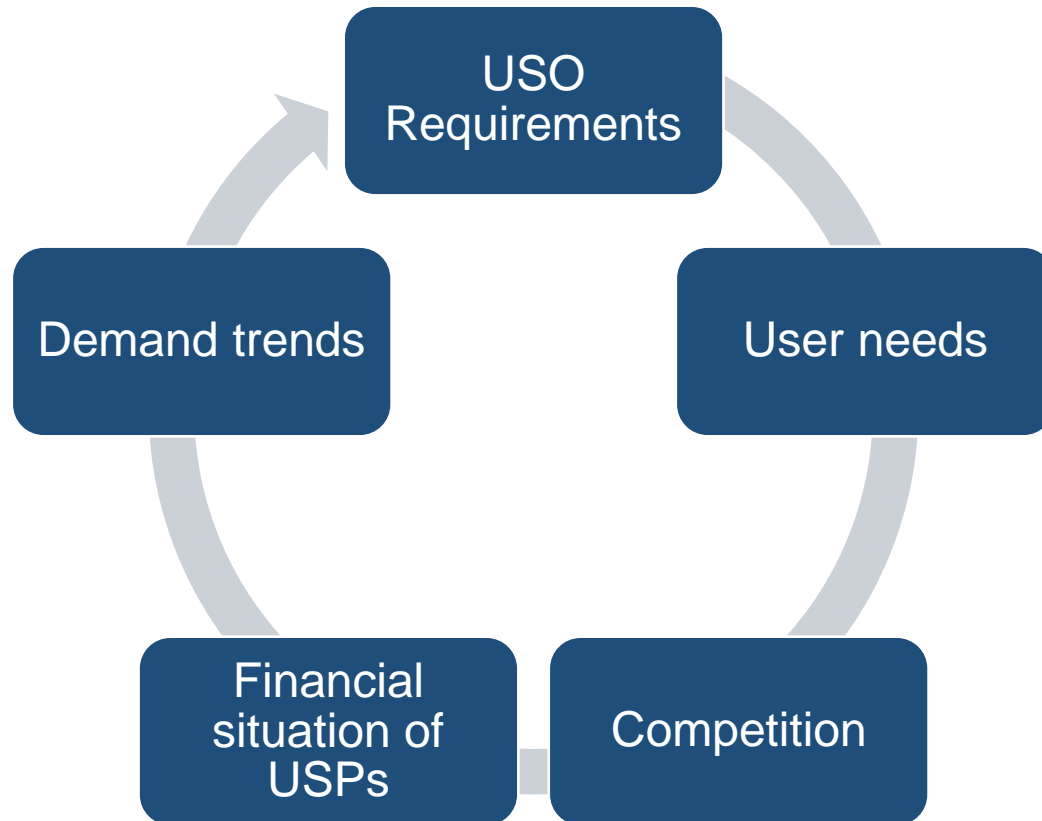
USP	PostNord Denmark	La Poste	Poste Italiane	Correos	Czech Post
State compensation for the USO (2022)	SEK 187m (~€17m)	€520m (of which €20m for meeting QoS targets)	€262m	€114.5m	CZK 1,500m (€61m)
First year of payment	2020	2021	Before 2015	Before 2015	Before 2015
Other state compensations (2022)		+ Regional development mission €73m	+ Press contribution €54m		
		+ Press contribution €84m			
% of segment revenues (2022)	2.3% USO compensation	6.6% 5.1% USO compensation	3.7% 3.1% USO compensation	5.8% USO compensation	9.5% USO compensation

Sources: Annual Reports of the USPs & state aid cases of the European Commission.

## Other examples

- PostNord Sweden: Under discussion (Recommendation of a Government Commission, 2021)
- 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?



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