

# Universal Service in a liberalised postal market

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# Why EU Postal Reform?

- **Postal Services matter:** services of general economic interest - Important both for economic prosperity and social cohesion of Member States (1% of GDP; 5 m jobs);
- **The problem in the early 1990s:**
  - Incumbents were not customer oriented;
  - Inefficient public operators, often reliant on state funding;
  - Poor and unpredictable quality;
  - No innovation;
  - Increasing competition by other forms of communication.
- **The target:** accomplishing a single market for postal services including a universal service, to ensure high quality, reliable, innovative and affordable postal services for all EU citizens;
- **The solution:** harmonisation of high quality minimum standards for universal service; gradual phasing in of competition, eventually FMO.

# The Approach of EU Postal Reform

## Establish competition as a tool...

Successful liberalisation of other services of general economic interest such as telecoms has shown:

- effective competition results in better customer focus, innovation and choice, while at the same time securing universal service provision;
- certain accompanying mechanisms, particularly designing appropriate regulation, assessing incumbent behaviour and establishing appropriate incentives as full market opening approaches, are key;
- competition and universal service are no contradictions – but the one is the best method to safeguard the other.

# The Approach of EU Postal Reform

**...and harmonise minimum standards for universal service...**

- Guarantees high quality universal services throughout the EU.

**...in the framework of a cautious long-term reform:**

- post is a highly emotive subject, perhaps more so than other services of general economic interest;
- more time was needed than in other sectors, from the 1992 Green Paper to the 2008 commitment to full market opening (FMO) in the 3rd Postal Directive;
- each phase of the EU Postal Reform was based on detailed impact assessments and market monitoring.

# EU Postal Reform – positive results

Postal reform has already generated some benefits to date.

- Competition or the threat of competition has seen incumbent postal providers improve performance in terms of cost efficiency, quality of service and reliability – hence we see:
- Higher quality of service, good level of Universal Service, more efficient postal infrastructure, greater customer focus;
- Gradually introduced competition in the sector has not undermined but ensured the Universal Service;
- Market dynamics (innovation, competitiveness) and operators' profitability have generally grown due to greater cost efficiency, higher value added and diversification;
- New operators have provided customers new choices in those parts of the market that have been opened. But:
- Further reform steps are necessary at national level to safeguard the sector achievements.

# Cornerstones of Directive 2008/6/EC

- Unconditional date for full market opening for all Member States [31/12/2010 for 95% of the EU market; 5% granted additional two years until 31/12/2012];
- Commitment to high level universal service obligation confirmed;
- Existing EU Postal Directive has been reinforced (e.g. role of NRAs; Authorisation & Licensing).

# Mechanisms to safeguard universal service

- The Postal Directive includes specific mechanisms to safeguard universal service provision and quality:
  - MS must continue to ensure affordable universal postal services throughout the entire territory, at affordable prices (Article 3);
  - MS have different possibilities to ensure the provision of the universal service, e.g. designation of one or several companies, tendering or market forces (subject to conditions of proportionality, transparency and non discrimination) (Article 4);
  - Licensing and granting of authorisations may be made subject to universal service obligations - subject to being necessary, non discriminatory and proportionate (Article 9);
  - Access to elements of the postal infrastructure has to be safeguarded (Article 11a);
  - Quality of service and complaint procedure requirements (Chapter 6).

# Mechanisms for financing universal service (1)

The Postal Directive includes specific mechanisms to finance the cost, if any, of universal service obligations.

- First, net costs have to be claimed: the burden of proof that there *are* net costs is on the USP;
- The *calculation* should be based on the appropriate cost accounting system (Article 14);
- Annex I of Directive 2008/6/EC provides guidance on *calculating* the net costs. It follows the principle of net avoided costs, takes account of “intangible and market benefits” of the USP, and assumes the USP to be efficient;
- Appropriate steps of *rationalisation* are to be taken before;
- Net costs of universal service are not the same as the costs of providing the service;
- Net costs are not a *conditio sine qua non* of universal service;
- The cost assessment is to be crosschecked by the NRAs.

# Mechanisms for financing universal service (2)

- Second, where it is determined at Member States' level that the USO entails a net cost, calculated taking into account Annex I of the Postal Directive and the above-mentioned principles...
- ...it has to be assessed if these net costs represent an unfair burden on the USP(s); in the affirmative:
- Article 7 (3) offers a non-exhaustive list of other possibilities for financing universal service, should any such net cost occur:
  - A mechanism to compensate the undertaking(s) from public funds;
  - A mechanism for the sharing of the net cost of the USO between providers of services and/or users.

# A key role for National Regulatory Authorities

- Now active postal market policy required to ensure effective transposition of Directive and to achieve objectives of postal reform.
- NRAs will need to monitor trends, develop and enforce appropriate regulatory policy, particularly:
  - Establishing who provides the universal service in an open market;
  - Licensing/authorisation procedures in an open market;
  - Complaints procedures;
  - Ensure the incumbent does not abuse its market power by ensuring costs are allocated efficiently and prices are as cost reflective as possible;
  - Safeguard respect for the Article 11a obligations (access to the infrastructure);
  - Devise appropriate incentives on the incumbent to ensure it is efficient.

# A key role for National Regulatory Authorities

- The increasing importance of NRAs is reflected in the Postal Directive. The role of NRAs has been strengthened (Article 22 (3), Article 22a, Article 11a, Article 19 and Recital 47);
- Strong, adequately resourced, independent NRAs are vital to ensure the success of postal reform.

# Thank you for listening

## Questions?

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