19th Conference on Postal and Delivery Economics

June 1-4, 2011
St. Helier, Jersey

Presented by
CENTER FOR RESEARCH IN REGULATED INDUSTRIES
Rutgers Business School – Newark and New Brunswick

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Swiss Economics
19th Conference on Postal and Delivery Economics

Wednesday, June 1, 2011

5:30 - 7:00 Registration
7:00 Reception
8:00 Welcome and Introduction to Conference: Michael A. Crew, Paul R. Kleindorfer & Senator Paul Routier, Assistant Minister for Economic Development, Jersey

Dinner & Speech: Ian Carr, Chief Executive Officer, Jersey Post

Thursday, June 2, 2011

7:30 Breakfast
9:00 - 10:30 Concurrent Sessions

COMPETITION Rocco Tower 1 & 2
Chair: Bernhard Bukovc
Discussants: Greg Harman & Lionel Janin

Dawn Longman, Sam Williams & Leonardo Mautino: Future Models of Competition in Packets and Parcels Markets and Their Commercial and Regulatory Implications

Stephen Gibson & Nancy Race: UK Packets and Parcels Services Market Study

Steven Tokar, Phil Burns & George Houpis:
Assessing the Impact of Electronic Substitution and Other Non-Postal Alternatives on Competition and Market Definition in Post

10:30 - 10:50 Coffee Break

10:50 - 12:20 Concurrent Sessions

PRICING Rocco Tower 1 & 2
Chair: Robert Hammond
Discussants: Michael MacClancy & John Panzar

Claire Borsenberger, Sébastien Bréville, Helmuth Cremer, Philippe De Donder & Denis Joram: Price Cap Regulation in the Postal Sector: Single vs. Multiple Baskets

Michael A. Crew & Paul R. Kleindorfer: Nonlinear Pricing, Volume Discounts and the USO under Entry


12:20 - 1:40 Lunch

1:40 - 2:40 Concurrent Sessions

FUTURE OF POSTAL SERVICES Rocco Tower 1 & 2
Chair: Mark Boleat
Discussants: Martin Maegli & Michael F. Scanlon

John C. Panzar: Towards a 21st Century Postal Service

Marije Wichers, Peter Buijten & Sjoerd Janssens:
An Approach towards a Market-Based Postal Service While Maintaining the USO

INNOVATION Rocco 3
Chair: Martin Maegli
Discussants: Adam Houck & Mark van der Horst

Beat Friedli: Postal Operator between Traditional and New Architecture of Relevance and Trust

John Hearn: What Impact Will the Confluence of the Postal Sector with the Internet Economy Have on Regulation?


FUTURE DEMAND Rocco 3
Chair: Philippe Claeys
Discussants: Patrice Muller

François Boldron, Catherine Cazals, Jean-Pierre Florens & Sébastien Lécro: Does Mail Demand of Several Countries Converge?

Frédérique Feve, Jean-Pierre Florens, Leticia Veruete-Mckay, Frank Rodriguez & Soterios Soteri: Uncertainty and Projections of the Demand for Mail


INNOVATIVE MARKETING I Rocco 3
Chair: Pierce Myers
Discussants: Martin Füll & Norma B. Nieto

Kari Elkelä: Paper Marketing vs. Digital Marketing: How Do Consumers Choose?

Joanne McNeish & Louise Heslop: Exploring the Paper Bill’s Role in the Bill Payment and Presentment Process
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<th>Time</th>
<th>Session</th>
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<th>Discussants</th>
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<td>2:45 - 3:45</td>
<td>INTERNATIONAL Rocco Tower 1 &amp; 2</td>
<td>Rocco Tower 2</td>
<td>George Kuehnaum</td>
<td>Neil Anderson</td>
<td>Cross-Country Comparisons of the Postal Quality of Service by Claire Borsenberger, Denis Joram, Marine Oddo &amp; Philippe Regnard.</td>
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<td>Reception</td>
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<td>8:00 –</td>
<td>Dinner &amp; Speech: Tim Brown, Chief Executive Officer Postcomm</td>
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**Friday, June 3, 2011**

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<td>7:30</td>
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<td>9:00 - 10:30</td>
<td>Concurrent Sessions</td>
<td>Rocco Tower 2</td>
<td>Ian Ridgway</td>
<td>Richard Bradley &amp; Gregory Swinand</td>
<td>A Panel Data Analysis of Inefficiency and Heterogeneity in Postal Sector by Catherine Cazals, Jean-Pierre Florens, Paul Dudley &amp; Michael Jones.</td>
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<td>Rocco Tower 2</td>
<td>Navin Waghe, Greg Harman, E. van der Merwe &amp; W. Koevoets</td>
<td>Measuring Cost Efficiency of Universal Service Providers</td>
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<td>Rocco Tower 2</td>
<td>Vincenzo Visco Comandini &amp; Francesca Mazzarella</td>
<td>Measuring the Cost of the Universal Service in Declining, Non Sustainable Postal Markets: What is the correct counterfactual scenario?</td>
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<td>Mohammad Adra &amp; Renee Sheehy: A Framework for Optimizing and Modernizing the U.S. Postal Service Retail Network</td>
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<td>Rocco Tower 2</td>
<td>John Curran</td>
<td>Padraig Dixon &amp; Joakim Levin</td>
<td>Affordability of Postal Services Addressed to Households by Clair Borsenberger, Denis Joram &amp; Lise Martin.</td>
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<td>Rocco Tower 2</td>
<td>Heikki Nikali, Kari Elkelä, Pekka Leskinen, Päivi Rokkanen &amp; Peter Karlsson</td>
<td>Allocating Costs between Universal Services and Services outside the Scope of Universal Service</td>
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<td>Michael Ravnitzky &amp; J.P. Klingenberg: Government Use of the Postal System: A Valuable USO Component</td>
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Friday, June 3, 2011 (CONTINUED)

12:20 - 1:40  Lunch

1:40 - 2:40  Concurrent Sessions

LIBERALIZATION I  Rocco Tower 1 & 2
Chair: Dominique Bailly
Discussants: Geoff Bickerton & David M. Levy

Henrik B. Okholm & Anna Möller: How Does Liberalization Affect Postal Workers?
Edward S. Pearsall & Charles L. Trozzo: Liberal Strategies for Postal Liberalization

TENDERING THE USO  Rocco 3
Chair: Paul C. Smith
Discussants: Jeanne Golay & Frank Rodriguez

Ana Peralta Baptista & Denis Sparas: Tendering Universal (Postal) Service Obligation – Interfaces between Public Procurement and State Aid Rules
Carlos Costa: On the Use of Reverse Auctions to Designate Universal Postal Service Providers

2:45 – 3:45  LIBERALIZATION II  Rocco Tower 1 & 2
Chair: Jan Bart Henry
Discussants: Lawrence G. Buc & Sture Wallander

Monika Plum: Liberalization and Co-operation: The German Experience from a Supplier’s Perspective
Jeff Colvin, Michael D. Bradley & Mary K. Perkins: Do Volume Increases and Decreases Have the Same Effect on Labor Hours?

SERVICE QUALITY  Rocco 3
Chair: Michael J. Shiina
Discussants: Michael Byrne & Joost Callaert

Filipa Silva: Priority and Non Priority Universal Service: Are We Returning to the Origins?
Gregory P. Swinand, Patrice Muller, Mette Damgaard, Lionel Janin, Julien Coulier, Christiane Guillot, Magali Cecchet & Nicole Doise: Quality of Service Regulation and Consumers’ Needs: Recent Evidence from France

3:45  Break

7:00  Reception

8:00 – Dinner & Speech: Stephen Agar, Director of Regulated Business, Royal Mail

Saturday, June 4, 2011

7:00  Breakfast

9:00 - 10:30  FUTURE USO  Rocco Tower 1 & 2
Chair: Magali Cecchet
Discussants: Robert Campbell & Paul Hodgson

Annegret Groebel & Tobias Katzschmann: Ensuring the Universal Service in the Light of Technological, Societal and Economic Changes: The German Experience
Christian Jaag & Urs Trinkner: Towards a Future-Oriented USO: An Economic Perspective
Henrik B. Okholm & Marcin Winiarczyk: Who Needs the USO? Lesson from Austria

10:30 - 11:00  Coffee Break

11:00 - 12:30  REGULATION  Rocco Tower 1 & 2
Chair: John Fletcher
Discussants: Olaf Klargaard

Richard Eccles: Price Differentiation: What is Acceptable for Universal Service Provider?
Alessandra Fratini: Failure to Implement the Postal Directive: Public and Private Enforcement of State Liability
Ralf Wojtek & Martin Zauner: Postal Price Regulation in a Competitive Environment

12:30 - 12:50  Concluding Discussion and Remarks – Michael A. Crew and Paul R. Kleindorfer

12:50-  Lunch (Conference Ends)
The following edited books resulted from Previous CRRI Postal Events:


The following are texts on postal economics:


These books are published by Springer and Edward Elgar. For information on ordering the books is available at either [www.springeronline.com](http://www.springeronline.com) or [http://www.e-elgar.co.uk/](http://www.e-elgar.co.uk/).

### Conference Staff

**Professor Michael A. Crew, Director & CRRI Professor**

*Conference Chair*

**Francelis Montes de Oca, Assistant Director—CRRI, Conference Administrator**

Center for Research in Regulated Industries

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crrri@business.rutgers.edu (Francelis Montes de Oca)

**Professor Paul R. Kleindorfer, Conference Co-Chair**

Anheuser Busch Professor of Management Science, Emeritus, The Wharton School of the University of Pennsylvania, and Distinguished Research Professor, INSEAD

Email: Kleindorfer@wharton.upenn.edu
The Center for Research in Regulated Industries (CRRI), located at Rutgers University, aims to further study of regulation by research in economics, finance, and institutions. Its publications, seminars, workshops, and courses make available the latest advances to academics, managers, consultants, and regulatory commission staff. The Center has over thirty years of experience providing research, instruction, conferences, courses, seminars, and workshops in economics of network industries. The Center’s *Journal of Regulatory Economics* is an international scholarly bi-monthly publication intended to provide a forum for the highest quality research in regulatory economics. CRRI was the recipient of The Hermes Award, 1992, awarded by the European Express Association.

**Speakers, Discussants & Chairs**

Mohammad Adra, Assistant Inspector General for the Risk Analysis
Research Center, U.S. Postal Service Office of the Inspector General

Stephen Agar, Director of Regulated Business, Royal Mail

Neil Anderson, Head of UNI Post & Logistics, UNI global union

Dominique Bailly, Director of HR Strategy Management, La Poste

Geoff Bickerton, Research Director, Canadian Union of Postal Workers

François Boldron, Groupe La Poste

Mark Boeleat, Chairman, Jersey Competition Regulatory Authority

Claire Borsenberger, Economist, La Poste – European and National Regulation Division

Richard Bradley, Manager, Frontier Economics

Sebastien Breville, Economist - Head of Price Regulation Department, La Poste

Tim Brown, Chief Executive Officer Postcomm

Bernhard Bukovec, Director, Intercompany Pricing & Regulation, International Post Corporation

Michael Byrne, Director of Regulation, Office of Utility Regulation (OUR), Guernsey

Lawrence G. Buc, President, SLS Consulting, Inc.

Joost Callaert, Senior Advisor, BIP

James I. Campbell, Jr., Attorney, Office of James I. Campbell Jr.

Robert Campbell, President and Vice-Chancellor, Mount Allison University

Ian Carr, Chief Executive Officer, Jersey Post

Gary Carroll, Service Delivery Director, Jersey Post

Catherine Cazals, Professor, Université Toulouse, TSE & IDEI

Magali Cecchet, French Ministry of Economy - General Directorate for Competitiveness, Industry and Service

Margaret Cigno, Postal Rate and Classification Specialist, US Postal Regulatory Commission

Philippe Claeys, European Government Sector Advisor, PricewaterhouseCoopers

Jeff Colvin, Manager, United States Postal Service

Carlos Costa, ANACOM

Julien Coulier, Head of Authorizations & Universal Service Department, ARCEP

Helmut Cremer, Professor of Economics, IDEI Toulouse School of Economics

Michael A. Crew, Director and CRRI Professor of Regulatory Economics, Rutgers University

John Curran, Executive Director, Jersey Competition Regulatory Authority & Director General, Office of Utility Regulation (OUR), Guernsey


Mette Trier Damgaard, Consultant, London Economics

Alex Dieke, Head of Department, WIK GmbH

Padraig Dixon, Senior Consultant, Oxera

Neil Dryden, Director, LECC

Paul Dudley, Head of Regulatory Analysis, Royal Mail Group

Richard Eccles, Partner, Bird & Bird LLP

Kari Elkelä, Development Manager, Itella Corporation

John Fletcher, Director, KPMG LLP

Jean-Pierre Florens, Professor, Université Toulouse, TSE & IDEI

Frédérique Feve, Researcher, IDEI – Université des Sciences Sociales

Alessandra Fratini, Partner, FratiniVergano - European Lawyers

Beat Friedli, SwissSign / Swiss Post

Martin Füll, postconsulting.at / Consulting & Market Research, Austria

Axel Gautier, Associate Professor, Université de Liège

Jeanne Golay, Head of Regulatory Policy, Office of Utility Regulation (OUR), Guernsey

Annegret Groebel, Head of Department, Federal Network Agency

Christiane Guillot, Head of Postal & Business Division, French Ministry of Economy - General Directorate for Competitiveness, Industry and Service

Robert Hammond, Head of Post and Digital Communications, Consumer Focus

Paul Hamilton, Jersey Competition Regulatory Authority

Greg Harman, Senior Managing Director, FTI UK Holdings Ltd.

John Hearne, Manager Postal Liberalization, ComReg

Jan Bart Henry, Head of EU affairs, TNT Post

Paul Hodgson, Manager, Network Access & Regulatory, New Zealand Post

Stuart Holder, Associate Director, NERA Economic Consulting

Derek Holt, Director, AXIPartners

Adam Houck, Managing Consultant, IBM Global Business Services

Lionel Janin, Head of Accounting Department, Modeling & Economics, ARCEP

Denis Joram, Chief Economist, La Post – European and National Regulation Division

Tobias Katzschmann, Deputy Head of Section International Postal Relations and Licence Monitoring, Federal Network Agency

Peter Karlsson, Legal Counsel, Itella Corporation

Tobias Katzschmann, Deputy Head of Section International Post Relations and Licence Monitoring, Federal Network Agency

Alexander Kirschall, Vice President Postal Law and EU Proceedings, Deutsche Post DHL

Olaf Klargaard, Director, Corporate & Regulatory Affairs, Pitney Bowes International

Paul R. Kleindorfer, Professor Emeritus, University of Pennsylvania and Distinguished Research Professor, INSEAD

J.P. Klingenberg, Economist, Postal Regulatory Commission

George Kuehnbaum, National Secretary-Treasurer, Canadian Union of Postal Workers

Sébastien Lécou, Economist, La Poste

Joakim Levin, Analyst, Swedish Post and Telecom Agency

David M. Levy, Partner, Venable LLP

Michael MacClancy, Head of Regulatory Affairs, The DX Group

Martin Maegli, Head of Regulation, Swiss Post & EPFL

Lise Martin, La Poste

Leonardo Mautino, Managing Consultant, Oxera

Joanne McNeish, Assistant Professor, Ryerson University

Meloria Meschi, Director, FTI

William C. Miller, Senior Economist, U.S. Postal Regulatory Commission

Anna Möller, Economist, Copenhagen Economics

Patrice Muller, Senior Partner, London Economics

Pierce Myers, Attorney

Norma B. Nieto, Sr. Managing Consultant, Strategy & Innovation, IBM Global Business Services

Heikki Nikali, Research Director, Business Intelligence, Itella Corporation

Carla Pace, Economic Intelligence Expert, bpost
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John C. Panzar, Professor, University of Auckland
Chris Paterson, Director, Diversified Specifications
Edward S. Pearsall, Consultant, U.S. Postal Regulatory Commission
Marie-Odile Pilley, Postal Economics Expert, Universal Postal Union
Leon Pintsov, Pitney Bowes Fellow & Vice President, Pitney Bowes, Inc.
Monika Plum, Business Development & Market Research, Francotyp-Postalia
Nancy Race, Principal, Postcomm
Philippe Regnard, La Poste
Ian Ridgway, Finance Director, Jersey Post
Frank Rodriguez, Associate, Oxera
Paivi Rokkanen, Legal Counsel, Legal Affairs, Itella Corporation
Senator Paul Routier, Assistant Minister for Economic Development, Jersey
Margarida Santos, Lic, ICP-ANACOM
Michael F. Scanlon, Partner, K&L Gates LLP
Achim Schröder, Expert Postal Law and EU Proceedings, Deutsche Post DHL
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Michael J. Shinay, Associate Partner, IBM Global Business Services
Filipa Silva, ANACOM
Helen Smith, Economic Analyst, NERA Economic Consulting

Paul C. Smith, Special Counsel, Public Affairs, UPS
Denis Sypas, Legal Officer, European Commission
Gregory Swinand, Divisional Director, London Economics
Steven Tokar, Frontier Economics
Urs Trinkner, Managing Partner, Swiss Economics, & Lecturer, University of Zürich
Peter van Buitjene, Manager Business Development
Mark van der Horst, Director EU Affairs, UPS Europe NV/SA
Anton van der Lande, United Parcel Service Europe NV/SA
Joost Vantomme, Director Regulatory Affairs, bpost
Leticia Verute-Mckay, Royal Mail
Vincenzo Visco-Comandini, Professor in Economics of Institutions, University of Rome Tor Vergata
Sture Wallander, Director International Relations, Posten AB
Helen Webb, Analyst, NERA Economic Consulting
Tarjei Weseth, Senior Advisor, Posten Norge AS
Marije Wichters, Senior Advisor Quantitative Support, TNT Post
Marcin Winiarczyk, Economist, Copenhagen Economics
Ralf Wojtek, Rechtsanwalt, Heuking Kuhn Luer Wojtek
Martin Zauner, Senior Economist, WIK GmbH

José Amado da Silva, Chairman, ANACOM
Geoff A. Bickerton, Research Director, Canadian Union of Postal Workers
Lawrence G. Buc, President, SLS Consulting, Inc.
Bernhard Bukove, Director, Intercompany Pricing & Regulation, International Post Corporation
Philip Burns, Director, Frontier Economics
Eduardo Cardadeiro, Board Member, ANACOM
James L. Campbell, Office of James L. Campbell Jr.
João Castro, Director of Studies and Forecast, Anacom
Julien Coulier, Universal Service Expert, ARCEP
Michael A. Crew, CRII Professor of Regulatory Economics
Robert Curry, Vice President USPS Business Development, USPS Global Account Manager, Siemens Industry - Mobility
Bernard Damiani, Director Regulatory, International & Strategic Affairs, bpost
Gene Del Polito, President, Association for Postal Commerce
Paul Dudley, Head of Regulatory Economic Analysis, Royal Mail
Richard Eccles, Partner, Bird & Bird LLP
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Charles E. Fattore, President, R.R. Donnelley Logistics
Stephen Ferguson, Assistant Secretary, An Post
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Stephen Gibson, Director, Economic Policy, Postal Services Commission
Stefano Gori, Poste Italiane SpA & University of the West of England
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Denis Joram, Chief Economist, La Poste
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Kate Koc, International Post Corporation
George Kuehbaum, Canadian Union of Postal Workers

David M. Levy, Partner, Venable LLP
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Walter Maschke, Managing Director Corporate Regulation
Management, Deutsche Post World Net
Leonardo Maurino, Managing Consultant, OXera
Heikki Nikali, Research Director, Business Intelligence, Itella Corporation
Chris Osborne, Senior Managing Director, FTI UK Holdings Ltd.
Wolfgang Pickavé, Vice President, Regulation Strategy, Deutsche Post DHL
Alberto Pimenta, Director-Strategic Development, CTT Correios de Portugal S.A.
Ian Ridgway, Finance Director, Jersey Post Office
James Sauber, Research Director, National Association of Letter Carriers
Michael F. Scanlon, Partner, K&L Gates LLP
Gennaro Scarfiglieri, Head of Core Business Strategic Marketing - Strategic Planning, Poste Italiane SpA
Malcolm Shaw, General Counsel, New Zealand Post Limited
Rob Sheldon, Managing Director, Accent
Michael Shinay, Associate Partner, IBM Global Business Services
Nancy S. Sparks, Managing Director - Regulatory Affairs, FedEx
Tim Spillane, Vice President, Alix Partners
Paul C. Smith, Special Counsel, Public Affairs, UPS
Gregory Swinand, Division Director, London Economics
Joëlle Toledano, Commissioner, ARCEP
Mark van der Horst, Director EU Affairs, UPS Europe NV/SA
Joost Vantomme, Director Regulatory Affairs, bpost
Sture Wallander, Director International Relations, Posten AB
John D. Waller, Director – Rates Analysis & Planning, U.S. Postal Regulatory Commission
Tim Walsh, Vice President Corporate and Regulatory Affairs, Pitney Bowes Inc
David Williams, Inspector General, USPS

ORGANIZING COMMITTEE
The conference will be held in St. Helier, Jersey. The conference site is:

Radisson Blu Waterfront Hotel, Jersey
Rue de L'Etau St Helier
Jersey, JE2 3WF United Kingdom

Phone: +44 1534 671 100
Fax: +44 1534 671181
Email: events.jersey@radissonblu.com

If you are staying at the Radisson Blu Waterfront Hotel, Jersey it is necessary to make your hotel reservations directly with hotel via the email address above or by faxing the reservation form. Reference the Rutgers University – 19th Conference on Postal and Delivery Economics in your communication. Please make your reservations only through the hotel and not through reservation services/travel agencies.

The hotel reservation forms can be obtained at our web site (http://crri.rutgers.edu/Hotel%20Reservation%20Booking%20Form.pdf).

The Conference rates run from (for the American plan) 150.50 GBP single to 205.50 GBP for double including meals (Breakfast, Lunch & Dinner). The European plan runs from 99 GBP for the single room and 109 GBP for the double. This plan includes breakfast ONLY. The deadline for reservations is April 25, 2011. However as hotel space is limited it may fill earlier than April 25, 2011. Please see the hotel reservation form for the hotel cancellation policy.

A registration fee of $1,500 is payable to Rutgers University.

Food and lodging at the Conference are not included in the registration fee. Breakfast, lunch and dinner are included in the rates for lodging. All persons that do not stay at the either the hotel will be required to pay for meals separately.

The conference fee is waived for a limited number of employees of sponsoring organizations.

Registered participants will be provided with
  • Online access to the conference proceedings
  • A CD-ROM with complete proceedings (papers and presentations) after the conference.
  • A copy of the edited volume resulting from the conference (approximately 6 months after the conference).

Please forward the Registration Form to Francelis Montes de Oca at:
Center for Research in Regulated Industries, Rutgers University
1 Washington Park, Room 1104, Newark, NJ 07102-1897, USA
Phone: 973-353-5761
Fax: 973-353-1348 Email: crri@business.rutgers.edu

REGISTRATION FORM: 19th Conference on Postal and Delivery Economics

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CANCELLATION POLICY: Until April 18, 2011 cancellation is allowed (except for speakers, chairs, and discussants) without penalty and refunds will be provided in full. After this date, the indicated fee is due in full whether or not the participant actually attends. Substitutions may be made at any time.

Signature of Participant: ____________________________________________
Abstract presented for the 2011 Rutgers Conference

Future models of competition in packets and parcels markets and their commercial and regulatory implications
Dawn Longman 1, Sam Williams 1, Leonardo Mautino 2

Understanding the dynamics of any market, from an economics perspective, before it is fully liberalised, is important both to formulating commercial strategy and to setting appropriate regulatory frameworks. While large segments of packets and parcels markets have been subject to competition for many years across Europe, the process of full market opening (FMO) of the European postal markets will deepen from January 2011. In light of FMO and the increasing pressure faced by incumbent USPs from intermodal competition, it would be an appropriate time to examine how competition in packets and parcels markets has developed to date, what kind of competition environment may develop in the future, and the commercial and regulatory implications for postal incumbents.

The first section of the paper sets out an assessment of what the currently available evidence suggests in terms of markets and the extent of competition in those markets for packets and parcels services. The evidence will be drawn from a range of European regulatory, competition policy and merger cases. The paper will highlight a number of key uncertainties that exist with regard to an assessment of the current form and extent of competition. It will specifically discuss the uncertainty that exists in the UK as to the extent to which end-to-end competition occurs for light weight deferred services. This depends on the weight point at which rivals (who set prices relatively flat with weight) are able to profitably compete with Royal Mail (which historically has set prices such that they increase with weight).

The second section will consider a set of economic hypotheses that offer alternative explanations as to why competition has evolved differently for different market segments to date, as in the case of the UK where end-to-end competition is less well developed for light weight deferred services. These hypotheses will take account of observed outcomes (both in the UK and across the EU), legal precedents and economic literature; including: De Donder et al (2002), and Crew and Kleindorfer (2004), which consider the issue of optimal access pricing and parcels competition.
UK packets and parcels services market study

Stephen Gibson, Director, Economic Policy, Postcomm
Nancy Race, Principal, Economic Policy, Postcomm

UK’s economic regulators (OFT; Ofcom) use market studies as a structured way of defining markets and assessing the extent of the incumbent’s market power (or indeed other forms of market failure) in order to consider the interaction between market power and regulatory remedies. This is considered best practice in developing a regulatory framework. For telecoms it is required as part of the European Framework Directive.

The Postcomm market study is the first comprehensive market analysis of the UK postal sector, and to our knowledge there is no equivalent international study of the postal sector. Using competition economics, it defines the relevant wholesale and retail postal markets and assesses whether Royal Mail has market power in those markets. In carrying out this assessment, it takes into account the impact of the existing regulatory regime and the universal service obligation.

The UK PPS markets are generally characterised by increasing end to end competition and markets can be segmented by a number of criteria including, weight, volume, speed of delivery, value added services, and type of customer. This paper describes Postcomm’s approach to the key practical challenges in carrying out its market definition and market power assessment. In particular we focus on the following aspects:

(a) The choice of criteria to segment the PPS market by;

(b) The analysis of different competitive constraints within one market; and

(c) The application of regulatory remedies given our findings.

In conducting the study, Postcomm has gathered very extensive evidence including: structured interviews with operators and customers, evidence of cost structures and market share information. It has also undertaken market surveys and considered relevant literature and competition case law precedents.

In the context of postal markets that are increasingly being deregulated, this paper provides a timely contribution as it explains how to identify markets or market segments for the purposes of assessing whether existing regulation can safely be removed and where regulatory concerns remain. It also considers what the appropriate ex ante or ex post regulatory remedies are which needs to be retained.

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Postcomm
December 2010
Postal conference paper

ASSESSING THE IMPACT OF ELECTRONIC SUBSTITUTION AND OTHER NON-POSTAL ALTERNATIVES ON COMPETITION AND MARKET DEFINITION IN POST

Authors: Steven Tokar, Phil Burns, George Houpis.

In many countries electronic substitution has had a major impact on the postal sector, leading to reductions in volumes and revenues for postal operators. For example, Soteri et al (2009) suggest that UK direct mail volumes have declined by almost 3 per cent per year since 2003. Cazal et al (2010) and Meschi et al (2010) have also studied this issue.

However, despite this substitution from post to electronic alternatives, to our knowledge, no regulatory authority has decided that postal services should be seen as part of a wider communications market. For example, the European Commission decided in both the Austrian and Swedish postal decisions that post is not part of a wider relevant market. Postcomm, the UK postal regulator, also found that postal services are not part of a wider relevant market in its recent investigations into anticompetitive behaviour. These regulators have found that postal operators have market power, despite clear evidence that customers are switching from mail to electronic alternatives.

While previous papers have considered competition policy within post, the focus of some of the literature (Davies (2010), Gerardin (2010) and Florez Duncan et al (2010)) has been on the topic of market abuse, rather than market definition.

Our contribution in this paper is to describe an economic framework for considering whether post is part of a wider market, describing the key evidence that needs to be assessed when considering market definition and the assessment of market power. The paper draws on and extends the published work carried out by Frontier Economics and recent decisions in post and other regulated sectors. The paper also considers the potential implications for the future regulation of postal services.

Our paper is structured as followed. Section One contains the introduction. Section Two reviews the relevant literature, covering the recent articles on the impact of electronic substitution. Section Three reviews recent regulatory authority decisions on the relevant markets for postal services. Section Four describes a framework for identifying the correct relevant market. Section Five briefly describes an example of the application of this framework to the UK postal market. Section Six looks forward and considers the potential implications of further electronic substitution on the definition of relevant markets and the implications for future regulation.

References
“Postal Operator between traditional and new architecture of relevance and trust”

B. Friedli
SwissSign / Swiss Post

One of the hottest questions in the strategic discussions of many Postal Operators today are: “Should Postal Operators develop products in the virtual market place proactively and accelerate the substitution of the good old cash cows, namely of the mail business?” and “How can Postal Operators transform their capital of trust into the Internet?”

We will investigate the new landscape of competitors and demand as well as we will discuss the question of ‘time to market’ of new E-Postal Products. Furthermore we will analyze to what extent E-Postal Products are killing existing business and if and how E-Postal Products help to generate new revenue.

The paper will be building on the evidence of Swiss Post’s worldwide unique practical experience in the virtual postal market place and it will rely on a number of short case studies in the sector. Profound analysis and anticipation of current and future business dynamics will sharpen the business and public customers’ potential for the extension and transformation of their product portfolio. We will present the relevant drivers related to the value which in general business customers perceive if Postal Operators facilitate streamlining of corporate internal processes by making them leaner, faster and more cost effective. We will address the question what this means to Regulators. Will it stimulate the evolution of Postal Operators’ service obligation of the last mile? Must the Universal Last Mile Obligation be modernized?

We will illustrate the role and responsibility of Postal Operators and ultimately analyze the benefit to the whole economy in times of declining affordability and demand for undifferentiated universal services.

We will challenge the myth according to which Postal Operators can survive and remain relevant in the long run without consequently investing into new business models in the virtual market place. Finally we extract some views regarding the Postal Industry’s possibilities and capabilities at the doorstep of a new époque of co-creation and technology-sharing.
From 1 January 2011 95% of the EU postal market will be fully liberalized. The principal objective of the new European regulatory framework is to secure the guaranteed provision of universal services at prices affordable to all users. In many countries universal service still accounts for around 70% of the activities of incumbent operators. The remainder is accounted for by diversified activities such as financial services, logistics and the delivery of unaddressed advertising material.

But the reality is that universal service provision can be expected to become a less significant feature of incumbent operators’ activities, perhaps as low as 25-30% within a relatively short time. In a digital world incumbent operators will need to innovate to succeed, and services tailored to the specific requirements of individual customers will become *de rigueur* – but all these offerings are currently outside the scope of regulation.

Furthermore European Union policies are driving these trends. Currently the levels of “e-billing” are very low, partially because the EU’s VAT Directive leaves the decision about whether to accept or reject “e-billing” to the recipient, and high standards of security are set for those undertakings that do want to move to the digital storage of invoices. If the European Commission achieves its targets the level of e-billing will increase to 50% by 2013, partially because of changes in the new VAT Directive about the rules concerning the electronic storage of invoices. The implications for mail volumes are obvious.

At the same time the European Commission is concerned about the low levels of e-commerce, especially with regard to cross-border sales. Again the European Commission has set targets to bring about a truly single market for e-commerce. However the EU’s actions to increase consumer protection and make cross-border payments easier will mean nothing unless postal operators develop and offer high quality, efficient and affordable cross-border delivery services. Not only does this involve the introduction of new products and effective inter-operability between national operators but it will require the development of alternative delivery methods such as evening deliveries and collections from packet stations, or convenience stores open 24/7. Are existing operators up to the task or will new pan-European operators emerge?
Is there a role for Posts in Electronic Communications?
E-government, e-healthcare and secure communications

Submitted for consideration by L. A. Pintsov and A. Obrea

The debate on the role of the postal sector in communication market in 21st Century continues unabated. Given very significant decline (since 2006) in the most profitable postal products, there is a pressing need for Posts to define their participation in the growing electronic communication market. For more than a decade now Posts in the industrial world attempted to enter this market with mixed results and for a good reason. It is hard to clearly define sustainable advantages that postal operators can offer their customers in the world of e-communications. In this world “me too” solutions rarely work, especially given first mover advantages, the burden of bureaucracy, management controls and the traditional organization of the vast majority of postal operators whose infrastructure and resources were optimized for materially different applications and business models. Moreover, the “free” nature of e-communications offered today by Microsoft, Google, Yahoo and Internet service providers makes it hard to conceptualize a suitable business model for Posts as entrants into this market.

This paper attempts to define a meaningful role for postal operators in an emerging and largely unaddressed market for secure personalized electronic communications in government, healthcare and other market segments with similar characteristics. The main requirement of these segments is that communications between individuals and government agencies/healthcare entities have to emulate existing face-to-face and physical mail communication paradigms in terms of ubiquity, security and universality while simultaneously offering cost reductions and ease of set up and use for all parties involved. This requirement imposes a non-trivial set of difficult and frequently contradictory challenges, both technical and administrative. In this paper we sketch a potential solution based on a specialized e-mail application organized in “.post” domain that offers Posts some potentially meaningful advantages over established solutions and other entrants. Specifically, we define a system architecture for our solution and describe its main operational functions. We then discuss feasibility of our solution, how it meets the main requirements of an acceptable solution and where we see advantages that Posts could potentially enjoy. Of course our proposed solution and its advantages are debatable, thus offering an opportunity for lively discussion. Our hope here is to stimulate such a discussion and discover new approaches to and features of e-communications as well as potential pitfalls of realizing such communications on a large scale in the context of e-government and e-healthcare applications.

The approach described in the paper, if feasible, opens up a number of new possibilities both for Posts and their suppliers, which the paper will explore, employing a system design framework to compare our approach with other potential and existing solutions.

References


Direct Magazine (7/09)

http://www.govdelivery.com/
Price cap regulation in the postal sector: 
single vs multiple baskets

by
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Starting in the mid-1980’s, many network industry incumbents became subject to price caps. Roughly speaking, a price cap defines an average price level not to be exceeded by the operator. The operator is otherwise free to adjust relative prices of its different products. Price cap regulation provides powerful incentives for cost reduction. The system is also intended to reduce political interference in the setting of individual prices and the price flexibility should enable incumbent operators to become more business oriented. While their average price is capped by the regulator, they could adjust prices of their different products to reflect costs, elasticity of demand, complementarities between segments, and competitive pressure.

In the postal sector, price cap schemes are by now widely used. However, in reality their design differs often significantly from the ideal policy just described. In particular, regulators very often are tempted to add additional constraints limiting price variations of so-called sub-baskets. This is justified by the need to offer special protection to some group of customers who for a variety of reasons may receive an extra weight in the regulator's objective. For instance, the regulator may want to restrict the increase of single piece rates. In addition, it is sometimes argued that sub-baskets may restrict the incumbent’s ability to engage in anti-competitive behavior (e.g. “squeezing” competitor’s markups).

In this paper, we will examine the design of price cap schemes in the postal sector. In particular, we will analyze whether or not it is appropriate to impose sub-baskets. First, we will look at a setting where some customers (or products) receive an extra weight in the regulator’s objective and study to what extent this provides an argument of the imposition of extra constraints. The literature has shown that a global price cap can be used to decentralize Ramsey prices (that maximize unweighted surplus). We show that this result can be generalized in a variety of directions including welfare weights and the presence of competition. Second, we shall examine the role of demand uncertainty, which is definitely a major feature in today’s postal markets. Sub-baskets introduce ex ante constraints on the pricing structure, which can prevent the operator from abusing market power in some states of nature. On the other hand, they reduce the possibility ex post to adapt relative prices to the realized structure of demand. We show that while the overall effect appears to be ambiguous, a number of arguments plead against the imposition of sub-baskets. In particular, we show that ex ante constraints will tend to increase the overall price level.
As policy makers and researchers have acknowledged, there are inherent tensions between maintaining a USO combined with FMO. These tensions are exacerbated by serious intermodal competition in the form of electronic substitution for both advertising and transactions mail and were examined in Crew and Kleindorfer (2011). C-K 2011 demonstrated that retaining volumes for ultimate delivery by the USP is fundamental to maintaining economies of scale, which are essential aspects of both the USO and remaining financially viable. The role of access in this process was shown to be central. This paper is a logical extension of this same theme, in that it examines the role of volume discounts (focused primarily on downstream access) to support volume growth and retention of delivery scale economies without compromising efficient entry under FMO.

Under a USO, a significant fraction of total delivery cost for the USP is fixed because of the need to complete the same routes to every address every delivery day. The consequence of this is that delivery costs are characterized by significant economies of scale, which is to say that average costs decrease as volumes increase. As a result of economies of scale, intermodal competition in the communications market and the resulting decline in demand for many postal products lead directly to increasing average delivery costs. A principal strategy to offset these is to pay greater attention to pricing strategies that encourage cost savings in upstream worksharing activities and greater volumes in downstream access. If these activities can be performed by mailers themselves or by worksharing organizations at lower cost than the USP, demand is likely to be stimulated.

The issue of volume discounts is central to this proposal to increase access volumes. As with access pricing, this area has been a major area of analysis in the literature and practice of network industries. Willig (1978), showed that any uniform price schedule unequal to marginal cost could be Pareto dominated by a non-linear outlay schedule (e.g., one based on volume discounts) that would make both the producer and its customers better off.

Volume discounts (either to originators of mail or to worksharing providers) are an important example of nonlinear pricing in the postal service, though their analysis has only recently begun. Volume discounts are second degree price discrimination. and as such are open to arbitrage, which could lead to spurious aggregation in which a consolidator takes advantage of pure arbitrage opportunities. This cream-skimming of volume discounts can be mitigated or avoided in several ways. One is to identify originating customers and to provide them directly with discounts based on their annual volumes of mail actually delivered by the USP. Another is to couple worksharing discounts and access volume discounts.

This paper is one the first to examine the role of second degree price discrimination in the pricing of access and is expected to proceed along the following lines.

1. Introduction and Motivation
2. Approach to Pricing Innovation primarily non-linear pricing (NLP)
3. Generalize Access Results (C-K 2011) under NLP
4. Implications of alternatives to NLP for policy and for PO strategy
5. Conclusions
By analyzing the conditions for efficient NLP in access, this paper aims to contribute to the discussion of how pricing innovations can preserve scale economies by promoting growth in access under USO, FMO and eSubstitution.

References


WELFARE AND PRICING OF MAIL IN THE TRANSACTIONAL MARKET

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This paper is a further development of our paper and economic model of last year. Its focus is on the effects of competition from a digital alternative in the transactional market in addition to the digital alternative in the advertising market (addressed last year). This introduces several potentially interesting dimensions and insights.

The traditional bulk mail market can be thought of as serving business communication needs with other businesses and customers, and includes transactional and advertising mail, as distinct from single piece mail. Through transactional mail the sender is able to meet its obligation of providing information to the recipient (examples including bank statements and utilities’ invoices). Through advertising mail the sender is able to provide information to the recipient to encourage a response or purchase. While the bulk mail market might also comprise of mail used for other purposes, these two formed the focus of last year’s paper and the developments this year.

Mail volumes have been in decline within single piece and bulk mail in recent years and while this is in part consequence of the economic downturn, it is also due to the substitution of mail to other communication media. Single piece mail has been substituted by texting and email; transactional mail has been substituted by statements and invoices conveyed by e-mail or over the Internet; and advertising mail has been substituted by alternative digital communication available.

Following on from previous literature relating to optimal pricing within a global price cap and pricing (De Villemeur et al 2002, 2003; De Donder et al 2006, 2008 and De Donder et al 2010a), in De Donder et al 2010b and 2011 we looked at welfare and pricing where the bulk mail market is considered to comprise of two distinct markets, of transactional and advertising mail, for which the price elasticities are different but the costs of providing those services are the same for postal operators, whether the USP or competing postal entrants. We looked at the effects of competition from an alternative medium in the advertising market. These papers showed transactional mail contributing significantly to the recovery of the fixed costs of the USP, through differential pricing between transactional and direct mail.

In this paper we look at the effects on welfare and pricing of a digital alternative to mail in the transactional market. We proceed with the economic model developed last year, with independent single-piece mail, transactional mail and advertising markets and with an alternative medium competing in the direct mail market. We remove postal competition from the transactional and direct mail markets to focus attention on the introduction of the digital alternative to mail in the transactional market. We examine the effects of the senders of transactional mail and its digital alternative charging final consumers or recipients of this mail for those services and taking the USP’s price for mail and the price of the alternative as input prices. We calibrate this model to gain further insight on welfare and pricing effects in the transactional and wider communication markets. As such the paper provides some further understanding of policy and pricing issues for the mail in the transactional and wider communication markets, whose relevance to and influence on the mails market could increase significantly in future years.

References


The study of mail volume drivers has mainly been performed using individual country models. If this choice can be justified when the analysis is mainly concerned by price elasticities, some other variables can not be precisely studied in this setting because their variance is not high enough, as it is for example the case for demographic variables.

These shortcomings can be mitigated by using cross-country panel data. Indeed, the main advantage of a panel approach compared to purely time series or cross-sectional data approaches in estimating demand models is that it offers more informative data with more variability and it reduces the problem of collinearity among variables. Examples of cross-country panel data studies of mail volumes include Harding (2006), Jimenez et al. (2008) and Meschi et al. (2010). In this last study, Meschi et al. studied 13 European countries during the period 1998-2008 and showed the positive effect of income and adult population on volumes and for some countries the negative effect of e-substitution.

In order to achieve a broader view we build a database including 38 countries. Our objective was to work on a set of country with heterogeneous level of development in terms of GDP, mail traffic or broadband subscription. For each country we have collected postal data, economic and demographic data and electronic communication data.

A first contribution of the paper is to provide an analysis of mail drivers with the estimation of mail demand models using dynamic panel econometric methods.

A second contribution is the analysis of a possible convergence phenomenon between countries in terms or mail per capita, using econometric convergence tests. These tests were mainly developed to study the issue in convergence in the growth literature. We apply here some tests for mail per capita, based on panel data unit root tests developed for example by Levin and Lin (1993), Levin, Lin and Chu (2002) or Im, Pesaran and Shin (2003). We also discuss the possibility of leapfrogging where developing countries would skip the development of postal services and would directly adopt more recent communications services.

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Uncertainty and projections of the demand for mail*

F. Feve¹, J.P. Florens², L. Veruete-McKay³, F. Rodriguez⁴ and S. Soteri³

Mail volume projections are an important driver of postal business decisions. Such projections support major investment decisions, help determine the nature and scope of regulatory controls and represent a key variable in business valuations. It is therefore important that postal operators assess properly the risks and uncertainties surrounding projections of mail volumes over both the short and the long term.

The aim of this paper is to provide insights into the factors underpinning mail volume risk and uncertainty in order to better inform postal industry business and policy decisions. The paper will provide a theoretical overview of how mail volume projections are constructed and identify the key factors that contribute to forecast errors. This framework will then be followed by an applied analysis using UK data and information. In particular, a historic outturn versus projection analysis of the demand for UK mail will be undertaken using time series econometric models to quantify the relative magnitude of different types of risk and uncertainty.

In econometrics it is sometimes assumed that the degree of uncertainty surrounding model based projections simply relates to errors of the residual terms of the estimated model and the estimated parameters. However, Cazals et al. (2008) showed that analysis of this kind, which is conditional on the future evolution of explanatory variables and the absence of structural changes in the demand for mail in the forecast period, considerably underestimates the true level of uncertainty associated with such projections. Furthermore, Feve et al. (2010) found that using additional available information to inform volume projections can reduce the uncertainty surrounding central volume projections.

This paper will undertake a counterfactual analysis to identify and quantify such uncertainty using recent historic data and econometric models estimated by Royal Mail. This analysis can be extended more widely in other countries with advanced postal networks.

NOTES

*The analysis contained in this paper reflects the views of the authors and not necessarily those of Royal Mail Group.
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REFERENCES


Abstract

The process of accurately forecasting segmented small and large letter volumes crucially involves two stages: 1) Establishing an econometric baseline incorporating observed and dynamic historical associations; and 2) augmenting that baseline with additional intelligence regarding one-off events and emerging trends. Whilst previous studies in this field focus on the theoretical underpinnings of each, this paper provides a working roadmap which combines the two. The baseline econometric model forecasts use recent developments in time series modelling which combine both short-run and long-run behaviour, known as Vector Error Correction models. These forecasts are then augmented with prior information which in general are found to improve the identification of underlying trends that may not necessarily be apparent over the timeframe over which the model is constructed.

Differences with existing research in this area, such as Feve et al (2010), are contextualised through an examination of very recent Australian small and large letter volume trends. This is intended to emphasise the importance of: 1) Embodying the combined effects of letter volume consolidation, rationalisation and substitution into a methodological approach that would otherwise ignore such effects; & 2) assessing the extent to which the recent impact of the global financial crisis should be treated exogenously or endogenously within the existing system of long-run equations. The study should appeal to applied econometricians, yet is also intended to assist regulators and postal authorities by acting as a guide in cases where developing a robust set of letter volume growth projections is of interest.


Keywords: Vector error correction models, forecast-augmentation, global financial crisis.

JEL Classification: C32, C53, L87
Towards a 21st Century Postal Service

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ABSTRACT

The World Financial Crisis accelerated a secular decline in postal sector volumes and finances. It now seems clear that neither will recover along with the wider economy. Therefore, it is an appropriate time to reassess the role of the postal sector in the U.S. going forward and to analyze the guiding principles under which it should be organized. That is the purpose of this proposed paper. To begin, it is important out that the task is no less important because the postal sector is a “declining industry.” The same can be said of the railroad industry in the 20th century. By the end of that century, railroads had clearly lost the dominant place in the U.S. economy that they had enjoyed in 1900. Yet their role remained crucial, nevertheless. More importantly, for my purposes, their decline had been managed very poorly from the perspective of public policy. It is important that this saga is not repeated with the postal sector, which also continues to be a vital part of our nation’s infrastructure, even in its decline.

My analysis will approach the problem from the perspective of institutional design. That is, there are a set of fundamental decisions society must make about the future nature of the postal sector and these decisions have important economic implications. Thus, I plan to address the following interrelated issues:

- **Ownership Structure: Public or Private?** This is, of course, a controversial political issue. However, there are also important economic efficiency tradeoffs involved.

- **Vertical Structure:** How much of the postal value chain should be provided by the Postal Service? How much by the private sector? What is the nature of the interaction between public and private?

- **Regulatory and Antitrust Policy:** What is the appropriate division of labor between regulatory and antitrust authorities? Should there be a Reserved Area? If so, what should be its extent? How should the Postal Service be regulated? Both “cost plus” and “fixed price” regulatory philosophies have been (or are being) used. Are there other alternatives?

Of course all of these issues have been addressed many times before. However, I hope to develop fresh insights by looking at these issues from the perspective of designing the incentive framework that for the public-private partnership that will constitute our postal sector in the future.
An approach towards a market-based Postal Service while maintaining the USO
Authors: Marije Wichers, Peter van Buijtenhe and Sjoerd Janssens, TNT Post

The approach being taken by TNT to restructure its operational organisation has attracted considerable interest. The move towards a 3-day delivery model is not always fully understood. Often, it is assumed that mere cost cutting is the intention of the massive reorganisation that is currently ongoing.

Fact is that the restructuring is driven mainly by socio-economic changes in today’s society. The role of mail as a communications channel has changed dramatically over the past 10 years. TNT is adapting its organisation in order to be able to meet these changes, and at the same time to be able to extend the life cycle of mail. Rather than accepting the decline of mail volumes, TNT continues to see this medium as a valuable way for businesses to communicate with their customers, albeit in a different manner and at different cost levels. At the same time, it will enable TNT to face intensified competition while maintaining the USO at a level that suits contemporary demand.

In this paper, TNT will explain the economic rationale behind the restructuring. TNT will explain the analytical approach that was taken to design a 3-day delivery service offering within the conditions of a postal operator that is obliged to maintain a 6-day USO.

TNT will clarify the way commercial propositions and the operational restructuring come together to meet changing customer requirements, and demonstrate the relationship with a sustainable, affordable USO, both today and in the future. Further, the operational requirements and the hurdles that TNT comes across in the implementation will be explained.
ABSTRACT: 19th Conference on Postal and Delivery Economics, June 1-4, 2011

Kari Elkelä

**Paper marketing vs. digital marketing**

How do consumers choose?

Marketing is an essential part of the communication market. We encounter it both in the form of separate marketing messages and in many channels next to information and entertainment. The fast development of mobile phones and internet services is changing the character of marketing and challenging the traditionally strong paper channels.

Numerous studies in many countries have been carried out dealing with one or two new digital channels. However, an overall view of influencing factors has yet to appear. Is paper marketing still the dominant form? How widely is digital marketing accepted? What are the consumer preferences for each channel? Why are certain channels chosen by certain consumers? Answers to these questions are important both for marketing enterprises and operators of traditional and digital delivery.

This study compares reception channel preferences for the paper channels newspaper, magazine, catalogue, brochure and letter, and for the internet channels email, search services, social media and news pages, and also for the other electronic channels radio, television, phone call and text message. Respondents gave reasons why, in what kind of situations and for which product groups they used each. Also, the reasons for non-use were answered qualitatively.

In another part of the study six attribute or need groups for each channel were evaluated quantitatively. Four of these attribute groups were derived from uses and gratifications theory. These were information, entertainment, personal identity and social interaction. Because consumers now have many more possibilities for choosing marketing channels than earlier, they are becoming more and more willing to make these choices. So, controllability is a valid attribute group, for which reason it has also been included in this study. Besides this, the increasingly important matter of environmental responsibility was measured, too.

These consumer data were used to estimate a linear regression model which explained the reasons for reception channel choice in marketing. Another way to model channel preference data is to employ k-means cluster analysis, and this revealed five distinct consumer segments, which were profiled according to their demographics. The main dimensions of channel choice were also found in this process; these are paper vs. digital and addressed vs. anonymous.

Two main data sources were used in this study. The first data, which consisted of 1180 responses, was collected in June 2010, and the second, with 1397 responses, was collected in October 2010. Both sets of data are representative samples of Finns. Comparative data from 2006 makes it possible to examine ongoing change in marketing channel preferences. This research can also be viewed as following, enlarging on and deepening my earlier study “Paper or electronic” (Elkelä in Crew & Kleindorfer, ed. 2005), which covered only four channels and presented only preliminary hints of reasons for channel preference.
Abstract

EXPLORING THE PAPER BILL’S ROLE IN THE BILL PAYMENT AND PRESENTMENT PROCESS

By Joanne McNeish and Louise Heslop

That most consumers adopt online bill payment without adopting electronic bill presentment has long puzzled banks, organizations and academicians. Previous research had not considered that the origins of behaviours involving resistance to giving up an existing and dominant technology may have emerged from different beliefs and evaluations than the behaviour of resistance to adopting an innovation. The purpose of this research was to explore the behaviour of resistance to discontinuing a dominant technology in the face of an alternative innovation using the paper bill as the example of the dominant technology.

To study resistance to discontinuing the paper bill in the face of the electronic bill, this research reconceptualizes the paper bill as an artefact, thereby broadening the dimensions of its evaluation. A new perspective for exploring consumers’ behaviour was proposed. Rather than labeling consumers’ inaction in the face of an innovation as non-adoption, resistance to innovation adoption or status quo behavior, this research labels the behavior as resistance to discontinuing a dominant technology. A Model of Resistance to Discontinuing a Dominant Technology was proposed and tested. As part of model development, new constructs were developed and tested.
The quality of postal services is a crucial point for the European Community. In 1997, performance in terms of quality of services varied considerably among Member States and motivated the full market opening and the establishment of common rules for its improvement (Directive 97/67/EC of 15 December 1997 on “common rules for the development of the internal market of Community postal services and the improvement of quality of service”). Competition is considered as a tool to improve the quality of service provided to users, which itself contributes significantly to attaining the objective of social and territorial cohesion.

This is why the Directive requires Member States to “ensure that users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users” (Article 3). In practice, Member States must set quality-of-service standards, consistent with Community ones, in order to guarantee a postal service of good quality (Article 16). Quality standards shall focus, in particular, on routing times and on the regularity and reliability of services.

Compliance with the quality-of-service standards is part of universal service obligations and could entail a net cost for the universal service provider. Whereas most European countries have fully liberalized their postal markets, the calculation of the net cost of the USO and the associated “unfair burden” is a crucial topic.

Previous years, we focused on the cost of two components of the USO: the delivery frequency constraint and the density of postal retail outlets. To resume these works, the quality-of-service obligation is studied in this paper.

In a first section, we will describe the legal constraints on quality-of-service standards of various European Member States (Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Poland, Spain, Sweden, UK, and so on). We will see that the constraints are not identical from one country to another. The observed quality-of-service levels and their evolution are described in a second section. In a third section, based on previous works of the WIK Consult (2003, 2004), we will identify the theoretical drivers or explanatory factors of the observed quality-of-service level. In the next section, we will attempt to estimate an econometric relation between the observed quality-of-service and its drivers, in order to better define the “commercial” quality-of-service level that an unconstrained operator would provide according to the characteristics of its market, and to compare the net cost of the constraints burden by the European USPs. The last section will conclude and present caveats and some future perspectives for improving the counterfactual scenarios on quality-of-service constraints.

Terminal dues – the charges that designated postal operators pay each other for the delivery of international mail in the destination country – are traditionally agreed at the Universal Postal Union. At the UPU, the rules for terminal dues have long been a subject of controversy.

In Europe, postal operators have agreed to alternative rules for compensating each other for delivery of international mail. This agreement, called REIMS, was introduced in 1997 and has been amended several times since. In compliance with European law, REIMS terminal dues are more cost-oriented than UPU terminal dues. However, participation in REIMS has eroded since 2006 with several major operators leaving the agreement (including British Royal Mail and Spanish Correos).

The first objective of this paper is to explain the different rules for terminal dues and their history and purpose. The second objective of the paper is to discuss legal and economic standards in Europe and to explain why terminal dues should be more in line with domestic postage. A third objective is to quantify the effect of failure to align terminal dues with domestic postage with an economic model.

The model used in preparation of this paper evaluates the impact of different terminal dues rules on individual national operators. It results seeks to illuminate the financial interest of various negotiating parties and contrast those interests with legal and economic standards for terminal dues. The model is based on available statistics on international postal volumes and prices for postal services. Since no statistics are available to the authors for bilateral mail flows (e.g. the number of items sent from the USA to Germany), the model estimates bilateral mail flows based on available summary information on (1) outbound and inbound postal volumes and (2) general statistics on international trade in services. The model thus assumes postal volumes correlate with trade in services. Finally, the model calculates the terminal dues received and paid by each postal operator for each bilateral flow under different terminal dues rules. The model is an extension of a model developed by the authors in a study prepared for DG Internal Market of the European Commission in 2010, Study on the External Dimension of the EU Postal Acquis”.

Terminal dues have been touched upon in several papers presented at earlier conferences (see references). However, none of these papers attempts to develop quantitative estimates for differences in bilateral payments chargeable under different terminal dues rules. In short, there is little or no public analysis that illuminates who wins and who loses and by how much under different terminal dues regimes.

Rules and relevant legal standards for terminal dues are likely to be a matter of substantial controversy during the preparations for the 2012 UPU Congress in Doha. In Europe, the ERGP (European Group of Regulators for Postal Services) was established in December 2010 and regulation of terminal dues is one in five items of the ERGP’s work plan. The proposed analysis of terminal dues appears to be timely for the work of both of these groups.

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Nudging the Nudge:
Designing a choice architecture model for the postal consumer
Meloria Meschi, FTI Consulting, and Carla Pace, bpost

There has been a lively debate recently about an alternative way of influencing the behaviour of economic agents. Marrying economic analysis with behavioural sciences, this approach has become more prominent after the publication of Nudge, and it appears to have taken the world of policy-making by storm. This is especially so in the UK, where a dedicated policy unit has been created, to evaluate how the precepts of behavioural economics can be applied to maximise policy outcomes.

In regulated industries, regulators have historically focused more on understanding and reforming the industry than on building an understanding of consumers. However, there is now a growing awareness that regulators need to increase their understanding of how consumers behave in order to achieve optimal regulatory outcomes. There are instances where consumer behavior cannot be explained by traditional economic theory, and this was already clear in the 1950s, when Nobel prizewinner Maurice Allais expressed what has become known as the “Allais Paradox”.

Adapted to consumer choice and pricing decisions, the Allais Paradox suggests that while according to (classical economic) theory equal outcomes should have no effect on the desirability of a choice, in practice they do. For example, consumers often react differently to a 10% single price increase than to two separate increases yielding the same outcome. Consumers also appreciate more having a discount in exchange for paying cash than a charge for paying by credit card, even when the two amount to the same effective price.

This simple example clearly shows that understanding the way consumers make their choices is important not only to regulators, but to regulated companies as well, since it allows for the right incentives to be put in place to achieve the desired consumer response. For example, when removing price controls, regulators need to insure that all consumers benefit from the ensuing competition. A 2008 study by the UK NAO (the National Accounting Office) shows this not to be the case for some categories of consumers, in particular for vulnerable consumers. There are a number of reasons why this is so, including “complex tariffs and a lack of easily accessible, trustworthy, relevant, understandable and comparable information.”

Why this is so, and what can be done about it are important questions. While theoretical differences exist between classical and behavioural economics, it may well be that the two strands of theoretical literature can be accommodated within the framework of a well defined choice architecture model.

How to design such a choice architecture model fully representing consumer’s behaviour in the postal sector will be the focus of our paper. In particular, we will consider the choices available based on the six actions (NUDGES) that Thaler, Sunstein, and Balz have identified:

- Incentives;
- Understand mappings;
- Defaults;
- Give feedback;
- Expect error; and
- Structure complex choices

We will consider what information is currently available, in the UK and other countries where consumers’ surveys and other analyses have taken place; what further information is worthy to collect; and how to design such information collection in order to implement a choice architecture model.

References

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2 For example, if the price is 1 euro, a price increase of 10c (or 10%) is equivalent to two price increases of 5c each (the first increase being 5% and the second increase 4.76%). However, total consumption appears to react more to the first change than to the sum of the second changes.

Defending Mail Markets against New Entrants:
An Application of the Defender Model to Postal Markets

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Abstract
Mail markets are finally being opened up to competition in most European countries. Market entry will force incumbent postal operators to (re)act strategically. In this paper, we analyze the strategic competition between incumbent postal operators and market entrants in liberalized letter markets based on the “defender consumer model” pioneered by Hauser & Shugan (1983). From this original model, qualitative normative implications can be derived on how an established firm should defend its profits when facing an attack by a new competitive product.

The defender consumer model assumes heterogeneous consumers maximizing utility in a multi-attributed space. A key feature of the defender consumer model is that attributes are measured per dollar; for example, letter mail might be evaluated with respect to 'delivery speed per dollar' and 'security per dollar'. Another key feature is that consumer tastes, i.e., tradeoffs among the attributes, are assumed heterogeneous.

Based on these assumptions of the general defender consumer model, we develop a two-stage game-theoretic model to analyze competitive pricing and brand positioning strategies of incumbent postal operators and market entrants. In the first stage, mail operators strategically position their brands according to their business models and regulatory requirements. In the second stage, they compete on prices given their strategic brand position. We derive and discuss optimal market entry and positioning strategies for entrant and incumbent postal operators, respectively. We distinguish a USO scenario where the incumbent is restricted in his defense and a non-USO scenario where the incumbent faces no restrictions in his positioning.

Our results extend the literature on competition in liberalized mail markets by combining pricing and positioning strategies from a marketing perspective. The existing literature primarily focuses on pricing strategies and does not take decisions on strategic positioning into account. We show that both dimensions are heavily interconnected. By strategically differentiating themselves from competitors, incumbent postal operators may reduce the price pressures induced by market entry.

References
The analysis of efficiency is of great interest for policy decision makers, particularly for businesses and regulators in many economic sectors. Indeed, some decisions are taken to improve efficiency of production units, but the objectives of these decisions cannot succeed without a thorough knowledge of the current status of the sector in terms of efficiency. The large number of empirical and theoretical studies on the subject in the literature in the past decades gives evidence for this interest, and there is a growing interest in the postal sector (Moriarty et al 2006, Horncastle et al 2006, Cazals et al 2010).

Many methods may be applied to estimate inefficiencies of production units. These methods include deterministic or stochastic methods and parametric or non parametric methods, applied on cross-sectional or panel data. However the most often used in the applied literature is the parametric stochastic frontier analysis (SFA), for which we specify a particular form for the studied efficiency frontier (production or cost) and we assume some particular distribution for inefficiencies. In the standard form this type of model is formulated as a “composed error” model, with an error term decomposed into two components: inefficiency and “noise”. Cazals (2010) compared standard SFA panel and cross section to a simulated data set and then to a delivery office data set. It showed that the SFA panel was prone to overestimate the inefficiency in the presence of unobserved heterogeneity and noise, and that this was consistent with results using the postal data.

An approach named “true random (or fixed) effect model” (TRE) has been developed to look at panel estimation in the presence of unobserved heterogeneity (Greene 2005). The model adds a third component in the error term in order to take into account unobserved heterogeneity and then distinguishes it from inefficiency and noise. This model assumes that inefficiency and noise terms are time-varying, and unobserved heterogeneity is time invariant.

In this paper we apply this TRE methodology to postal panel data for United Kingdom in order to estimate a delivery cost frontier and obtain efficiency scores. We compare the results obtained in this case with the results obtained with the “standard” random effect model (without unobserved heterogeneity) and with cross-sectional models. Results show large difference in inefficiency scores between TRE model and other models. We then use a simulation exercise where we design the simulated data to obtain similar results as in the case for real data and we show the sensitivity of the TRE model to the hypothesis about the way the inefficiency varies with time. We conclude that when such large differences appear in inefficiency between TRE model and other models, it may be the case that the hypothesis of independent and identically distributed (iid) inefficiency term is not reasonable and cross-sectional models give more realistic results.

References


Abstract

Measuring Cost Efficiency of Universal Service Providers

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The downward trend in letter volumes stemming from electronic substitution and the financial pressures of a mature postal market has renewed interest among Universal Service Providers (USP) to improve cost efficiencies through various benchmarking techniques. In the past, econometric studies have proven to be useful aids in establishing cost efficiency rankings among USP’s, net of scale and scope effects. Rankings from these studies have informed decisions aimed at improving cost efficiency in the postal sector through various methods, including reorganization and alternate operational structures.

Our paper builds on past work by widening the scope of analysis. In particular, employing an econometric approach, we will identify the separate contributions to cost differences among a sample of countries forthcoming from scale economies, and differences in cost efficiencies, and density-related (environmental) impacts. Cost efficiency differences will be further disaggregated into differences caused by different degrees of market liberalization, and a residual, unexplained portion. We consider estimating the cost impact from privatization and market liberalization an important part of our analysis, given that USPs are now facing varying degrees of competition. Also, as part of our research, we will rank USPs according to different cost indices. These indices will be constructed using the estimated parameters from our econometric model.

Initially, our econometric model will be constructed to explain postal costs for 30 USPs, segmented into three groups according to revenue levels. To observe trends and impacts of competition and privatization on the postal industry, five years of data, fiscal year 2005-2009, for each USP will be collected. We expect to use a Cobb-Douglas type cost function (log-log) to explain postal costs according to five sets of independent variables: a) volumes, b) input (resource) prices, c) network-related (environmental) variables, d) variables quantifying the extent of liberalization achieved, and e) USP-specific dummy variables that identify any residual differences in cost efficiencies among providers. Data and estimated parameters from the Cobb-Douglas functional form can be readily transformed for construction of cost indices.

The availability of accurate and reliable data was a consideration in the selection of the sample of postal operators. For this purpose, non-accounting data, generally considered to be more reliable, will be collected. The data is currently available from the USP’s annual reports and the website of the Universal Postal Union. To neutralize the effect of currency fluctuations, the cost and input price data will be normalized to a single currency for comparative purposes, using average exchange rate values for each year.

The major contribution of this paper to the body of literature on this subject will be our findings on the importance of each

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4 Corresponding authors in alphabetical order.
explanatory variable’s contribution to observed cost differences across USPs. Also, we expect that the empirical results of this paper could be used by postal management in assessing the cost efficiency of their respective entities. Finally, results should prove useful for policy makers to assess the impact of market liberalization on the industry’s cost structure.

A multi-year approach to efficiency measurement
G Harman, N Waghe, E van der Merwe and W Koevoets (LECG)

In a previous paper, Harman et al. have shown that single-year efficiency measurement using frontier analysis can overstate inefficiency in the present context of falling volumes. As postal volumes continue to fall, regulators have the opportunity to address this shortcoming by utilising the multi-year datasets that are increasingly available following a number of successive years’ annual (“cross-section”) efficiency analyses. A multi-year approach to efficiency measurement offers: (i) more statistically reliable estimates of the true inefficiency, for the business as a whole and at the level of individual delivery offices, due to the additional years’ data; and (ii) the opportunity to include an annual volume change variable or variables to account for volume falls.

At the level of individual delivery offices a multi-year approach taking account of volume changes can result in significant differences in efficiencies when compared to a single-year approach. More reliable delivery office level estimates of relative efficiency that can be provided by such a multi-year approach is the key to unlocking the operational usefulness of efficiency measurement by allowing: (i) the effective investigation of the common drivers of inefficiencies in the business, and (ii) the reliable targeting of business improvement measures at those delivery office that stand to gain the most. Regulators also benefit from added confidence in the efficiency measurements used to set productivity improvement targets. These outputs mean that the operator is able to provide the regulator with true inefficiency estimates leading to more aligned price controls, allowable revenues, and more robust financial viability. Additionally, the operator has better access to performance management information that allows it to assess areas for improvement and whether business plans and initiatives are targeting the relevant business units and operations.

This paper takes a holistic look at such a multi-year analysis using a dataset of Royal Mail’s delivery offices for 2007/08 to 2009/10. In particular we discuss how to approach changes over time in the underlying ‘production’ processes, the introduction of effective volume change variables to take account of the effects of falling volumes and how the multi-year approach impacts the efficiency estimates. We then assess how the outputs from such an analysis can be used by an operator’s finance and operations teams to improve regulatory review, financial viability, and performance management.

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7 For example, Ofwat for water and sewerage companies, Ofgem for electricity and gas distribution companies, [etc.].
Abstract for 19th Conference on Postal and Delivery Economics

Authors:
Derek Holt, Director, AlixPartners Ltd (corresponding author)

Title: How should state aid be assessed in the postal sector?

Abstract:
As liberalization of the postal market takes effect, it is likely that market players will focus increasingly on state aid in the sector. While incumbent operators will need to ensure that they are able to fund any services of general economic interest which are required of them, alternative operators will be equally concerned to ensure that any terms agreed between the state and incumbent operators do not confer unfair advantages.

The issue of state aid has recently been considered in the postal sector, with decisions in 2010 in long running cases involving alleged state aid to Deutsche Post (Case C-399/08P) and Belgian Post (Case C-148/09P). In the Deutsche Post case, the General Court and the full European Court ruled that the Commission had failed to examine whether the state measures actually exceeded the costs incurred by Deutsche Post in performing services of general economic interest.

In the De Post/La Poste (now bpost) case, the European Commission had approved state aid in the form of recapitalisation, by reference to the net costs of the service of general economic interest, but the Commission's assessment is now under review by the Court on procedural grounds following an appeal by Deutsche Post that was successful at first instance in the European General Court. The Advocate General has recommended that the Commission's decision be reinstated. Therefore, the recent cases raise important questions about how the Commission assesses the evidence and in particular the costs of the universal service, as well as how it should carry out state aid investigations in the postal sector.

In the Altmark Trans case, the European court laid down four cumulative criteria which must be met in order for the State compensation of a public service to be considered not to be State aid. In order to comply with the EU State aid rules for State-funded compensation of universal service costs, a State entity and universal service provider will normally need to consider whether the State compensation for net costs of the universal service can be brought within these criteria.

A number of papers at the CRRI conference have addressed the issue of State Aid, in particular Fratini and Filpo (2006) ‘USO Public Financing at the Crossroad between the “Monti Package” and the forthcoming Reform of the Postal Directive’ in Liberalisation of the Postal and Delivery Services Sector and ‘The New EC Framework for State Aid to Public Service and the Postal Sector: where do we stand now?’ in ‘Progress toward Liberalization of the Postal and Delivery Sector’. For example, the papers have set out the basis of EC state aid law in light of the Altmark judgment and considered the associated implications of the reform of the postal delivery sector on the financing of universal service obligations.

There has been less attention, however, on how the state aid rules should be interpreted from an economic perspective. The assessment of whether compensation in respect of services rendered by postal operators constitutes illegal state aid could have important implications for how the supply of such services is structured, (eg, monopoly or competitive provision); the level of payment and hence the financial position of incumbent
operators; and, in some cases, could impact on the competitive dynamics between operators in wider markets. These concerns raise the question of how such assessments should be carried out in the postal sector.

The focus of the paper will therefore be on the following economic issues:

i. how can the Altmark criteria be translated into a methodology for testing for state aid in the context of the postal sector?

ii. over what timeframe and with what methodology should costs be measured?

iii. what is the appropriate treatment of costs which might be common to services of general economic interest and commercial services?

iv. how should the fair return on capital be considered?

v. what are the implications of recent decisions on state aid from other sectors, including the financial services sector, in the context of the recent challenges faced across the economy?

vi. what are the key lessons for States, incumbent operators and prospective entrants from the debate?
Abstract for the 19th Conference on Postal and Delivery Economics,
June 1–4, 2011, St. Helier/Jersey

“Postal Privatization and State Aid Control”
Alexander Kirschall, Deutsche Post DHL
Achim Schröder, Deutsche Post DHL

When the last remains of reserved letter markets will be abolished in most EU Member States on January 1, 2011, large postal markets will be open to full competition. In order to compete effectively, postal incumbents need to invest and restructure. In a growing number of EU Member States this is connected with privatization. The measures taken differ from country to country, but ask for common issues to be resolved: Can the State provide funds to modernize the network? What happens to ever-growing pension obligations? And who funds the Universal Service? As the State lifts burdens and invests, State aid control enters the picture. This paper will look at the principles of State aid control in the postal sector and analyze the EU Commission’s practice in the past as well as its approach to important pending cases. It will show that Commission investigations have taken different turns over time and emphasize the need for clear-cut guidance and a consistent approach on State interventions associated with postal privatization.

The Court of Justice’s Altmark ruling is the current reference for compatibility of State funding of the universal service with State aid law. However, the judgment itself, as well as the Commission’s Community Framework on State Aid for Services of General Economic Interest, leaves many questions unanswered. Do investments into the modernization of the postal network fall under the Framework or has the State to be compared to a private investor and the Market Economy Investor Test to be applied? When receiving State contributions for providing the universal service, how is the “reasonable profit” permissible under the Framework defined? With many investigations pending, State aid control – perhaps unwittingly – plays a key role for postal reform. The paper will focus on the different cases and their important impact on the progress privatization takes in the EU postal market.

The paper will first describe the challenges faced by all operators in the transition from a public entity to an undertaking run under the principles of private entrepreneurship. It will briefly demonstrate how EU State aid control so far has dealt with State investments into the transformation of postal operators. It will then concentrate on highlighting the approach that the Commission has taken in investigations, which were opened recently or may soon be initiated. It will discuss possible conflicts with legal and economic theory surrounding the key issues. The final part will draw on the implications the Commission’s decisions will have from a market point of view on the further process of privatization and reform of operators.

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Even as the topics touched in this paper are still very much in the flow and the outcome of cases still unclear at time of this abstract, the paper will be of interest to operators and academics alike. It will give market players a feeling of what challenges lie ahead. And it will test whether the Commission’s approach can withstand challenges of consistency to accepted academic theory.
Privatization: Could the benefits seen in other network industries be realised in postal industries?

Stuart Holder and Helen Smith, NERA Economic Consulting

At a time when national postal operators are facing many challenges, including falling demand and markets being opened up to competition, privatisation is being actively considered as a policy option. It is included in legislative proposals in the UK, and in 2009, concerns about possible privatisation of La Poste led to strike action in France. Given the apparent success of privatisation in other network industries, and the strong reactions to suggested privatisation of postal services, it is an appropriate time to review the potential benefits of privatisation, the extent to which they could be realised in the postal industry, and where any benefits may fall. In particular, it is important to consider whether privatisation can help postal operators respond to the threat of e-substitution.

This paper discusses a number of differences between public and private sector firms, summarises the empirical evidence about the impact of these differences, and considers specific features of postal markets that could mean that privatisation is more or less likely to succeed compared with other industries.

The potential differences between privately and publicly owned firms that the paper considers include:

- **profit motive** – will pressure from profit-seeking owners (or managers who might be offered high rewards, stock options, etc) lead to improved cost and revenue efficiency?

- **capital market discipline** – will these pressures be reinforced by the threat of takeover, the impetus to maintain a healthy share price, or the “hard” budget constraint faced by private sector firms?

- **ability to finance investments** – will operators perform better when they are freed of public sector financial controls (which may limit funding and also inhibit long-term planning)?

- **absence of other objectives** – what is the risk that public sector operators will be placed under pressure to pursue non-commercial objectives and do privatised firms have more freedom to respond to changing market conditions?

- **industrial relations** – private sector firms (faced with short-term losses) may have stronger incentives to settle disputes, and less need than governments to “set an example” for other workers.

We summarise the evidence from the economic literature on the impact of privatisation in a range of industries and countries. A survey by Megginson and Netter concluded that “Research now supports the proposition that privately owned firms are more efficient and more profitable than otherwise-comparable state-owned firms”. However, it can be difficult to identify the specific reasons that privatisation leads to such impacts, or to identify the separate impact of privatisation when it is accompanied by other changes.

We then discuss features of postal markets that may mean that the impacts of privatisation could differ from those experienced in other industries. Important differences to take into account include:

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• the nature of postal networks, which tend to be more labour-intensive than networks in some other industries. This gives a potentially stronger role for trade unions, but the absence of fixed infrastructure also offers greater flexibility for operators to reconfigure existing networks;

• the fact that liberalisation is already occurring, and demand is falling due to e-substitution;

• the need, in some cases, to modernise existing networks. This was a major factor behind the initial proposed part-privatisation of Royal Mail in the UK, as recommended by the Hooper review, although the 2010 update to the review suggested the need for corporate experience has been reduced;\textsuperscript{11}

• the role of the universal service obligation (USO), whether measures necessary to protect the USO might prevent the potential benefits of privatisation from being realised, or alternatively whether privatisation can play a role in sustaining the USO in a liberalised environment.

Finally, the paper considers where the potential impacts of postal privatisation may fall. Among other factors, this may be affected by the strength of resistance from postal trade unions, the opening up of postal markets, and the need to ensure that the universal service continues to be provided.

The Postal Sector as a vector of Financial Inclusion

Abstract proposal for the 2011 Rutgers CRRI Conference in Jersey

Authors: G. d’Alcantara and A. Gautier

Competition in postal markets has intensified, either due to market opening or to the various forms of e-substitution. This puts pressure on the historical postal operator and on its ability to finance a universal postal service. For Crew and Kleindorfer (2006)\(^{12}\), intensified competition calls for a reform of the Universal Service and they focus in particular on the accessibility or contact point dimension of the USO (which may be thought of as collection point and retail outlet density). They show that at the Ramsey optimal solution for traditional mail products the number of contact points would decrease.

The objective of the proposed contribution is to model the accessibility of the financial services offered by the USP. It intends to revisit Crew and Kleindorfer (2006) taking into account that the USP competes on two markets: mail and financial services. The existing postal network of counters can be used to offer, at lower cost, financial services in remote areas that commercial banks would not or only imperfectly serve. The postal counter network can thus be used as a vector of access to finance\(^ {13}\).

In our model, we consider a country with two classes of citizens: financially literate and financially illiterate ones. The two categories differ with respect to their willingness to pay for financial services. The word literate refers to the reading capacities but socio-economic and behavioral patterns may also be important factors. We also divide the country in three regions: an urban region, covered by dense banking and postal networks; a suburban region, covered by less dense networks and a rural region that is covered by the postal network but not by the financial one\(^ {14}\). The relative importance of these three regions depends on the country’s characteristics, as shown in d’Alcantara and Gautier (2008).

Since the financial sector is competitive, its retail network is designed to maximize profits. At equilibrium, municipalities where the number of financially literate citizens is large enough have at least one bank branch. When the population density decreases, there is no longer a bank in every municipality. In such case all the financially literate citizens still have access to banking services but they have to incur a travel cost. Finally, when the population density is too low, the banking sector can no longer maintain profitably bank branches and citizens do no longer have access to financial services.

On the other hand, in the postal sector the universal service defines constraints on the accessibility of contact points such as a minimum traveling distance to a post office. This means that, in less populated municipalities of the country, the USP must maintain post offices, even if they do not operate at full capacity. In the suburban and rural regions, post offices do not operate at full capacity. The post office network can thus be used to provide financial services at low cost. Post-offices can cheaply deliver financial services to the financially excluded citizens through this channel.

Using the post office network to include citizens in the financial sector in the rural and suburban regions raises at least three questions: (1) the policy must be targeted to the financially excluded people in order to avoid the crowding-out of the financial sector, especially in the suburban region, (2) developing the postal network as a financial network has an impact in terms of postal prices and (3) the postal sector may not have enough cheap capacities to include all the excluded citizens and other policies (subsidies, education, new technologies) may be part of the financial inclusion strategy. Alternatively, the density of postal counters must be increased with consequences on postal prices and profits.

The conclusions of our contribution are intended to be useful for policy makers. Accessibility of financial services has become a major policy issue under the name Financial Inclusion\(^ {15}\), including at the UPU. The fact that population density varies across regions/municipalities, heterogeneity, appears to be a fundamental parameter for policymaking because of the multifaceted nature of financial exclusion. While in cities there is no problem of access to financial services, banks are numerous, but a problem of education, in rural regions, accessibility of financial services is the main issue. Conditions for the use of the Postal Office network in this field are of great relevance and may contribute to the reduction of Financial Exclusion.

\(^{12}\) Approaches to USO under entry

\(^{13}\) In India see for example “Financial Inclusion & Postal Banking, The India Story” presented by M. Sandip Ghose, Director of the Reserve Bank of India at AFI-UPU workshop November 2009

\(^{14}\) This echoes the observed difference in the density of postal and banking counters: in Italy, 26.8% of the municipalities do not have a bank outlet while only 4.4% do not have a post-office (Cohen et al., 2008).

\(^{15}\) AFI-UPU workshop on Financial Inclusion and Postal Banking, November 2009, see http://postfi.wordpress.com/afi-upu-conference/
Selected references


The U.S. Postal Service’s retail network is a legacy network that does not reflect current U.S. demographic patterns or serve modern lifestyles. This paper will propose a framework for transforming the retail network to make it more responsive to customer demand. It will also discuss the policy barriers to achieving such a transformation.

The first part of this framework is optimizing the distribution of postal retail facilities across the United States. We will present an econometric model developed by Dr. Anthony Yezer for the OIG based on the existing academic literature on the public facility location problem. The model makes it possible to predict postal retail demand using demographic and business information for a specific location and then to find the optimal size of and distance between facilities to maximize welfare for postal users. The next part of the framework is modernizing the network to reflect current retail practices. The current retail network is managed as part of the delivery network. This paper will analyze whether decoupling the retail and delivery networks would benefit the Postal Service by improving management of the Postal Service’s retail stores. The paper will also address the Postal Service’s current alternative access efforts in the face of declining volume. The paper may also describe successful and relevant international retail practices and discuss their suitability for the United States.

Finally, the paper will describe the legal and regulatory barriers in the United States that make it difficult for the Postal Service to change its retail network. Political concerns about fairness and service underlie these barriers; however, a thoughtful approach to optimization and modernization could ease these concerns. A framework for retail transformation could make it possible to lift these barriers by providing an objective approach to optimization and a modernization program to improve service.

References


Mohammad Adra and Renee Sheehy work for the Risk Analysis Research Center (RARC) of the U.S. Postal Service Office of Inspector General (OIG). The views expressed in this paper are those of the author and do not necessarily reflect the views of the OIG or the U.S. Postal Service.
Price affordability is a general principle, common to many services of general economic interest (SGEI). In practice, social policies dealing with affordability in telecom, water or energy sectors are aimed at some groups of consumers and are implemented through subsidies or price regulation (price ceiling, uniform price, and so on).

In the postal sector, affordability is one of the characteristics of the universal service. The European Directive requires that Member States “ensure that the tariffs for each of the services forming part of the universal service shall be affordable (...),” but does not specify what an affordable tariff is and how affordability is measured. The subsidiarity principle applies on this topic, leaving this to Member State discretion.

However, this is not a trivial issue. The affordable or non affordable feature of a product or a service should be reflected in its unit price and the revenues of the consumer. It is linked to the ability to pay for a given level of consumption. Some studies measured affordability by calculating the number of minutes of work required to afford a particular service (see for example, the Copenhagen Economics (2010) and Deutsche Post (2010)).

Except for these contributions, the affordability issue has not been studied in depth in the postal sector yet. This could be explained by the small part of the typical household budget dedicated to postal services. However, the direct impact of postal prices on the budget of households is only one aspect of the problem, as emphasized by Frontier Economics (2005). A large part of postal services is used as input in the production of many others goods consumed by households. So, prices of postal services have indirect impacts on the budget of households through the price of final products using postal services as intermediary inputs. This aspect should not be neglected when assessing the impact of changes in the tariff structure and the affordability of postal prices.

In the first section of this paper, we will attempt to define the affordability principle by examining works done in other sectors (water, energy, ...). We will then examine how the European Directive requirements on affordability have been transposed into national law. In the next sections, we will review studies done in the postal sector to measure affordability. To go further, we will focus on household spending on postal services in France and UK, considering not only the direct effect but also the indirect effect – through the consumption of other goods using postal services as input – of postal price variations on household budgets.

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19 Frontier Economics (2005), From the envelope – Estimating the impacts on shift in postal charges, March.
“Allocating costs between universal services and services outside the scope of universal service”
by Pekka Leskinen, Päivi Rokkanen, Peter Karlsson, Heikki Nikali, Kari Elkelä, Esko Kankainen, Matti Jarkko

The objective of the paper is to analyze theory and practices of allocating costs between universal services and services outside the scope of universal service, and, suggest common rules to cost allocation. As an application from Finland, the paper will present allocation of the postal basic delivery resources to fixed and volume based costs with the help of econometric models.

The approach of the paper is to

- analyze briefly what is written of cost allocation in the postal directive and guidelines of CERP. The paper will also include references to different practices of cost allocation in various EU member states and interpretations of the principal of causality.

- present basic delivery resource models from Finland, including two different econometric approaches:
  - cost-benefit model: explains how delivery conditions and the volumes of product groups for delivery affect postal expenditure, and
  - working-time model: explains basic delivery daily working time in relation to volumes delivered.

Models are used to illustrate the cost effect of the universal service obligation and different cost savings which can be reached if the delivery volumes are well known in advance, same mailing categories/items are regularly in the delivery or the delivery of some product groups will be realized as unaddressed.

The contribution of the paper is original. There is a need to create a common European level practice to cost allocation in the postal sector. The cost allocation rulings by several actors (including the national regulator in Finland) are illustrated in the paper and will be compared. Reasons for certain ways of allocating costs will be explained in the paper.

The paper is likely to be interesting as cost allocation practices are developing and do vary from one EU member state to another. Several stakeholders are involved: regulators, operators, legislative bodies. The allocation practice also has an impact on delivery competition.

The paper is timely as there is a need to provide a better understanding of cost allocation and consequences of the path taken.
Government Use of the Postal System: A Valuable USO Component

By Michael Ravnitzky and J.P. Klingenberg, Postal Regulatory Commission

The world’s earliest postal networks were established for the purpose of communications by the sovereign and the government. Today, postal networks provide essential communication functions for governments. This paper examines the current governmental usage of the mail, primarily by analyzing how a defined segment of the United States Government spent over US$1 Billion on mailing and shipping services each year between 2007 and 2010.

This paper also provides an international comparison of typical government functions that produce or require mail. The functions that serve to demonstrate the importance of postal networks to government communications include employment and tax information, legal correspondence, regulatory compliance, immigration documents, product recalls, licensure, benefits administration and certification, voting materials, credentialing and aspects of law enforcement. Assessing the purposes of government mail demonstrates how it embodies a significant yet previously overlooked aspect of the Universal Service Obligation.

The authors utilize newly released federal government data reports that describe the revenue and volume of mailing and shipping services by federal executive branch agencies during the fiscal years 2007 through 2010. This quantitative data is supplemented and interpreted through discussions with mail managers at individual federal agencies.

We also compare the attributes of government mail with those of the overall mail stream. Analysis shows that government mailer behavior is more similar to that of single-piece mailers than to that of bulk mailers.

Accordingly, the nature and fundamental importance of government mail has interesting implications for liberalization and privatization. To date, electronic substitution for the mail has occurred less in government-related communications than it has in other sectors; agencies rely on the secure, reliable and ubiquitous communication services provided by postal networks. The long-term dependence of government on the mail will be quantified, discussed, and placed in the context of those postal networks.
“How does liberalization affect postal workers?”

H. Ballebye Okholm and A. Möller
Copenhagen Economics

From 1 January 2011, most EU Member States will have liberalized their postal markets entirely and national postal operators (NPOs) across Europe will be exposed to competition in all market segments. Among the 1.8 million postal workers across Europe, there is a fear that full market opening will lead to lower wages and worse employment conditions.

The fear of deteriorating wages and employment conditions is caused by the fact that alternative postal operators often apply low-cost business models with younger or less educated workforce, larger share of part-time contracts, or use of self employed deliverers. After the liberalization, these operators can enter more market segments. This has increased social tensions in the sector.

We examine whether the fear of deteriorating wages is justified or not. Will employment conditions deteriorate unanimously at full market opening and what are the effects on the postal workers?

Although the effect of liberalization on postal workers is of large interest to many stakeholders, there is, to our knowledge, yet no far-reaching empirical research available in this area. However, related discussions can for instance be found in a previous conference paper by Bailly and Meidinger (2010), assessing the challenges of social regulation in the postal sector. Our paper is based on case studies in a selection of liberalized and non-liberalized postal markets across Europe and in New Zealand. First, we investigate the existence of wage premiums in the postal sector prior to market opening. We do this by analyzing pre-liberalization wage differences between the postal sector and comparable sectors hiring workers with a similar skill level. Thereafter, we examine the development in wage differences after market opening. This exercise shows whether the introduction of competition has affected wages in the postal sector and, if that is the case, to what extent.

We find that liberalization has no affect on postal wages, if postal sector wages are similar to wages in private sectors with comparable skill levels. New operators have no room to offer lower wages and still attract qualified labor. Developments in Sweden and in the UK illustrate this.

However, we also find that liberalization will reduce postal wages, if pre-liberalization wages are above wages in private sectors with comparable skill levels, i.e. if postal workers earn wage premiums. New operators can offer lower wages than the incumbent and still attract workers. Developments in Germany and the Netherlands exemplify this.

Besides providing new empirical knowledge, our findings have important implications in at least three areas. First, they show how postal sector employment conditions (and consequently, the lives of 1.8 million postal workers and their families) are affected by full market opening. Second, they reveal whether the trade unions’ arguments and large resistance against market opening are justified or not. Third, they expose the reciprocal relationship between employment conditions and competition and the importance of assessing these parameters in conjunction.

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Abstract

Liberal Strategies for Postal Liberalization

Edward S. Pearsall and Charles L. Trozzo

Full liberalization of any category or component of mail service entails two distinct steps. First, the mail service must be opened to entry by competitors to the incumbent post, and second, the incumbent post must be freed to set its own price for the service. The general idea behind postal liberalization is to establish price discipline from competition, both actual and potential, as the means to supplant direct price regulation. In a successful liberalization, rates are determined competitively (or, at least, semicompetitively) and the postal regulator’s role is reduced to enforcing freedom-of-entry, prohibiting cross-subsidies, and, in general, preventing anti-competitive behavior.

In this paper we explore strategies for extending the scope of postal liberalization in the U.S. under the Postal Accountability and Enhancement Act of 2006 (PAEA). PAEA distinguishes between “market-dominant” and “competitive” postal services based on the presence of competitors to the U.S. Postal Service (USPS) in pre-existing postal markets. Market-dominant services are priced under class caps linked to a general price index. Competitive services are priced by USPS subject to a prohibition on cross-subsidies and a constraint on the combined net revenues from these services. PAEA empowers the Postal Regulatory Commission (PRC) to change the designation of services as market-dominant or competitive. In principle this gives the PRC the power to liberalize U.S. postal markets among the pre-defined categories of U.S. mail. In practice the PRC has little scope for extensions beyond the original designations because PAEA left standing the statutory USPS monopolies on mailbox access and delivery of letter mail. Single-piece Parcel Post is the only major category of market-dominant mail that might be liberalized without relaxing these monopolies.

In this paper we explore strategies for extending the scope of postal liberalization within the regulatory outline established by PAEA. Most postal services are composites consisting of different combinations of basic collection, processing, transportation, delivery and other services. The general idea behind the strategies is to avoid the USPS delivery monopolies wherever possible by liberalizing at the level of the component services. Worksharing with cost-based discounts has already produced freedom-of-entry for sorting, bar coding and transportation components for most subclasses of U.S. mail. However, postal liberalization by worksharing is incomplete because the mail stream is not fully unbundled, and because USPS is not entirely free to set the discounts for workshared market-dominant mail. Under PAEA such discounts cannot exceed the cost per piece that USPS avoids by not performing the workshared component services.

Our analysis is conducted within the context of current U.S. postal law and regulatory practice. However, the strategies we propose are generic. They can be applied to partially liberalize any modern post that offers composite postal services.

- **Unbundling** completes the liberalizations already begun with worksharing. The strategy works by authorizing the PRC to designate component services as competitive where worksharing provides an alternative to end-to-end service. USPS would be freed to set the discounts for workshared mail separately from PAEA’s price caps for market-dominant classes.

- **De-averaging** extends liberalization to service components that are presently price-averaged such as the delivery of commercial mail. De-averaging works much like unbundling. Entry liberalization would allow competitors to deliver commercial mail. Wherever competitors appeared the PRC would permit USPS to respond with rates that differentiated between geographically distinct delivery markets.

- **Indirect Pricing** would enable pricing liberalization where entry liberalization is impractical or has been unsuccessful. USPS supplies virtually identical component services for many different categories of mail. Entry liberalization only needs to create a contestable market for the component in one of the mail categories in order to liberalize the component for all categories. The component price from the successfully liberalized category is used for the other categories.
Out-sourcing of an unbundled or de-averaged service component in a competitive market may be used to establish a component price. Pricing is liberalized for the component by adopting the price of the out-sourced service. The out-sourcing price can also be used as an indirect price wherever USPS supplies some of the component service itself.

These strategies are well-known to economists but appear to have been overlooked by the U.S. Congress in its design of “modern” postal regulation in PAEA. The strategies would greatly extend the scope for liberalizing postal service in the U.S. And, implementing them would not require fundamental changes to PAEA.
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Working title

Tendering universal (postal) service obligation – interfaces between public procurement and State Aid rules

(1) Abstract

Tendering the universal service obligation has been introduced as one of the regulatory tools at the disposal of EU Member States in view of ensuring the universal postal service. This is continuation of a trend that has been widely used in other network industries (e.g. public transport; telecommunications). When deciding on the use of public tendering Member States need to take into account two important considerations.

The first, more substantive, calls for an assessment of whether it is more efficient, in a given market situation, to use either designation or tendering as a mechanism to ensure the universal postal services.

The second, more procedural, is seeking to ensure that any payment which may need to be executed is only effected after the compliance with the relevant rules is established (e.g. public procurement framework; State Aid rules).

(2) Objectives of the paper

In view of these two aspects of tendering the universal service obligation in the postal sector the objectives of the paper are:

- to present pros and cons of using the tender procedure in ensuring the provision of universal service, by reviewing existing literature;
- to identify and analyze both substantive as well as procedural aspects of tendering universal service obligation, in light of both public procurement and State Aid framework and the interaction between the two – e.g. 4th Altmark criteria and the concept of “the least cost for community”).

Particularly, the paper will analyse (i) the possibility of tendering lots (parts of the universal service obligation as opposed to the whole service) and its effects on the market (e.g. network interconnection costs) and (ii) the pros and cons between designation and tendering both in view of current, but also future market situation.

- to provide insights on potential "best practice" when tendering the universal service obligation, by also taking into account possible policy developments in view of the revision of both State Aid framework for services of general economic interest (SGEI) and public procurement rules.

The main subject of the research is to analyze a very pertinent area for the future application of the EU postal regulatory framework. With market failures still persisting, and taking into account the slow development of competition in postal
markets, the possibility of tender procedure becomes a viable option in view of ensuring the provision of universal postal services. Before deciding on the mechanism, policymakers of course need to define the scope of universal service obligation, which will ultimately follow consumer needs/preferences and will be imposed where this is strictly necessary (identified market failure). When deciding to apply public tendering as a mechanism it becomes imperative for policymakers to understand and be aware of both substantive and procedural pros and cons in applying this option. The paper will be primarily policy oriented, with a focus on legal analysis of the applicable legislation, as well as an economic analysis perspective on the possible effects of different types of measures employed (“the least cost for community” concept).

The question of tendering universal service obligation has been addressed by Jaag and Trinkner in their research in 2009. However, the objective of this paper is to go beyond the research provided therein and focus particularly on the procedural aspects of the tendering procedure in view of possible practical implications, as well as taking into account the economic effects of tendering in the market and in particular in competition.
1. OBJECTIVES OF THE PAPER

Over the last decades, there has been an intense debate on the conditions regarding the permanent provision of a minimum set of postal services in the whole of each nation’s territory, with adequate quality of service levels and at affordable prices and, in particular, regarding the necessity to continue imposing or not universal service (US) obligations upon an operator to ensure that goal, within a full market opening (FMO) environment.

This discussion has focused namely on theoretical concepts, on cost-benefit analysis and on immediate outcomes emerging in the few countries which have already fully liberalized their postal market.

The ongoing debate has, however, to a large extent neglected the facts, figures and eventual lessons for the future - namely when re-defining the scope or shaping the exact conditions of the US provision and of the designation of the US provider - that may derive from over a century of US policy, without prejudice of the present dynamics and new challenges of the postal sector.

In this context, the proposed paper attempts to:

a. Present a case study based upon the Portuguese experience, describing the major lines of the implemented US policy, its evolution and its impact on the Portuguese population. This case study will highlight the major historic trends regarding the provision of postal US, with resource to the detailed analysis of the evolution of correspondence flows and of the number of postal establishments, geographically segmented according to different administrative regions;

b. Discuss, at the light of the case study, issues of public policy for the postal sector, namely with regard to the eventual public interest in establishing coverage and quality of service targets for rural areas and the use of reverse auctions to designate the US provider.

2. APPROACH OF THE PAPER

This paper will rely on:
a. A thorough research of the data available for postal establishments (segmented between permanent post offices and postal services offices) and postal traffic between the first half of the XX Century and 2010 (based on data from the Administração Geral dos Correios e Telégrafos, CTT/TLP/CPRM, ICP-ANACOM and INE;

b. The resource to geographic information systems to analyze the above mentioned data, in order namely to provide a clearer perspective on the differences of service provisioning between industrialized / densely populated areas and rural / scarcely populated areas, considering indicators such as postal traffic per capita, average population served by each postal establishment and average area (in square km) served by each postal establishment;

c. The review of the (limited) literature available on the provision of US in Portugal, to corroborate evidence and major trends of the postal service and an extensive review of reverse auctions literature to substantiate the discussion of its relevance for the designation of the US provider.

3. ORIGINALITY OF THE CONTRIBUTION

US has been discussed, in connection with a wide variety of issues, in previous postal and delivery Economics conferences, for instance with regard to US net cost assessment (Dieke et al, 2010), funding and sharing of US obligations (Eccles, 2010), the perceived value for the public of US (Sheldon and Lawrence, 2010), quality of service issues (Bradley et al, 2010), etc.

Notwithstanding, as far as we are concerned, the statistical data mentioned, with the targeted geographic segmentation has not yet been made available for the public in general and other attempts to look carefully at the long term historic trends of US provision to draw relevant conclusions, namely in order to help shape public policy, seem limited in their scope (Confraria et al, 2009; Neto et al, 2005).

Furthermore, we also did not recognize a contribution to the discussion on the relevance of reverse auctions to the designation of US providers in postal services, whilst there area already considerable contributions in this area with regard to electronic communications – see, for instance, Wallsten, S. (2008), Weller, D. (1999) and Wolfstetter, E. (1996).

4. PREVIOUS WORK, INTEREST AND TIMELINESS OF THE PAPER

No direct link to previous Conference papers, regarding an historical perspective on US and its implications in terms of public policy, were distinguished. This paper should be of interest to regulators, operators, government officials and consumer advocates, especially considering its public policy implications.
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The objective of the paper is to highlight a specific aspect of the liberalisation process in postal markets, which could be very well illustrated for the German market. Liberalisation in Germany has followed a specific scheme with first opening the market for end-to-end competition and at a later stage for downstream access competition, whereas other countries like the Netherlands or the UK have focused de facto either on end-to-end (NL) or downstream access (UK). The “dual model” in Germany has opened a lot of opportunities for new entrants but also for the existing stakeholders in the German postal market, like suppliers in the mail management market. This has also led to a redefinition of the traditional roles in the postal markets. Under the former monopolies, there have been clear-cut supplier and buyer relationships which have become more dynamic and complex in liberalised markets. E.g. both incumbents and suppliers have expanded their activities upstream and downstream the postal value chain. So they have entered into competitive relationships whereas at the same time they still have cooperative relationships – which leads to “co-opetition”. Co-opetition in itself is not problematic and observed in all kinds of markets. But in former monopoly markets, still characterized by market dominance, there are particular challenges for regulation. On the one hand, regulators need to ensure, that market dominance is not leveraged into neighbouring markets or parts of the postal value chain (hybrid mail is a good example here with a physical and electronic component). On the other hand, in the specific German situation regulation needs to ensure a level playing field for both end-to-end- and downstream access competition. The dual model in Germany has enabled a good and manifold service offering for customers at affordable prices which should not be set to disposal in the pending revision of the German postal law in 2011.

The paper will focus in a case study approach on the specific aspects from a supplier’s perspective which is often neglected in the discussion on liberalisation in postal markets.
The overwhelming majority of postal costs arise from labor hours and the study of the response of labor hours to volume changes has been a major focus of postal costing analysis, and the central topic of a wide variety of previous Conference papers, including several by the authors. Measurement of the hours’ response to volume has always assumed a symmetric response: hours were assumed to contract after a volume decline at the same rate they expanded following volume growth. Moreover, in an era of persistently rising volumes, there was little reason or ability to test this assumption. That era has ended, and many posts now face the possibility of ongoing volume declines arising from a mixture of long term trend effects (electronic diversion) and cyclical sluggishness. This raises the question as to whether the cost studies performed in an era of persistently rising volume is are still appropriate in an era of flat or declining volume, a question of high interest to postal analysts and PO management as cost measurement remains of key importance to policy decisions. Informal analysis suggests attention to this issue as there are a variety of reasons why reducing hours in response to volume declines is not as easy as adding hours in response to volume growth. These include job tenure restrictions associated with union contracts, the need to maintain universal service at existing levels, simultaneous growth in the number of delivery points as volume declines, and the productivity characteristics of manual labor in network industries. Though there have been useful investigations into the policy implications of asymmetric cost responses, sometimes drawing upon simulated data (see for example Harman, Koevoets, Requejo, van der Merwe, and Waghe 2010), the objective of this paper is to assess empirically the validity of the assumption of a symmetric marginal response. To do this, we test the assumption of a symmetric response in hours to volume changes by estimating nonlinear switching models for a variety of postal functions such as mail processing and carrier delivery. These models have the ability to estimate separate responses in hours to volume increases and decreases and provide formal tests of the equality of those responses. We use historical data from the United States Postal Service to estimate the models. Initial results suggest the presence of material asymmetries.

Please note that the assumption of symmetry is not the same as assuming a linear and thus constant response in hours to volume changes. A nonlinear cost function (like a quadratic) allows for the response in hours to volume to change as the level of volume changes, but it is symmetric in the sense that the same parameters are used to measure the response to both volume increases and volume decreases.
Abstract: 19th Conference on Postal and Delivery Economics
“Priority and Non Priority Universal Service: Are we Returning to the Origins?”
Filipa Silva
ICP-ANACOM

The Postal Sector is a long standing industry, which has been able to develop new products and services as an answer to technological, demand and regulatory changes. Nowadays some of the main sector challenges are electronic substitution and the changing of demand patterns with a great impact on the postal volume, the increase of competition namely due to the on going process of full and gradual market opening and the definition of the extent of the Universal Service in most of the European countries.

Within this context, it seems important to understand the offering strategy of some of the EU27 Universal Service Providers and its characteristics in specific market segments. Therefore this paper analyzes and discusses the evolution of letter mail segmentation and its drivers adopted by Universal Service Providers, the offer of Non Priority Postal Services, and more recently, in a few cases, its discontinuity.

In 2010 eight of the EU27 countries, such as Germany and Spain, have never adopted the Non Priority Service, offering only the Priority Service. Presently, seventeen of the EU27 have adopted the Non Priority Letter Mail for the Domestic Service, for the International Service or for both. This has been the case of the United Kingdom, which started offering the Non-Priority Domestic Service in 1968 and most recently, of other countries - Latvia and Lithuania in 2007 and Romania in 2009 – for both Domestic and International Services.

Furthermore, recently countries that had previously adopted the Non Priority Service seem to have discontinued this service. That is the case of Italy for the Domestic Service in 2006, Belgium for Domestic and International Services in 2007 and Netherlands for the International Services in 2009. Such cases suggest that the offer of non-priority letters and discontinuing it are ongoing strategies.

Considering the major causal factors that led to the offer of Non-Priority Service, which, according to some authors\(^{21}\) are related to the management of the peak hours on the distribution phase and to others\(^{22}\) to regulatory policies, this paper seeks to understand the reasons of the offer, analyze the motivation of discontinuing it and finally its relation to Universal Service.

Moreover, the separation of letter mail is interesting from the perspective of the competition, since changes in Quality of Service and price should be evident to support the differences between the offer of Priority and Non Priority letter mail. The evolution of competition among postal operators will also necessarily lead them to make a great effort to know their customers better and their real needs, implying that the segmentation strategies may in the near future have a great under go, namely with customized offer.

The approach we propose in this paper is based on studies about Priority and Non Priority Letter Mail and benchmarking indicators of some EU27 countries, such as traffic, prices, quality of service and a competition index.

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Abstract for the 19th Conference on Postal and Delivery Economics

“Quality of Service Regulation and Consumers’ Needs: Recent Evidence from France”

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Post is undergoing major changes worldwide: volume reductions, new technologies, opening of postal markets and since 2008, a major economic crisis. Accordingly, postal operators and policy makers are seeking to respond to these changes in a variety of ways, including challenging existing universal service obligations. Of particular interest has been adaptation of quality of service regulation of delivery speed or days-per-week delivery as potential means to ensure universal service financing. Identifying the ‘right’ standards for universal service is a long standing question (Elsenbast (1996)). While there is abundant literature on econometric estimation of mail demand (e.g. Feve et al. (2006)), until recently, quality of service has tended to be an omitted factor (e.g., Cazals et al. (2008), Swinand and Jones (2006)). Similarly, the impact of electronic substitution has been investigated for a long time (Nikali (2008)), but consumers’ needs for quality under the USO, in light of their use of electronic communications, have not been investigated to our knowledge. More recently, regulators, e.g., Postcomm and Consumer Focus (2010), have performed in-depth examinations of consumers’ satisfaction with postal services and the acceptability of possible changes in quality of service and prices. Others have also looked more explicitly at the willingness-to-pay (Sheldon and Lawrence 2010), but the needs of specific groups have been studied in less detail. 

Potential USO changes must be considered in the light of fairness, social cohesion and protection, which are primary policy objectives of universal service. In this context, this paper studies the needs of postal customers in France. The analysis is performed for various geographical and sociological groups, so the paper should be of interest to stakeholders in all countries facing similar challenges. The paper is based on a study and market research done by London Economics for ARCEP and DGCIS.\textsuperscript{23}

The paper uses data from residential and business customers’ surveys in France; two surveys were conducted in late 2010: one on consumers’ needs and priorities, and one on consumers’ willingness-to-pay/trade for changes in universal service quality attributes. For methodology, we use a range of methods. First, we present descriptive statistics on consumers’ preferences and satisfaction for universal service attributes, including next-day and six-day-per-week delivery and how results vary with socio-demographic variables. We compare these results with previous studies (e.g., Postcomm, 2009). The results are similar in that late pick-up time and waiting time in the post office rank highly. Then we present direct customer valuation of changes in quality of service. Finally, we employ multicriteria analysis to study consumer trade-offs. Results from the first surveys suggest interesting patterns of preferences that vary with geographical and social characteristics. The second wave of surveys will be completed early in 2011.

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Ensuring the Universal Service in the light of technological, societal and economic changes: the German experience

Dr. Annegret Groebel and Tobias Katzschmann, Federal Network Agency

Safeguarding the universal service has always been one of the essential objectives of the Postal Directive and will remain as the supporting pillar. Against this background, the Postal Directive provides the following options to ensure the provision of the universal service: Market forces, designation of one or more universal service provider(s) and public procurement procedures. However, the Postal Sector is currently undergoing a fundamental structural change and faces a decline in mail volumes mainly from electronic competition. In the light of this development and its implications on the definition of the universal service it is worthwhile to recall that the concept of the universal service is a dynamic rather than a static one. Therefore the definition of the universal service shall be adapted to the technical and social developments in line with demand to meet the challenges of the future.

In Part one this paper examines in more detail the system of ensuring the universal service by market forces (ensuring the USO by relying on the entirety of all postal operators active in a national market rather than imposing the universal service on a particular operator—the USP) within the crucial phase of Full Market Opening in most of the European Member States. So far it seems to be the case that Germany is the only country having decided to go down the road for such a market-based solution after a transition period of exclusive licensing and designation of the incumbent as USP. The German universal service model is based on the general assumption that the universal service will be ensured by market forces without intervention of the state like the supply of other basic services and products. Moreover, the paper considers the mechanisms implemented in the Postal Act to ensure the provision of a specific universal service if there has been a deficit detected or imminent. Finally, this part of the paper evaluates the advantages and disadvantages of this solution based on the practical experiences in Germany and addresses the question under which (market) circumstances this concept could serve as an advisable role model to be in place and to ensure that universal service can be guaranteed in the light of technological, societal and economic changes facing the postal sector.

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Part two of this paper assesses in more detail the concept of the universal service as a dynamic rather than a static one which shall be adapted to technical and social developments in line with demand. Against this background, it evaluates in more detail the implications and the influence from electronic competition (electronic mail products and services) on the traditional concept and scope of the universal service. Moreover, it considers in this context the necessary amendments regarding the provision of the universal service within the legal framework in Germany in the light of the implementation of the 3rd Postal Directive. Furthermore, it elaborates especially on the relevant addressees for the financing of the universal service (net cost) and includes the most recent changes on the VAT exemption to cover the cost for the universal service.

In the light of the emerging convergence between physical and electronic services it seems finally worth to shed some light on the question in which ways this development is impacting and influencing the definition of the universal service. From a regulatory point of view it might seem worthwhile to aim for a concept of a universal service which integrates comprehensively all communication services. However, at the same time this idea and concept of a “unified” universal service appears to be a major challenge for the future. The paper concludes with a foresight and some reflections about a possible future scenario for the concept of the universal service.
Towards a Future-Oriented USO: An Economic Perspective

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Abstract

Universal service obligations in the postal sectors (USO) currently enjoy considerable attention among politicians, practitioners and academics. The primary areas of interest have been the viability, costing and funding of the USO in a completely liberalized market. However, the purpose and the scope of the USO itself have never been questioned fundamentally. Indeed, the EC commission confirmed the historical definition in its most recent postal directive 2008/6/EC.

Recent developments of overall mail volumes indicate fierce intermodal competition between postal and telecommunications networks (called “E-Substitution” from the postal point of view). In the US, overall mail volumes have declined by almost 20% within the past three years. Many operators predict volume declines by 30% and more in the years to come. High fixed costs and increasing price elasticities raise the question of how to finance the postal USO in the long-run. At the same time, the new substitutes might also supplant traditional postal services and therefore be a means to replace the USO itself. From an economic point of view, the crucial long-term question will be whether increasing E-Substitution will inevitably lead to “U-Substitution”, where states and governments prefer adapting and substituting the USO by other means instead of subsidizing it.

This timely and important question is the starting point to our paper: How can the postal USO be adapted to preserve its commercial viability while safeguarding its relevant characteristics for the economy?

In a first step we analyze the role of the USO from an economic point of view. In our general framework (Jaag and Trinkner, 2011), sector-specific regulations like the USO are appropriate if there are important sector-specific deviations from the perfect markets paradigm. The framework allows us to motivate the various USO dimensions by market imperfections (transaction costs) and more importantly incomplete markets (positive externalities, network effects). In our understanding, the USO can be analyzed in three basic dimensions, one being the sender, the second the recipient, and the third the connection between the two. Every dimension has specific key characteristics. Matching these dimensions and characteristics with the relevant deviations from the perfect markets paradigm in the postal markets, we can derive the specific aims behind the USO from an economic point of view (“rationale for the USO”).

In a second step we analyze how the rationale for the USO changes due to converging postal and telecommunications markets (the convergence expresses itself in new substitutes and e-substitution): Are there alternative means to fulfill the aims behind the USO in a more efficient way? We identify selected characteristics where electronic and hybrid means are true alternatives. In other words, the new means are not able to fully replace postal services in their role to fulfill the USO. They will rather complement traditional means and thereby allow for targeted adaptations of the USO.

Based on this analysis we develop in a third step a future oriented definition of a USO that allows implementing the rationale behind the USO in a more efficient way. Thereby, we take up the idea of a “unified approach for USO regulation” as presented in Maegli et al. (2011). To do so, we first define the USO for the communications market as a whole and then derive the elements suitable for postal regulations.
Relevant References


Abstract for the 19th Conference on Postal and Delivery Economics  
June 1-4, 2011, St Helier, Jersey  

Who needs the USO? Lessons from Austria.  
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In recent years the USO has been much debated among regulators and researchers. The reason for this is twofold:  

 Postal liberalisation removes the reserved area as a source of finance of the USO. This has led to a debate about the net cost of the USO, if any, and how the USO should be financed.  
 The evolving e-substitution and the resulting changes it required gives rise to a debate about the need for a USO and whether it should be revised. Consumer needs are not the same as they were 10-15 years ago.  

However, in practice policy makers lack the knowledge of the demand, which is key to deciding on the level of USO. As a consequence decisions are often merely based on tradition, i.e. the scope of the USO is unchanged despite changes in consumer needs.  

To provide the knowledge of demand, we have developed a framework for analyzing consumers need for USO by measuring their willingness to pay (WTP) for certain services. Our framework includes a systematic approach to identify the services that would not be offered in absence of USO. We model the demand for USO by applying the random utility approach by Manski (1977) and econometrically estimating the willingness to pay (WTP). WTP is found by estimating parameters delivery frequency and density of postal network and the cost in a linear utility function setting by means of a cumulative logit regression. We control for socio-economic characteristics in case of the private consumer regressions.  

We test the setup in a pilot study in Austria. Our data is sourced from two surveys employing stated preference games and administered to samples of 500 mainstream consumers interviewed electronically, and 100 vulnerable consumers interviewed face-to-face. The surveys were carried out in Austria between July and September 2010 with two initial test rounds.  

From a policy perspective, we conclude that the definition of the USO should rely on a cost-benefit approach, so that the USO includes services which are important to consumers but not unduly costly to provide. Both the costs and the benefits of the USO are likely to change in the coming years due to declining mail volumes, increased competition and increased e-substitution.  

References  
Carslake, I., (2009), “A cross country analysis of the relative importance of the USO cost
drivers”, 17th Conference on Postal and Delivery Economics


This paper will examine the sector regulatory requirements on universal service providers under the EU Postal Services Directive and the requirements of the EU competition rules on abuse of dominant position, in respect of price discrimination. This will involve consideration of the specific rules on equivalent treatment and non-discrimination under Article 12, fifth indent of the Directive in respect of special tariffs granted by universal service providers to bulk mailers and consolidators (including equivalence as between third parties and the universal service provider's own services). The interpretation of these requirements by the European Commission in the German Postal Legislation (BdKEP - Restrictions on Mail Preparation) case and the European Court judgment in the Vedat Deniz case will be considered, specifically in relation to the requirement not to discriminate between mail preparation firms and the incumbent's own customers. The approach of the French Competition Council in its December 2007 Opinion concerning La Poste's discount structure will be reviewed and contrasted. (In this respect, the paper will elaborate further on the issues covered in Damien Geradin's paper presented at the 2010 conference).

The 2008 Directive allows increased pricing flexibility on the part of universal service providers, in line with the principle of cost orientation. It requires member states to discontinue the uniform tariff obligation in respect of bulk mail. The requirement of non-discrimination under Article 12 within the scope of the universal service activities remains, and this will be assessed by reference to the equivalent principles of EU competition law. The possible application of EU competition law in respect of differential pricing both within and outside the scope of the universal service will then be considered.

The paper will then assess competition law principles and case law in order to set out and distinguish situations where differential treatment can be considered acceptable based on its effects. In particular, it will be explained that an actual finding of material competitive harm is necessary for differential pricing to be considered abusive. The possibility of an incumbent charging differential prices in different sectors and adjusting its prices to "meet the competition" will be considered, with reference to the applicable cost benchmarks (typically LRIC) of such pricing. The criteria of acceptable and unacceptable volume discounting will also be considered. The possibility of the incumbent charging differential prices by reference to the value to the customer, or volume growth, or efficiency considerations, will be assessed.

These situations will then be contrasted with those where the incumbent differentiates prices in order to give preference to its own downstream operations (as regards pricing or non-price terms) or pursues a systematic policy of excluding or limiting competition from particular competitors or categories of competitors, where competition law is more likely to apply.
Most EU Member States are to bring into force the laws, regulations and administrative provisions necessary to comply with the Postal Directive (Directive 2008/6/EC) by 31 December 2010 at the latest. They shall forthwith inform the EU Commission thereof. It is likely that some EU Member States will not meet the deadline. As for the EFTA countries members of the EEA, they have the right to veto the Directive under the EEA Agreement.

Against this background, the proposed paper will deal with State liability and possible consequences of lack of transposition of the Directive. It will firstly review the relevant categories of infringement under EU law (failure to notify measures transposing the Directive; failure to bring internal legislation in conformity with it; adoption of measures contrary to it; failure to co-operate; etc.) and then give an overview of the “public enforcement” remedies available to the European Commission and to fellow Member States for infringement of EU law. It will refer to the new tool introduced by the Lisbon Treaty under Article 260(3) TFEU (i.e., the possibility for the Commission, when bringing an action against a Member State for failure to notify measures transposing a Directive, to ask for a lump sum or penalty payment) and review the defences that can put forward by the failing State (equivalent national legislation; national law being amended; national interest; internal political or legal difficulties; absolute impossibility and force majeure; undertaking to comply; etc.).

The proposed paper will also investigate what steps the EU might take, should any of the three EFTA countries veto the Directive, to ensure there is a continued well-functioning internal postal market. The decision on what measures should be taken, if any, is likely to involve many actors on the EU side.

Finally, the paper will address the “private enforcement” of the State liability for failure to implement the Directive. It will shortly recall the applicable case-law (FactortameI, Francovich, Brasserie, Köbler), propose an analysis of the Directive in order to identify the provisions that could have “direct effect” under EU law (in primis, full market opening) and discuss the mechanisms available to private parties willing to enforce their rights under the Directive, absent its transposition into national law.

The paper will provide, a few months after the implementation deadline, a first feedback on the status of implementation of the Directive throughout the EEA and discuss the challenges ahead in the context of both public and private enforcement.
Postal Price Regulation in a competitive environment

With full liberalisation of the postal markets the focus of price regulation shifts towards detecting and preventing price abuses affecting the competition. Without competition price regulation was necessary in order to secure affordable prices for the general public. After full liberalisation has taken place or is about to take place in many countries price regulation must refocus and create a legal and economic framework for effective competition. Ideally, with effective competition in place the market itself will provide for affordable prices for consumers and business customers alike.

Based on the general rules of European Competition Law the European Directive 97/67/EC (modified by Directive 2008/6/EC) provides in Art. 12 certain minimum rules, i.e. the need for transparency and non-discriminatory prices. National postal rules specifically prohibit rebates, which encroach on the competitive prospects of other market participants.

In addition to the postal regulation there are, of course, general rules of competition law applying to all participants in the postal market and, in particular to dominant service providers. In a number of decisions regulatory agencies, courts and the European Commission have rendered decisions dealing with the competitive effects of postal pricing. A typical abuse is found in rebate schemes, which directly or indirectly tie the entire customer’s needs to the dominant service provider. Other forms of abuse may be found in fidelity rebates as well as in a rebate structure which in effect leads to an extension of the dominant position into neighbouring markets. The European Commission had to deal with the competitive effects of rebates leading to prices below cost (COMP/35.141), which led to an injunction and to a better understanding of incremental cost coverage. In England PostComm rejected an application for cost-based end-to-end “Zonal Pricing” arguing that Zonal Pricing would lead to discrimination among customers while allowing zonal access pricing. Swedish courts permitted the introduction of Zonal Pricing subject to certain limitations. Other decisions dealt with discriminatory practices or with access pricing to the postal infrastructure.

These and other decisions show that competition in postal markets is faced with new problems which are unique to the postal sector. While general competition rules apply the particular circumstances of postal markets require more specific rules in order to allow incumbents to respond to customers’ needs and, at the same time, give competitors sufficient room for development.

Based on the decision practice of regulatory authorities and courts the presentation will try to develop criteria which are specific to the postal sector in order to be able to better assess the competitive impact of pricing methods used by dominant postal providers.

Hamburg/Bonn, 15 December 2010
"Measuring the cost of the universal service in declining, non sustainable postal markets: what is the correct counterfactual scenario?"

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Abstract

The correct measure of the universal service postal net cost (USO cost) is considered an essential basis for an effective regulation of liberalized postal markets. By providing a possible remedy for the unfair financial burden for the universal service provider (USP), it allows to set a correct playing field for fostering competition. The USO cost methodology applied by the European liberalization directive 6/2008 is known as the profitability cost approach (Cremer et al, 2000; Panzar, 2000): the USO cost is the difference between the net cost of operations of the USP charged with USOs and the net cost of operations of the USP if it were free to define its output/quality levels. While the theory is straightforward, its practical implementation is not. Several practical problems may arise, such as a double counting problem (Jaag et al, 2009), mainly due to the impossibility of observing a fully competitive market in a country that is not yet liberalized.

The annex 1 to the 6/2008 European directive defines three main criteria to be taken into account in its measurement: i) intangible commercial benefits arising from USOs; ii) a reasonable profit margin, and iii) incentives to efficiency enhancements. As compensation for the extra-cost faced for supplying USOs only, its measurement is therefore supposed to be neutral with respect to other exogenous variables, such as reductions in volume due, for example, to e-substitution effects. However, this constraint is respected only if a proper counterfactual scenario is used. The proposed paper will explore and discuss the range of possible hypotheses behind the set up of the counterfactual scenario, under the constraint that only realistic scenarios should be used.

As an example, the existing literature regarding delivery frequency (CERP, 2008; Postal Regulatory Commission, 2008; Frontier Economics, 2009; Roy et al, 2010) never goes below three delivery days per week in non-urban areas. Might going below three days delivery increase risks of neutralizing positive network externalities generated by the USO? While the three days delivery minimum threshold is considered correct, also for very low mail volumes countries (Roy et al, 2010), is it still valid if the entire postal business is loss-making? As a further example, what if USOs are heavily cross subsidized by financial, insurance services as occurs in Italy (Visco Comandini and Mazzarella, 2010)? Are cross subsidies to be considered as evidence of strong USO benefits to be considered in the calculation?
An additional problem arises if the directive criterion iii) is to be implemented. Its reasonable application would be to subtract from both the existing and the counterfactual scenarios cost shares reflecting efficiency improvements desired or defined by the regulator, but how to assure that these are realistic under either the existing or counterfactual scenario will surely be problematic. A full analysis of these matters is yet to be undertaken and remains a central question for liberalized postal markets.

References:


