

# 18th Conference on Postal and Delivery Economics

**June 2-5, 2010  
Porvoo, Finland**

**Presented by**

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

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# 18th Conference on Postal and Delivery Economics

## Wednesday, June 2, 2010

- 5:30 - 7:00 Registration
- 7:00 Reception
- 8:00 Welcome and Introduction to Conference: **Michael A. Crew and Paul R. Kleindorfer**  
Dinner & Speech: **Jukka Alho**, Chief Executive Officer, Itella Corporation

## Thursday, June 3, 2010

- 7:30 Breakfast
- 9:00 - 10:30 **Concurrent Sessions**
- PRICING POLICY**  
Chair: Michael F. Scanlon  
Discussants: Eduardo Cardadeiro & Pauline Kuipers
- [Mary Davies](#): Assessing Anticompetitive Behavior in a Postal Market
- [Damien Geradin](#): Price Discrimination in the Postal Sector and Competition Law
- [Felipe Flórez Duncan, D. Longman, L. Mautino & P. Dudley](#): Price Discrimination in a Declining Postal Market: what can be learned from other sectors
- LABOR AND SOCIAL**  
Chair: Bernhard Bukovc  
Discussants: Robert Campbell & Jan Bart Henry
- [Dominique Bailly & M. Meidinger](#): The Double Trend of Optimization and Social Regulation of the Postal Activity in Europe
- [John Baldwin](#): What Price Quality Postal Services for Europe
- [Sven Heitzler & C. Wey](#): Raising Rivals' Fixed (Labor) Costs: The Deutsche Post Case
- 10:30 - 10:50 Coffee Break
- 10:50 - 12:20 **Concurrent Sessions**
- DEMAND**  
Chair: Chris Paterson  
Discussants: Ari Vepsäläinen
- [Catherine Cazals, J.-P. Florens, L. Veruete-McKay, F. Rodriguez & S. Soteri](#): UK Letter Mail Demand: A content based time series analysis using overlapping market survey statistical techniques
- [Meloria Meschi, M. Cherry, C. Pace & M. Petrova](#): Are There Any Parachutes for Mail Volumes?
- [Heikki Nikali](#): Does the Level of Price Elasticity Change With the Progression of Substitution?
- USO I**  
Chair: Paul Hamilton  
Discussants: João Castro & Pekka Leskinen
- [Joost Vantomme, S. De Greef, C. Pace, J. Ruth & L. Wolters](#): Guaranteed USO Provision at an Acceptable Cost the Mandatory Play Option
- [Isabelle Carslake, G. Houpis & C. Strobel](#): USO Costs in a Liberalized Environment: evaluating the demand effect
- [Edward S. Pearsall & C. L. Trozzo](#): Evaluating the Effects of Reductions in the Quality of Postal Services
- 12:20 - 1:40 Lunch
- 1:40 - 2:40 **Concurrent Sessions**
- VAT**  
Chair: Frank Rodriguez  
Discussants: Sture Wallander & Wolfgang Pickavé
- [Urs Trinkner, H. Dietl, C. Jaag, M. Lang, M. Lutzenberger](#): Impact of VAT-Exemptions in the Postal Sector on Competition and Welfare
- [Tim Walsh](#): Payment Channels and the Reform of European Union Postal VAT
- USO II**  
Chair: Chris Osborne  
Discussants: Paul Hamilton & Montserrat Mir
- [Michael D. Bradley, J. Colvin, N. Nieto & A. Houck](#): Analyzing the Impact of Varying Delivery-Day Frequency across Geographies
- [Richard Bradley & P. Burns](#): Securing the Universal Service in a Small Jurisdiction: the case of Jersey

# 18th Conference on Postal and Delivery Economics

## Thursday, June 3, 2010 (CONTINUED)

2:45 - 3:45

### STRATEGY I

Chair: Jan Bart Henry  
Discussants: Katja Havia & Tarjei Weseth

[Stefano Gori, P. Sardonì, L. Pintsov & A. Obrea:](#)

Toward Smart Postal Network

[Norma Nieto, K. Strange & W. Takis:](#) Strategic Responses to Recession: A Comparison of the U.S. Postal Service to Other Leading Companies

3:45

Break

7:00

Reception

8:00 –

Dinner & Speech: **Ruth Goldway**, Chairman, U.S. Postal Regulatory Commission

### USO III

Chair: Neil Anderson  
Discussants: Henrik Ballebye Okholm & Geoff Bickerton

[Rob Sheldon & A. Lawrence:](#) The UK Universal Service Obligation: what do the public think and how do they value it?

[François Boldron, C. Borsenberger, H. Cremer, P. De Donder, D. Joram & B. Roy:](#) Sustainable Growth and the Postal Sector: Universal Service vs. Environmental Protection

## Friday, June 4, 2010

7:30

Breakfast

9:00 - 10:30

### Concurrent Sessions

#### ACCESS

Chair: Päivi Rokkanen  
Discussants: Paul Dudley & Stephen Littlechild

[Robert Bernau & S. Haslem:](#) Access Pricing After a Decade of Full Postal Liberalization in New Zealand – A Case Study

[Cem Suleyman:](#) Is Competition in Postal Markets Necessary to Protect the Universal Service?

[Gregory Swinand, C. O'Toole & S. Lyons:](#) Estimating the Impact of Access Conditions on Service Quality in Post

10:30 - 10:50

Coffee Break

10:50 - 12:20

### Concurrent Sessions

#### MARKET STRATEGY

Chair: Ralf Wojtek  
Discussants: Paul C. Smith & Zoltán Szirmay

[Kari Elkelä:](#) Invoicing in 16 European Countries

[Peter Koppe:](#) Focusing on the Promising Customer as Future Strategy in Decreasing Mail Markets

[Philippe De Donder, H. Cremer, P. Dudley & F. Rodriguez:](#) Optimal Pricing for Mail and their Welfare Implications in a Communications Market

#### PO NETWORKS

Chair: Michael J. Shinay  
Discussants: Sacramento Costa & Ana Peralta-Baptista

[Claire Borsenberger, D. Joram & B. Roy:](#) How Many Postal Outlets without USO Constraints? A Cross-Country Comparison of Counterfactual Scenarios

[F. Boldron, F. Fève, J.-P. Florens, C. Panet-Amaro & C. Valognes:](#) Econometric Models and the Evolution of Post-Offices Network

[Stuart Holder, H. Webb, R. Sheldon & A. Lawrence:](#) The Value of Post Offices: How to define the question, estimate the answer and interpret the results

#### REGULATION

Chair: Stephen Littlechild  
Discussants: Tobias Katzschmann & Leonardo Mautino

[Michael A. Crew & Paul Kleindorfer:](#) Postal Regulation under FMO and Intermodal Competition

[Casie D'Souza, D. Monaco & M. Cigno:](#) Universal Service Providers, Financial Position, and Efficiency

[Vincenzo Visco Comandini & F. Mazzarella:](#) Competition and Regulation in the Italian Postal Market

# 18th Conference on Postal and Delivery Economics

## Friday, June 4, 2010 (CONTINUED)

12:20 - 1:40 Lunch

1:40 - 2:40 **Concurrent Sessions**

### STRATEGY II

Chair: Stephen DeMatteo

Discussants: Robert Hammond & Mark van der Horst

[Alessandra Fratini](#): Regulatory Challenges and Opportunities for Postal Operators between the Europe 2020 Strategy

[Luis A. Jimenez](#): 2020 Vision: the next generation post in the next generation market

### INNOVATION

Chair: TBA

Discussants: Tobias Katzschmann & Nancy Race

[Martin Maegli, C. Jaag, M. Koller & U. Trinkner](#): Postal Markets and Electronic Substitution: What is the Impact of Convergence on Regulatory Practices and Institutions?

[Michael J. Ravnitzky](#): Offering Sensor Network Services Using the Postal Delivery Vehicle Fleet: assessing opportunities, challenges and implications

2:45 – 3:45 **STRATEGY III**

Chair: TBA

Discussants: Phillip R. Herr & Paul Schoorl

[David M. Levy & M. D. Field](#): The Postal Service Business Model: lessons from the American railroad industry

[Alberto Pimenta & A. Amaral](#): We Have a Vision: The future of the Portuguese postal sector and the role of CTT

### DELIVERY COST

Chair: Ian Ridgway

Discussants: Greg Harman & Meloria Meschi

[John Hearn, M. Cigno, L. Forslund, J. Grazell, G. Knott, W. Penris, J. Rosenstok & J. Waller](#): Allocating the Cost of 'Delivery' to Postal Products – Principals and Practice

3:45 Break

7:00 Reception

8:00 – Dinner & Speech: **Billy Hayes**, General Secretary, Communication Workers Union

## Saturday, June 5, 2010

7:00 Breakfast

9:00 - 10:30 **GLOBAL DEVELOPMENTS**

Chair: Robert Hammond

Discussants: Joakim Levin & Neil Anderson

[José Anson & J. Toledano](#): Between Financial Inclusion and Postal Banking: is the survival of posts also there?

[James I. Campbell & B. Leopard](#): Postal Law in China

[Gonzales d'Alcantara & M.-O. Pilley](#): Postal Financial Service Economics and Regulation

10:30 - 11:00 Coffee Break

11:00 - 12:30 **USO IV**

Chair: Philippe Claeys

Discussants: Derek Holt & Pater Karlsson

[Richard Eccles](#): State Funding and Cost Sharing of the USO under the 2008 EU Postal Services Directive

[Alex Kalevi Dieke, W. Neu, L.-P. Carrier & J. Coulier](#): Intangible Benefits Related to Universal Postal Service

[Christian Jaag, J. Lisle U. Trinkner & N. Waghe](#): Practical Approaches to USO Costing and Financing

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

12:50- Lunch (Conference Ends)

# 18th Conference on Postal and Delivery Economics

## POSTAL AND DELIVERY ECONOMICS PUBLICATIONS

The following edited books resulted from Previous CRRI Postal Events:

- *Heightening Competition in the Postal and Delivery Sector*, edited by M.A. Crew and P.R. Kleindorfer, Edward Elgar, 2009
- *Postal Reform*, Edited by James I. Campbell, Jr., Michael A. Crew and Paul R. Kleindorfer, Edward Elgar, Dec 2008
- *Competition and Regulation in the Postal and Delivery Sector*, edited by M.A. Crew and P.R. Kleindorfer, Edward Elgar, 2008
- *Liberalization of the Postal and Delivery Sector*, edited by M.A. Crew and P.R. Kleindorfer, Edward Elgar, 2007
- *Progress toward Liberalization of the Postal and Delivery Sector*, edited by M.A. Crew and P.R. Kleindorfer, Springer, 2006
- *Regulatory and Economics Challenges in the Postal and Delivery Sector*, edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 2005
- *Competitive Transformation of the Postal and Delivery Sector*; edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 2004
- *Postal and Delivery Services: Delivering on Competition*, edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 2003
- *Postal and Delivery Services: Pricing, Productivity, Regulation and Strategy*, edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 2001
- *Future Directions in Postal Reform*, edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 2001
- *Current Directions in Postal Reform*, edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 2000
- *Emerging Competition in the Postal and Delivery Services*, edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 1999
- *Managing Change in the Postal and Delivery Services*, edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 1997
- *Commercialization of Postal and Delivery Services: National and International Perspectives*, edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 1994
- *Regulation and the Nature of Postal and Delivery Services*, edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 1992
- *Competition and Innovation in Postal Services*, edited by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 1991

The following are texts on postal economics:

- *Postal Reform*; edited by J.I. Campbell, M.A. Crew and P.R. Kleindorfer, Edward Elgar, *forthcoming* 2008.
- *The Economics of Postal Service*, by M.A. Crew and P.R. Kleindorfer, Kluwer Academic Publishers, 1992

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/>.

## CONFERENCE STAFF

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Research Professor, INSEAD  
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## CRRRI

The **Center for Research in Regulated Industries (CRRRI)**, 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. CRRRI was the recipient of The Hermes Award, 1992, awarded by the European Express Association.

## SPEAKERS, DISCUSSANTS & CHAIRS

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**Antonio Amaral**, CTT Correios de Portugal S.A.  
**Neil Anderson**, Head of UNI Post & Logistics, UNI Post & Logistics Global Union  
**Dominique Bailly**, Director of HR Strategy Management / CEO Advisor, La Poste  
**Thomas Baldry**, Senior Vice President - Global Mail Germany, Deutsche Post World Net  
**John Baldwin**, Head of International Affairs, Communication Workers Union Ireland and UK  
**Henrik Ballebye Okholm**, Director, Copenhagen Economics  
**Robert Bernau**, Manager, Regulatory & Access New Zealand Post  
**Geoff A. Bickerton**, Research Director, Canadian Union of Postal Workers  
**François Boldron**, Groupe La Poste  
**Claire Borsenberger**, Economist, La Poste – European and National Regulation Division  
**Richard Bradley**, Frontier Economics  
**Bernhard Bukovec**, Director, Intercompany Pricing & Regulation, International Post Corporation  
**James I. Campbell, Jr.**, Attorney, Office of James I. Campbell Jr.  
**Robert Campbell**, President and Vice-Chancellor, Mount Allison University  
**Eduardo Cardadeiro**, Board Member, Anacom  
**Gary Carroll**, Service Delivery Director, Jersey Post Limited  
**Isabelle Carslake**, Consultant, Frontier Economics  
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**Catherine Cazals**, Professor, Université Toulouse, TSE & IDEI  
**Margaret Cigno**, Postal Rate and Classification Specialist, US Postal Regulatory Commission  
**Philippe Claeys**, European Government Sector Advisor, PricewaterhouseCoopers  
**Sacramento Costa**, Economist, CTT Correios de Portugal S.A.  
**Helmuth Cremer**, Professor of Economics, IDEI Toulouse School of Economics  
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**Mary Davies**, Principal, Economic Policy, Postcomm  
**Gonzales d'Alcantara**, Economic Expert, d'Alcantara Economic Consulting  
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**Stephen DeMatteo**, Research Analyst, National Association of Letter Carriers  
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**Frédérique Feve**, Researcher, IDEI – Université des Sciences Sociales  
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**Paul Hamilton**, Jersey Competition Regulatory Authority  
**Katja Havia**, Itella Corporation  
**Greg Harman**, Managing Director, LECG Ltd  
**John Hearn**, Manager Postal Liberalization, ComReg  
**Sven Heitzler**, Researcher, Ph.D. candidate, German Institute for Economic Research (DIW Berlin)  
**Jan Bart Henry**, Public Affairs, TNT Post  
**Phillip R. Herr**, U.S. Government Accountability Office  
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**Christian Jaag**, Economist, Swiss Post and University of St. Gallen  
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**Paul Schooli**, Project Manager Regulatory Think Tank & Research, International Post Corporation  
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**Urs Trinkner**, Economist, Swiss Post and University of Zürich

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**Ari Vepsalainen**, Professor, Helsinki School of Economics

**Leticia Veruete-McKay**, Royal Mail Group

**Vincenzo Visco-Comandini**, Professor in Industrial Economics, University of Rome Tor Vergata

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**Tarjei Weseth**, Senior Advisor, Posten Norge AS

**Ralf Wojtek**, Rechtsanwalt, Heuking Kuhn Luer Wojtek

**Mark van der Horst**, Director EU Affairs, UPS Europe NV/SA

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**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

# 18th Conference on Postal and Delivery Economics

## HOTEL INFORMATION

The conference will be held in Porvoo, Finland. The conference site is:

Hotel Haikko Manor      Phone: 358 19 576 01      Fax: 358 19 576 0399  
Haikkoontie 114  
Fin - 06400      ari.siltakorpi@haikko.fi

If you are staying at the Hotel Haikko Manor it is necessary to make your hotel reservations directly with hotel via the email address above, telephone, or by faxing the reservation form. Reference the CRRRI – Rutgers Conference 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://crrri.rutgers.edu/post/>). The reservation forms must be sent to the Hotel Haikko Manor. The Conference rates run from (for the American plan) 193 € single to 262€ for double including meals (Breakfast, Lunch & Dinner). The European plan run from 120 € for the single room and 140 € for the double. This plan includes ONLY Breakfast. Please note on reservation form that you are attending the 18th CPDE (Rutgers University). The deadline for reservations is May 3rd. However as hotel space is limited it may fill earlier than May 3rd.

## FEES AND EXPENSES

- 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: [crrri@business.rutgers.edu](mailto:crrri@business.rutgers.edu)

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### REGISTRATION FORM: 18th Conference on Postal and Delivery Economics

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Organization: \_\_\_\_\_

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#### **Billing Information:**

\_\_\_ Employee of sponsoring organization\*—fee may be waived

\_\_\_ Payment of \$1,500 enclosed in U.S. Dollars payable to Rutgers University

\_\_\_ Credit Card: \_\_\_ VISA \_\_\_ MC Exp. \_\_\_/\_\_\_/\_\_\_ Card # \_\_\_\_\_

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**CANCELLATION POLICY:** Until April 19, 2010 cancellation is allowed (except for speakers) 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 for the 18<sup>th</sup> Conference on Postal and Delivery Economics, 2-5 June 2010

## Assessing Anticompetitive Behavior in a Postal Market

Mary Davies

*Principal, Economic Policy, Postcomm*

Liberalization of postal markets within Europe means that regulators and competition authorities must assess whether the conduct of incumbent firms is likely to restrict the development of competition in the market.

The paper explores a number of issues at the heart of these anti-competitive investigations drawing on experience both within post and other sectors. These include:

- What triggers these investigations:
  - Complaints from competitors.
  - Own initiative investigations.
- What are the principal claims of competitors:
  - Predatory pricing.
  - Margin Squeeze.
  - Loyalty enhancing rebates.
  - Refusal to supply/excessively high access prices.
- How to undertake an assessment of competitive conditions in the postal market under investigation:
  - Market definition starting with the 'focal' product.
  - Determining relative strength of incumbent and other operators.
  - Considering the impact of regulation on the 'playing field' and incentives.
- Factors to take into account when assessing anti-competitive conduct:
  - Determining whether the incumbent can leverage market power from the markets where it is dominant into related competitive markets.
  - Considering how the term, conditions and pricing of downstream access impacts on competitors in the market.
  - Obtaining an accurate measurement of the alleged activity on competitors.
  - Estimating whether the alleged activity results in consumer detriment.
- What is the toolkit required to conduct such investigations:
  - Multi-disciplinary teams comprising lawyers, economists, statisticians and business analysts.
  - Market intelligence gathered through desk research, formal information requests, customer and operator surveys.
  - Economic, financial and legal know how relating to application of competition law to specific issues raised by the complaint.

Whilst there is a common tool kit, each investigation is unique for a number of reasons:

- Market definition depends on competitive conditions at time of assessment, so may change at different points in time as the market evolves.
- Interpretation of standard tests to facts of the case and to the sector to which they are being applied.
- Assessment of conduct may need to take into consideration both dynamic and static considerations.
- Legal tests may alter as new precedence is established as a result of the decision of Appeal courts.
- Legal approach may change. For example, in relation to anti-competitive conduct, movement in the UK and Europe away from form based decision assessment to effects based assessment.

The paper will draw on several examples of recent investigations within post and other sectors in the UK and Europe to explore some of the issues outlined above.

## **PRICE DISCRIMINATION IN THE POSTAL SECTOR AND COMPETITION LAW**

Prof. Damien Geradin (Howrey LLP and Tilburg University)

### **ABSTRACT**

Price discrimination is pervasive in all sectors of the economy. While price discrimination generally increases welfare, there are some circumstances in which it is considered an abuse of a dominant position under EU competition law. Price discrimination is often perceived to be a complex area by competition lawyers and economists for a number of reasons. First, the concept of price discrimination covers a variety of different practices (dual pricing schemes, discounts and rebates, etc.) whose objectives and effects on competition significantly differ. Second, there is a consensus among economists that the welfare effects of price discrimination are ambiguous; it is not necessarily easy to say *a priori* whether a given form of price discrimination increases or decreases welfare. Third, the exact scope of Article 82(c) EC (now Article 102(c) TFEU), which provides that price discrimination by dominant firms may amount to an abuse of a dominant position in certain circumstances, is not entirely clear despite the abundant case-law on this subject.

Against this background, our planned paper will first attempt to clarify the concept of price discrimination and the way in which price discrimination is treated under EU competition law and, where relevant, Member State law. The paper will then examine price discrimination in the postal sector by identifying circumstances in which it may arise, as well as by reviewing a number of postal cases in which price discrimination claims were made. In particular, this paper will focus on the Opinion rendered by the French Competition Authority on 20 December 2007 in relation to the institution of a rebate scheme envisaged by La Poste. A particularly interesting aspect of this Opinion is that the French Competition Authority considered that though the rebates in question were only granted to mailers – and not to consolidators – this did not amount to anti-competitive discrimination. The paper will analyze the reasons that led the French Competition Authority to take that decision, as well as its possible implications for intermediaries in the postal sector. The paper will also review other decisions regarding alleged discrimination in the postal sector, including, for instance, the 2001 Decision of the European Commission pertaining to Deutsche Post AG's interception of cross-border mail and the 2004 Decision regarding the alleged discrimination of mail preparation service providers in Germany. The paper will conclude by providing incumbent postal operators with some practical bright line tests as to which forms of price discrimination are permitted / prohibited under EC competition law.

## **Abstract for the 18th Conference on Postal and Delivery Economics, Porvoo, Finland**

### **Price discrimination in a declining postal market: what can be learned from other sectors?**

*Felipe Flórez Duncan, Dawn Longman, Leonardo Mautino & Paul Dudley*

Mail operators need to find innovative ways of pricing new and existing products in order to encourage the use of post. This is particularly so given the decline in volumes caused by e-substitution and the opening of the market to competition. In a mail market with an incumbent operator, the pricing and product plans need to be commercially viable and compliant with regulatory and competition policy rules preventing anti-competitive foreclosure.

The first section of the paper reviews the theory and economic principles of profitable and welfare-enhancing price discrimination, covering both the commercial and public policy aspects of the practice.

The second section reviews experiences of price discrimination in other regulated and non-regulated industries such as aviation, mobile telephony and pay-TV, among others. The objective of this section is to illustrate how the economic principles identified in the first section have been put into practice by the firms operating in those industries, and how regulators and/or competition authorities have responded to these pricing practices (for example, assessing the risk of predation and/or margin squeeze, as well as assessing the foreclosing effect of discounts and rebates).

The third section provides a practitioner's perspective on the design of profitable and compliant pricing schemes to face the competitive threat of e-substitution and full market liberalization. This will be in relation to Advertising and Direct Mail. The analysis uses high-level data from the UK advertising market on the use of post and other media, combined with the lessons learned from the price discrimination experiences in other sectors.

The paper will be of interest to operators wishing to develop such pricing schemes, and regulators aiming to understand how to assess the legality of pricing proposals in an environment where they need to balance the objective of encouraging innovation and postal usage with the promotion of efficient market entry.

**RUTGERS CONFERENCE on POSTAL and DELIVERY ECONOMICS,  
June 2-5, 2010, PORVOO, FINLAND**

**ABSTRACT**

**Dominique BAILLY & Margaux Meidinger  
La Poste Group**

**The double trend of optimisation and social regulation of the postal activity in Europe**

Faced with the perspective of a structural decrease of the mail volume and the increased competition coming from low cost operators, the historic postal operators in Europe have put in place an operational optimisation of their mail activity. Such an optimisation occurs through three main means: the automation of sorting, the optimisation of delivery and the reduction of the post offices' network. This operational optimisation goes along a social one introduced through three leverages: the decrease of the employment volume, the evolution of the jobs' nature and the decrease of wages. At the same time, new entrants are developing a low cost model with a wide use of independent workers. Considering these two parallel trends and the fact that staff costs represent a major part of the companies' operating costs, the social postal landscape could be deeply modified.

Lately the question of social regulation has gained an increased interest. At the European level the relevance of this issue is shown by the inclusion in the third Postal Directive of a social clause while at the national level we observe the multiplication of diverse regulatory initiatives. However the format and scope of social norms is still a question under intensive debate. The evolution of the social regulatory framework will undoubtedly have a consequence on the organisation of the postal operators and on the degree of their optimisation.

Considering the current challenges, La Poste has ordered to a consulting agency an in depth "Comparative study on the economic and social organisation of the mail market in Europe" which covers eight Member States. Moreover the Social Dialogue Committee of the Postal Sector, chaired by La Poste, has conducted a Social Observatory project through nine national cases studies implicating companies' and unions' representatives. The main outcomes of these analyses are that economic and social optimisation occurs everywhere but at a different pace. Besides the social and societal constraints of each country, what has a direct impact on the scope of both optimisation processes are the strategic orientations and diversification choices made by the companies. The studies highlighted that on the one hand operators focusing on services maintain a certain stability of employment and a wide network of post offices and on the other hand operators diversifying in logistics generally opt for a strong operational and social optimisation.

Our paper aims at presenting the first hand collected data, especially social issues which have yet not been much taken into consideration among the regulation ones, with one core issue being the conditions for a successful social regulation. Grasping the social challenges will also offer a better understanding of the economic and strategic choices made by operators. Indeed it is crucial to comprehend the deep interconnection between the strategies, the economic and social organisational choices made by the operators and the social regulatory framework.

John Baldwin

Abstract for paper to be presented to 18th CRRRI Rutgers Conference 2-5 June Porvoo Finland

## WHAT PRICE QUALITY POSTAL SERVICES FOR EUROPE

The paper to be presented by the Communication Workers Union UK/Ireland will focus on the relentless pressure on pay and conditions of postal workers in the liberalized market and the electronic age

There is now clear evidence that the opening of the postal markets in Europe has changed the status and responsibilities of postal workers but without a true consensus on what the objectives are. By comparison the liberalization of the telecom market occurred at a time of rapid technological change coupled with increasing demand for easy access telephony and the result was lower prices and more choice for the consumer. The reduction in the total number of workers in the sector was already foreseen by the technological advances. Conversely the opening of the postal markets at a time of declining demand has resulted in many cases with a worsening of access for the consumer, higher prices and reduced pay and conditions for the workers in the sector. There is increasing evidence that the only actors benefiting from postal liberalization are the bulk mailers at the expense of the consumers and those employed in the sector

Without a proper debate the average postal worker in several European countries has seen their function downgraded from a permanently employed full time contract, moderately paid, superannuated, semi skilled, long term career to one of precarious employment previously seen decades ago in sectors such as dockyards and construction. At the same time the consumer has experienced later deliveries, higher prices and reduced access. In the countries where this trend has not materialized there are well developed social policies in place to protect both the consumers and the workers in the sector.

The evolving situation is now reliant on the actions of Governments and regulators to ensure that the social clause of the 3<sup>rd</sup> Postal Directive is used effectively and in a meaningful way.

The paper will address the question of social dumping and will attempt to define what that expression actually means. At present there is a widely held view that one companies alleged social dumping is another's business opportunity without any consideration of the real social effects. We will examine the strict adherence to minimum wages legislation or market rates in relation to the reality of the employment situation in various countries by comparison to other sectors and the purchasing power of wages. In particular we will consider the question of payment of social security payments to postal workers.

The paper will focus on the stated objectives of liberalization and the actual outcomes of the various models that have emerged.

## **Raising Rivals' Fixed (Labor) Costs: The Deutsche Post Case**

Christian Wey, Sven Heitzler (DIW Berlin and TU Berlin)

Since the publication of the Green Paper on the development of the internal postal market by the European commission 1992, the reserved monopoly areas were reduced three times and the European operators face the opening of the full market by the end of 2012 at latest. This ongoing reform process and the rising competitive pressure from new competitors not only lead to the need for most operators to make massive changes in their organizations, but also to changes of the whole market environment and organization. These changes often also involve far-reaching implications on the labor market.

Since the seminal article of Williamson (1968) on the Pennington case, it is well known that both an industry union and large incumbent firms may have incentives to raise the industry wage in order to limit entry or force rival firms out of the market.

Interestingly, in Germany sector specific minimum wages are implemented by extending wage-tariff agreements between the industry union and the respective employer association. We show that this institutional environment creates strong incentives to settle on wage agreements strategically to deter market entry.

First, we describe the developments in the German postal market before the market opening on January 1<sup>st</sup> 2008, where we show how the incumbent and the union tried to make use of the labor institutions so as to raise the wages for postal service workers strategically. We also describe the countermeasures by the entering firms and the related legal battle which will be decided at the beginning of 2010 by the Federal Administration Court. In this regard, our paper carries forward Dieke and Wojtek (2008).

Second, and additionally, we present a model which extends Williamson (1968) to the postal service industry. Our paper is also related to Rogerson (1984) who analyzed incentives to raise fixed costs.<sup>4</sup> We suppose that the labor cost of running a certain postal network are largely fixed in the short run and extend their work by considering a vertical structure where an incumbent union and an incumbent firm bargain over a generally binding minimum wage.

The main insight from our model is that even an inefficient incumbent in such a setting has strong cost raising incentives; a result which stands in contrast to models where cost raising strategies affect marginal costs.

Moreover, the weaker the competitiveness of the incumbent vis-à-vis the competitors, the stronger the raising rivals' cost incentives become.

## Abstract

# UK letter mail demand: a content based time series analysis using overlapping market survey statistical techniques\*

Catherine Cazals, Jean-Pierre Florens, Leticia Veruete-McKay, Frank Rodriguez and Soterios Soteri

Addressed inland mail volumes in a number of countries with advanced postal systems are declining. Evidence available in the UK and US suggests that direct mail volumes are falling by considerably more than transactional mail volumes. It is however unclear as to whether this difference is due to cyclical or structural factors. If it is the former, then prospects for letter traffic, and in particular direct mail, volumes are likely to improve somewhat as economic activity recovers. However, if recent declines in letter volumes are due to structural and irreversible factors, such as electronic substitution, then the future for postal operators is likely to be more difficult. In order to assess future prospects for letter traffic an examination of the drivers of UK letter traffic by content type is proposed. In particular, the paper will examine the key drivers underpinning the demand for social, direct mail and transactional mail.

A number of time series econometric studies have been undertaken for addressed inland mail demand using total traffic and traffic disaggregated by broad product categories. This paper proposes to examine the factors driving letter demand via a different lens. If, as is likely to be the case, decisions to send letters are dependent on what is contained in the envelope, an analysis of the factors influencing the demand to send particular types of letters could provide new and valuable insights to postal business operators and policy makers. In attempting to undertake such an analysis a challenging business problem arises. Many postal operators sell, and therefore measure letter products differentiated by speed of delivery and presentation criteria. So that in general they do not differentiate by content type. It is therefore more difficult to examine the demand for letters by content type than by product type.

In some countries it may be possible to derive a time series data set using survey data on content types. However, since the introduction of competition in the UK no individual consumer or business survey data set takes into account the full postal market. Instead, different surveys cover segments of letter traffic that tend to overlap one another. This paper will show how statistical maximum likelihood techniques can be used to combine incomplete survey information on mail contents from different sources. An econometric demand for mail analysis by content type is then undertaken using this data set.

The econometric results of the paper will provide postal business operators and policy makers with valuable new insights into the debate on whether the current rates of decline in mail volumes are likely to be structural, cyclical or a mixture of the two. In addition, the paper demonstrates how powerful statistical techniques can be used to solve practical business problems under limited and partial information. It is hoped that such techniques could be adopted more widely by postal business operators and policy makers to inform new and valuable future research topics.

## Abstract for the 18th Conference on Postal and Delivery Economics

### “Are there any parachutes for mail volumes?”

Matthew Cherry\*, Meloria Meschi\*, Carla Pace\*\* & Milena Petrova\*

\* FTI Consulting and \*\* De Post – La Poste

Traditionally, there has always been a direct link between mail volumes and income growth. However, there is considerable evidence that during the period before the current economic recession, the relationship between income measures such as GDP and mail volumes had weakened considerably (UPU, 2007, Postcomm, 2007). Since the beginning of the current downturn, mail volumes have decreased dramatically. To what extent does this represent a re-establishment of the standard relationship between income and volumes and to what extent a permanent structural shift?

There is widespread preoccupation that the second hypothesis may be the correct one, and the issue for postal operators is how to deal with mail volume trends that may be worsening faster than expected. To do that, it is important to understand what has caused the relationship between income and mail volumes to change: has this happened because of electronic substitution, or are there more reasons – such as changes in regulatory framework, in the sectoral makeup of the economy or in demographic factors?

Using time-series data on a number of OECD countries, we propose to carry out an econometric investigation of the evolution of mail volumes (*letter post items*, in UPU definition) in order to ascertain whether and when the relationship between volumes and income broke down, and whether this was driven by:

- i. competition from other communication media, e.g. electronic media (e-substitution driven by the diffusion of broadband);
- ii. changes in the regulatory or competitive framework: market liberalization, competitor entry, etc.;
- iii. the evolution of key mail generating sectors; and
- iv. socio-demographic factors

For our analysis, we propose to use panel data techniques and an estimation methodology that allows the coefficients on the relevant variables to vary by country. This will allow us to assess the extent to which the decline in mail volume is driven by common factors and what this implies for postal operators and regulators.

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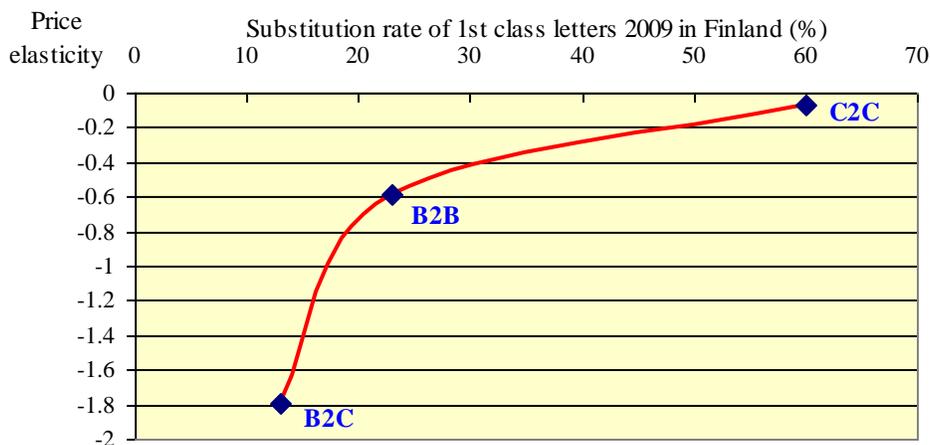
### Does the level of price elasticity change with the progression of substitution?

The erosion of paper mail demand by electronic substitution is a reality in all developed countries. Almost nobody is prepared to deny this anymore. It is also evident that the substitution process has reached different stages in different countries, and a good example would be a comparison between Denmark and Finland. Denmark belongs to the first wave of consumer invoice electronication, whereas Finland is a long way behind. Two years ago only one third of Danes said that paper letters were their main channel for receiving invoices (Kiikkilä etc. 2008). In Finland the proportion was nearly 90%. During the period 2000–2009 addressed letter volumes have decreased by 29% in Denmark and 9% in Finland.

The main point of this paper is to examine for the case of Finland whether letter price elasticity in different sender and receiver categories varies due to different progresses of substitution process. The substitution process has progressed farthest for letters sent by consumers, but it has only just started in the B2C sector (Nikali 2008). The reasons for this would appear quite obvious: consumers send messages to each other and have many channels at their disposal (letter, postcard, email, SMS, and many new internet communication forms). However, in B2C communication senders have to be careful even when using email or SMS, and at present they cannot use the new internet communication forms at all. For example, sending an invoice by email or an announcement by SMS to a consumer has to be agreed beforehand. Thus, the paper letter substitution rate in the B2C sector is about 10% and in the C2C sector 60% in 2009 in Finland.

By analyzing letter senders sectors on different substitution levels and estimating price elasticity for these, conclusions concerning the correlation between price elasticity and substitution can be drawn. The figure below shows how elasticity changes as we move along the continuum towards an increasing level of substitution.

**Figure** Interdependency between substitution rate and price elasticity for 1st class letters in Finland



The reasons for different price sensitivities can be based on possibilities of using few or many communication channels. On the one hand, the difficulty of taking advantage of electronic substitution in B2C mail would suggest high letter price sensitivity. When senders have only a few channel alternatives for sending their messages, their communication utility function will be to communicate at minimum cost. However, on the other hand, unexploited opportunities for electronic substitution and consumer awareness of possibilities that they have already experienced in the C2C sector might suggest low letter price sensitivity. The communication utility function in this case could be to maximize ease, reliability and data security of communication at minimal expense. Exactly what the relationship is between elasticity and historical substitution rate is therefore an interesting empirical question, which is precisely the question analyzed in this paper.

What kind of formula could be estimated between price elasticity and substitution rate? Based on the figure above the formula should be:

$$\beta_s = \beta_s(r_s) = \frac{k_s}{e^{\alpha_s * r_s}}$$

where  $\beta_s$  = price elasticity,  $r_s$  = substitution rate and  $k_s, \alpha_s$  = constants for the letter service s.

Why is this so important? It is easier to comprehend the coming substitution process than changes in elasticity, and pricing policy is one of the most essential parameters for long-term strategic planning of letter services.

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## **GUARANTEED USO PROVISION AT AN ACCEPTABLE COST THE MANDATORY PLAY OPTION**

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Abstract for the 18th Conference on Postal and Delivery Economics

Joost Vantomme, Sarah De Greef, Laetitia Wolters, Carla Pace, Jacques Ruth  
All from De Post/La Poste

The Third Postal Directive has a twin objective, i.e. full liberalisation and a guaranteed provision of the universal service. In the transposition process, Member States may adopt various measures to approach the universal service continuity and the financing thereof. To ensure this provision, the Member State can either trust the market to spontaneously provide the service or designate one or several operators, in which case the Member State should then assess whether the provision of the universal service entails a net cost. If that is the case, the specific context (e.g. density, demography and other economic factors) may induce Member State to adopt a financing mechanism by which the USO losses will be at least partially covered and/or to impose some obligations on other operators limiting the cream skimming.

Indeed, in some countries with specific postal market features, cream skimming by competitors could lead to such a USO net cost that the viability of the USP will be at stake and that neither the State nor the competitors would be able to finance it. In such a case, it might be more interesting to introduce a system in which the net cost of the USO is reduced by imposing some obligations on the entrants, in order to preserve the USO.

Such a system that activates regulatory levers to guarantee a safe provision of the USO is legally possible in the framework of the third Postal Directive, as long as the obligations that are imposed on new entrants are proportionate and do not prevent them from entering the market.

The paper will combine a legal and an economic analysis: the legal analysis of the compensation of the net cost within the Third Postal Directive will be reinforced by the set up of an economic model justifying the obligations imposed on new entrants.

The aim of the paper is to:

- 1. assess the legal feasibility to mitigate the cost of the USO by imposing licensing requirements on new entrants. This evaluation will be done in the context of the sector specific Postal Directive (art. 7 and 9) and the European law applications in various fields related to proportionality and market entry regulation;*
- 2. confirm legal feasibility by economic examples showing the economic rationale behind imposing such requirements on new entrants.*

## USO COSTS IN A LIBERALISED ENVIRONMENT: EVALUATING THE DEMAND EFFECT

ISABELLE CARSLAKE, GEORGE HOUPIS AND CHRISTIAN STROBEL, FRONTIER ECONOMICS

A number of papers have addressed the issue of how demanding it may be for different USPs to meet their obligations, as highlighted by Ambrosini et al. (2005), to take into account both the operator specific obligations, and the external environment in which different USPs operate (such as density). The main contributors have been Boldron & al. (2007), Cohen & al (2002 and 2003), Alcantara et al. (2005) and Crew and Kleindorfer (2005). Our paper, like Borsenberger (2009), is an extension of these works as it first evaluates explicitly the combined impact of the drivers of USO costs on the scale of the net cost of the USO for operators with different types of characteristics, using the profitability cost approach. Our paper then goes on to examine the significance that demand plays, in a profitability cost approach, on the calculation of the net cost of the USO. This is an areas that has received relatively little attention to date, and our paper aims to shed more light on the factors that could affect the way demand for mail would react to a re-specification of some of the key characteristics of the US mail products, and the implications of this for the calculation of the net cost of the USO. First, we describe how we expand our empirical model of the full pipeline for end-to-end mail services, which was presented previously in Bradley et al (2008). We then quantify the net USO cost, using the profitability cost methodology developed by Cremer (2002), for a hypothetical USP (HUSP). We then test the relative importance of the scope of the USO, the external drivers of the cost of the USO (density, volumes and population size). We focus in particular on the potential impact of a re-specification of the USO on USPs revenues. We examine the significance that the profitability of mail that may be lost as a result of the re-specification has for the net USO cost calculation. Lastly we present our results on the relative significance of the different cost and revenue drivers of the net USO cost, and how these may vary in a fully liberalized environment.

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## **Abstract of Proposed Paper**

Title: Evaluating the Effects of Reductions in the Quality of Postal Service

Authors: Edward S Pearsall and Charles L. Trozzo

As mail volumes have contracted during the global recession, national posts have increasingly explored responses that would cut costs by reducing the quality of service. Most notably, a number of recent studies have estimated the savings from reducing the frequency of delivery for the U.S. Postal Service (USPS) and for several European posts. Virtually all of these studies juxtapose conjectures regarding the demand effects of the proposed reductions with quantitative models to estimate the impact on cost. In this paper we show how econometric demand models can also be adapted to the task of statistically estimating the effects on mail volumes of changes in the qualitative aspects of postal service.

Our method relies on a previous finding by Fenster et al (2006) that the US postal tariff can be accurately represented by a hedonic price equation econometrically fitted over the entire range of US mail service categories. The price equation relates US postal rates to indexes of several qualitative properties of the mail, including the time to delivery. Such a price equation enables us to convert changes in the indexed qualitative properties of the mail into equivalent changes in postal rates. The demand effects of the rate changes can then be estimated using any fitted econometric demand model that relates postal volumes to rates. This method for estimating the demand effects of reductions in service quality should be feasible, not only for USPS, but for any national post whose tariff can be represented by a hedonic price equation, and whose volumes have been fitted econometrically to demand equations.

We demonstrate our method by re-estimating the demand and cost effects of various reductions in the frequency of residential and business deliveries by USPS. Our results tend to confirm assumptions by others that the demand effects of eliminating USPS' Saturday deliveries would be small – in the order of 1 or 2 percent for most categories of mail. Furthermore, our predictions of the cost savings to USPS fall in the lower range of estimates made by others – about \$2.5 billion per year.

# Impact of VAT-Exemptions in the Postal Sector on Competition and Welfare

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## Abstract

In most European Member States universal postal services are exempt from value added taxes (VAT) on the grounds that they are the “public postal service”. Other postal service providers in the UK have to charge VAT at the standard rate. In the UK, TNT legally challenged this interpretation of the VAT Directive<sup>1</sup> and Royal Mail’s VAT exemption as not being in accordance with EU law. It argued that, where the market is liberalized, VAT should be charged on all services to avoid market distortion. This position had already been taken by some European governments, including those of Sweden and Finland.

The ECJ ruled that Royal Mail, as the operator providing the public postal service, was the only postal service provider in the UK that was eligible for the VAT exemption. However, this exemption would not apply to supplies that had been individually negotiated by businesses with Royal Mail, as it distorts competition. The ECJ’s decision is binding on all European Member States, also on those that have abolished the VAT exemption i.e. their public postal tariffs include VAT: Finland (22 percent), Slovenia (20 percent) and Sweden (25 percent).

One way to achieve a level playing field with respect to value added taxation would be to introduce a reduced rate of VAT which would apply to all postal operators. However, applying a reduced rate of VAT to all postal operators would require a change to the VAT Directive, which would require a unanimous approval of all Member States.

The significance of VAT exemptions on the emergence of competition in liberalized postal markets has been analyzed and discussed before: De Donder et al. (2009) study the pricing and welfare implications of changing a postal operator’s VAT status. Crew et al. (2009) discuss the importance of VAT exemptions in the framework of the prospective study by PwC (2006). Dieke and Elixmann (2005) quantify the effect of VAT exemptions for postal operators on government tax revenue.

The focus of our paper is on the competitive effects of the proposed VAT regime relative to selected alternatives, especially with respect to market entry strategies. We also highlight welfare effects of various VAT scenarios. To quantify the effects of selected VAT scenarios we develop a model framework based on Jaag and Trinkner (2009) with endogenous entry.

We derive market shares, optimum prices and welfare measures in a liberalized market by means of a calibrated model with stylized data. The various scenarios differ by the range of products being part of the USO and country-specific VAT rates. Moreover, we also differentiate our model calibration on the demand side taking into account the fraction of items originating from companies that cannot deduct VAT themselves.

The contribution of the paper is a well-founded basis for the current policy debate on VAT exemptions in the postal sector. The paper sheds light on the main competitive impact drivers of VAT policies while showing the consequences on overall welfare. This enables us to provide guidance on how to resolve the trade-off between a level playing field, government tax income and low consumers prices.

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# Payment Channels and the Reform of European Union Postal VAT

Tim Walsh  
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## ABSTRACT

For the past two decades European Union postal policy has sought to underpin the financial viability of the universal services and to boost the efficiency and innovation of the sector. The reform of value-added tax rules as they apply to postal services has been integral to EU policy for the sector though achieving progress on postal VAT reform has proved problematic.

With the April 2009 decision in the recent European Court Of Justice case and that of the December 2009 European Council of finance ministers (Ecofin) to re-open the discussion of the aborted 2003/04 European Commission proposal for the reform of postal VAT it is clear that 2010 will be dominated by the issue of EU postal VAT rules. Ecofin charged the Spanish and Belgian Presidencies of the Council to “further explore” a possible postal VAT solution by the end of 2010 or before the deadline for the transposition of the Third Postal Directive.

This paper will assist with that exploration. In particular, the paper will review the postal VAT issue from the perspective of all economic actors in the sector (mailers, posts and new entrants) and in the light of broader single market principles: non-discrimination and fiscal neutrality. It will outline the development of EU jurisprudence on the application of the 1977 Sixth VAT directive rules and seek to understand the barriers to postal VAT reform over the last twenty years. The paper will further define a basis for the common interpretation of the European Court of Justice decision in the TNT UK v HMRC (including with respect to the ECJ’s concept of “individually negotiated terms”), and outline the elements of a postal VAT reform package that might both underpin the EU’s wider policy objectives for the sector and secure support from the economic actors in the sector.

Analyzing the Impact of Varying Delivery-Day Frequency across Geographies

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Postal operators around the world face declining volumes while providing universal service across extensive and costly delivery networks. This combination threatens the economic viability of postal operators. Consequently, in a number of countries, a reduction in the frequency of delivery is being discussed as a possible solution to the network sustainability problem.

The traditional approach to a reduction in the frequency of delivery is a uniform, nationwide reduction in the number of delivery days. For example, in the United States, there is currently a debate about the cost savings associated with the elimination of Saturday delivery. However, there has been limited academic research into whether such a universal reduction in delivery service is economically efficient and limited investigation into alternative approaches. For example, there may be some high-volume delivery areas for which a complete set of delivery days is efficient whereas there may be some low-volume, high-cost delivery areas for which daily delivery is not cost effective.

In this paper we investigate an alternative approach to reducing delivery network costs, one in which the frequency of delivery is allowed to vary across delivery areas.

We start by building a nationwide delivery model for the United States based upon disaggregated data from the nearly 1,000 individual 3-digit ZIP Codes. For each ZIP Code, the model includes the volumes delivered by product, the number of delivery points and the cost of delivery. This disaggregated model allows us to investigate non-uniform delivery day reductions.

We develop a model that reduces the average nationwide frequency of delivery by varying the number of delivery days in each 3-digit ZIP Code or groups of ZIP Codes based on a number of factors, including cost characteristics and delivery volumes. For example, one of the primary determinants of the delivery cost per piece is the density of delivery, as measured by the number of pieces delivered per delivery point. We thus investigate endogenously determining the number of delivery days for each ZIP Code by requiring it to reach a minimum level of daily pieces per delivery point. We also investigate a scenario in which the number of delivery days per ZIP Code is set by placing a cap on the average cost per delivered piece. Finally, we investigate the relative efficiency of uniform and non-uniform delivery day reduction by comparing a uniform one-day reduction with a non-uniform reduction which generates the same number of saved delivery days. Various alternative models are compared, with additional sensitivities run for constraints such as maximum and minimum number of days and average days of delivery across the country.

Finally, in the last part of the paper, we present some policy analysis of the impacts of varying delivery days geographically. We will examine geographic, economic and demographic characteristics of the 3-digit ZIP Codes which get the largest reductions in delivery days and investigate whether social implications need to be balanced against efficiency gains.

## SECURING THE UNIVERSAL SERVICE IN A SMALL JURISDICTION: THE CASE OF JERSEY

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FRONTIER ECONOMICS

Jersey, along with many other jurisdictions, is seeing a transformation of its mail market. Volumes are falling rapidly, and the regulator has begun opening the market to competition. But Jersey poses interesting challenges: of geography – it is an Island of 90,000 people and only 14km by 8km; of mail destinations – less than half the letters are both sent and received on the Island; and of types of mail – Jersey is a major fulfillment centre and gross revenues from fulfillment mail are nearly three times higher than standard business and social post.

As a result, Jersey raises interesting questions around estimating the cost that universal service requirements impose on Jersey Post, the incumbent operator, and determining the appropriate policy response. Specifically, an exercise to cost the USO in 2008 found that although there were differences in costs between deliveries in parts of the Island (and so high margin and low margin routes), the market environment meant it was impractical to offer reduced services to only parts of the Island. This would have been very hard to explain to customers and risked a volume response that outweighed the cost savings. Consequently, the main realistic counter-factual was simply to close the standard business and social post operation, and continue with the fulfillment business - the USO cost was therefore equal to any unavoidable loss on that core postal network taken as a whole.

Forward looking projections, however, suggest that some service features that are net benefits at existing volume levels might become net costs in future if volume declines continue, showing the importance of a contextualized approach to costing the USO. Moreover, the volume declines themselves impose severe challenges which the operator has to respond to. After discussing the estimation of the net cost of the USO for Jersey Post, this paper considers the regulatory options available in order to respond to a changing USO burden and to ensure financing in the context of a rapidly changing market in this interesting jurisdiction.

# “Toward Smart Postal Network”

Abstract for 18th Conference on Postal and Delivery Economics, June 2-5, 2010

Submitted for consideration by S. Gori (Bristol Business School, Poste Italiane), P. Sardoni (Poste Italiane), L. Pintsov (Pitney Bowes) and Obrea A. (Pitney Bowes)

Smart electric grids are hot topic. The interpretation of the term “smart” ranges from more reliable, flexible, convenient and safer power transmission to intelligent meters that automatically send readings and control domestic appliances. Smart grid is expected to be capable of managing the intermittent surges of electricity from a large and widespread number of small power sources such as wind turbines and solar panels. More sophisticated technology will allow a smooth flow of energy in and out homes and businesses, balancing supply and demand for power more efficiently. It is also expected that the smart grid will reduce the need for expensive backup capacity, thus it will reduce the cost of electricity and encourage optimal consumption. Postal networks are also undergoing fundamental change. They clearly need to be reinvented since their traditional products and their delivery methods are rapidly becoming obsolete for the electronic age. Considering “smart” properties of electric grid, can they be projected onto the postal sector? Can we envision a smart postal network and understand its basic organizational and technological components? If the answer is yes, what would it encompass and what would it mean for consumers, postal service providers and regulators?

The paper compares smart electric and postal networks and identifies similarities and differences between them. Because (by definition) the characteristic “smart” almost always implies adaptive and effective use of information, both networks are distinguished from their not so smart cousins by how they use all relevant information. The key consideration for both networks is how relevant information within the network is collected, processed and acted upon. The concept of “smart” electric meters can be extended to postal network in the sense that metering usage can be active (i.e. equipped with the ability to control both production and consumption aspects of mail). The similarity may also be limited because postal and electric grids are quite different in their purpose, design, and operations. The postal and electric networks fundamentally differ in the products that they deliver to their customers. While electricity is a commodity product, postal products are becoming increasingly differentiated. A critical requirement for the electric network is “smart” balancing act between supply and demand complicated by the difficulties of effective storage for electrical energy, while postal network faces a painful transition into digital world where majority of communications are not carried by printed media resulting in significant decline in demand for traditional postal “bread and butter” products. Understanding similarities and differences between smart grids will help to articulate clear and constructive vision for the future of networked industries as well as to identify their mutually beneficial technological, operational and governance components.

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# 2020 Vision: The Next Generation Post in the Next Generation Market

Luis A. Jimenez

In each of the last few decades postal operators have faced serious challenges from a multiplicity of now well-known forces shaping their markets. The 2008-2009 global recession seems to have brought a renewed sentiment of “gloom” among some operators. Some trends – such as mail volume erosion – were perhaps previously thought to be inexorable, albeit endowed with manageable rates of decline. Such secular trends are now often seen to have accelerated or indeed become disruptive, leading to renewed speculations of the sector having now reached a “tipping point” that will force some postal operators – and the industry as a whole – along an inevitable death/graveyard spiral.

While it is impossible to predict accurately the state of postal markets 10 years hence, techniques such as scenarios analysis, visioning and alternative futures have in the past enabled us to look beyond current trends. While attempting to “peer around the bend in the road,” these tools have provided for some degree of robust contingency planning. This paper will consider a set of plausible ten-year outlooks for the postal markets, the potential responses of individual postal operators and the shape of the industry as a whole. Because we believe that this work has not been previously undertaken in this manner, we hope our work will initiate debate and stimulate further research.

Scenarios have indeed long been used to address a wide range of strategic issues in the postal industry. Jimenez (2005) presented an overview of scenario methods and recent applications in the postal industry as part of the deliberations of the UPU’s Strategic Planning Group (SPG). The SPG later produced its report of future postal scenarios (UPU, 2006). Pitney Bowes (Hahn, 2002) developed several scenarios to gauge the degree of reform that would take place in the United States and the consequences for the health of the USPS. A leading European post developed scenarios to orient the company’s strategic penetration of new markets. The Institute for the Future developed scenarios of the likely evolution of mail volumes for the Presidential Commission on the USPS (2003). Examining the European market liberalization environment, Gori (2006) presented scenarios that depicted several likely shapes for the postal sector in the face of liberalization and competition, while DeDuytsche (2007) focused on scenarios of the “end-game” for the distribution of market shares among incumbents and new entrants. Owsiany (2006) focused her scenario work on assessing how younger generations might use mail as a communications medium. More recently, Barton (2009) considered the evolution of the sector along dimensions that included the degree of recipient choice and the government’s support for the USO. The Foundation for Paper Based Communications (EMA, 2009) is now launching a project to develop scenarios of the future USPS.

Although there is a wide variety of applications of scenarios in postal industry, this work has often followed the classical approach of adopting a “focal point of view” that is, a major central issue around which [usually two] sources of uncertainties are considered. Each uncertainty is described in terms of two “either/or” extremes which cannot coexist (e.g., a fully-liberalized market or a complete monopoly). Next, a two-by-two map is drawn of possible outcomes, allowing decision makers to either develop robust strategies that seem to perform well under all four extreme cases, or to develop a path and program to influence the outcome toward the most desirable future. Less common, however, has been a more holistic view of all the potential forces affecting, say, an industry. Seminal work in this area was published by Kelly (2005) at the Global Business Network. Kelly presented a novel approach that postulated that, while forces may pull the world in opposite directions, the result is often a “dynamic tension” that results in both extremes coexisting. This leads in effect to a more complex world in which both extremes occur in what he calls an “and/both” state, as opposed to the stark “either/or” framework of traditional scenarios.

Our work will aim to define the dynamic tensions existing in the postal world and portray a range of scenarios of how the industry may turn out in 10 years, thus developing a plausible “vision” of the industry out to 2020.

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# **The UK Universal Service Obligation: What do the public think and how do they value it?**

**Authors: Rob Sheldon and Alison Lawrence (Accent)**

The conference has looked extensively at the role of the USO and a broad range of theoretical developments have been postulated and debated.

Much of this debate – both within and outside the conference - has, however, been conducted without the public being directly ‘drawn’ into it.

This changed in 2007 when an Accent/cebr/RAND consortium was commissioned by Postwatch, the former UK postal consumers’ watchdog organization, to undertake a key market research programme into the subject.

The objectives of the research were to assess whether the current USO, as facilitated through Royal Mail, is known about, is seen to fulfill public needs and expectations and is sustainable over the long term given the increasing prevalence of alternative ‘postal’ services (ex. email and other entrant providers) and changing user habits.

A multi-stage research programme was followed This included stakeholder workshops (involving Royal Mail and Postcomm representatives), qualitative research (focus groups and depth interviews with both businesses and consumers) and a substantial quantitative stage of research which used stated preference to explore public valuations of all the key USO components.

Respondents were carefully recruited to ensure that we had robust findings for key segments – 300 large and small businesses, and over 500 residential customers including rural and urban dwellers, and a large proportion of vulnerable members of society such as the elderly or those on low income.

The public findings were complimented and contextualized by a detailed economic analysis which examined:

- the effect of competition on the USO
- the vulnerability of the UK USO to liberalisation
- alternative USO models.

Not only did the research have a wide remit but we believe the project was particularly innovative in its use of stated preference to assess what people believe should be included in a regulatory framework; in other words not just what they wanted themselves from a postal service but what they believed should be included within the USO for society.

It will therefore be of interest to anyone with a particular interest in:

- the consumer view of postal universal service obligations
- how stated preference can be used in researching regulatory frameworks.

# Sustainable Growth and the Postal Sector: Universal Service vs. Environmental Protection

by

François Boldron, Claire Borsenberger, Helmuth Cremer, Philippe De Donder,  
Denis Joram and Bernard Roy

During the last two decades, the postal sectors in the EU member states have faced two major trends. On the one hand, markets have been liberalized to an increasing degree, and full liberalization is now just around the corner. On the other hand, traditional postal products have been subject to an increasing degree of competition from electronic substitutes. The first trend has been extensively studied in the literature and its implications are by now well understood. The electronic substitutes have also received a lot of attention but the jury is still out when it comes to know their precise impact on the demand for postal products in the coming years and decades.

A third major trend which is likely to have a significant effect on the future of the postal sector has hitherto largely been ignored by the literature: the increasing importance of sustainable growth considerations and of environmental policy. The postal sector affects the environment through at least two channels: the consumption of paper on the one hand, and *CO2* emissions due to transportation and buildings' energy consumption on the other hand. Consequently the environmental debate will bring postal operators to rethink their pricing strategies, their product design and their investment decisions. In addition, considerations of sustainable growth and environmental policies will challenge the other postal stakeholders too, as they will also have a substantial impact on regulatory policies, in particular Universal Service Obligations (USO).

In this paper, we study the impact of environmental considerations on USO. The cost and benefits of USOs have been extensively studied over the last decade. It is by now well known that USO has social benefits but implies costs at various levels: private costs for the operator and efficiency costs for customers. An optimally designed USO ought to strike a balance between benefits and costs. The point we make is that environmental considerations add yet another dimension to this tradeoff.

To illustrate this argument in the simplest possible way, we concentrate on a specific aspect, namely the speed of processing and delivery. USO often requires that (domestic first-class) mail be processed on a D+1 basis irrespective of the distance between sender and addressee (and typically at a uniform rate). Now, transportation costs incurred to ensure next day delivery, both the private ones borne by the operator and the external costs associated with emissions tend to increase quite significantly with distance. For instance, with the D+1 constraint, long distance mail may have to be carried by plane while more environmentally friendly means of transportation could be used for less urgent mail. We show that, when environmental considerations are ignored, regulators may impose a larger than otherwise optimal USO. We also study how the USO should be designed to properly account for the environmental cost in a variety of situations ranging from a first-best world to a (Ramsey-type) second best world with uniform prices.

## **Abstract for the 15<sup>th</sup> Conference on Postal and Delivery Economics**

### **“Access Pricing after a Decade of Full Postal Liberalisation in New Zealand – A Case Study”**

**Robert Bernau and Sophie Haslem  
New Zealand Post**

New Zealand Post has provided access to its postal network to other postal operators since 1998. There are twenty eight postal operators registered in New Zealand and New Zealand Post has access agreements with six of them. Five of them do not have processing and delivery networks and insert all of their “re-branded” mail into New Zealand Post’s network. The other operates its own partial network in most urban and large provincial centres and lodges residual volumes for New Zealand Post to deliver.

Approximately 25-30% of the standard letter market is served by New Zealand Post’s access customers.

There is no regulatory body specifically managing competition in the postal industry in New Zealand. New Zealand runs a light-handed regulatory regime relying on broad competition regulation (The Commerce Act 1986), a Deed of Understanding between the Government and New Zealand Post which requires competitive access on comparable terms to customers and pricing and access arrangement disclosure regulations.

Under this regime, access terms have been negotiated on a case by case basis for over a decade. This has led to an ongoing upward creep in access discounts well in excess of avoided costs as New Zealand Post sought to avoid the litigation / regulation path that was taken in the New Zealand telecommunications sector.

In the context of an ongoing structural decline in standard letter volumes, this approach has now been found to be undermining the viability of a reasonably priced universal postal service for all New Zealanders.

New Zealand Post has recently fully assessed these impacts, considered all possible alternative pricing approaches, and is now consulting on a new access model with industry participants. That model has four objectives –

- A comprehensive USO is maintained meeting the needs of New Zealanders throughout the economy;
- New Zealand Post postal business profitability not being undermined such that its capacity to provide the USO is affected;
- Effective competition in the postal industry remains;
- The access model meets the requirements of the Commerce Act.

This model involves –

- (a) implementing amended access pricing guided by the “Baumol-Willig Rule” (ECPR) for all ongoing access arrangements;
- (b) for access operators with partial networks, withdrawing access discounts in competitive areas (commercial arrangements only).

The paper will outline the observed impacts of the historically negotiated approach in an environment where a bypass network operates, discuss the pros and cons of the alternative models (including de-averaged pricing) considered by New Zealand Post, and outline how the proposed mixed access/commercial model plans to operate. By the time the paper is presented, New Zealand Post expects to have received feedback from other operators on its proposal, and confirmed its new access pricing approach.

New Zealand is one of a very few countries where full-liberalisation of the postal industry has been operating for a substantial period. This paper hopes to share some of the economic realities of that experience for the universal postal network operator.

Is Competition in Postal Markets Necessary to Protect the Universal Service?  
Cem Suleyman, Senior Policy Advocate, Consumer Focus

*Background*

Full EU postal market liberalization is expected to be completed in 2013 (approximately 95% of the EU postal market is expected to be liberalized by 2011) as a result of the implementation of the Third Postal Directive (2008/6/EC) in 2008. There is a common expectation among industry commentators that competition will become an increasing feature of EU postal markets following liberalization. The important question for postal users, of *all sizes*, is:

- Can competition, either directly or indirectly by providing greater incentives for incumbent postal operators to become more efficient and customer focussed, provide benefits for them in terms of lower prices, increased choice, greater innovation and better quality of service?;
- If competition can provide these types of outcome, what form, or forms, of competition work best?; and
- What impact does Access Competition or other forms of competition have on the incumbent Universal Service Providers' ability to provide the Universal Postal Service, especially when national postal operators are under increasing pressure from the e-substitution effect?

This paper will be focusing primarily on the competitive experience in the UK postal market (which was fully liberalized in 2006). The development of competition in the UK has followed quite a distinctive path due in large part to the regulatory framework that was established. The Postal Services Act (2000) established an independent regulator (Postcomm) and, shortly after, Royal Mail's License provided the opportunity for third parties (be it other postal operators or bulk mailers) to access different parts of Royal Mail's network. The first access agreement contract was signed and came into effect in 2004 and became the basis for subsequent access agreements (in March 2008 there were 21 businesses with access agreements). This allows third parties to undertake the postal collection, sortation and transportation functions, in effect bypassing Royal Mail's upstream network, and to insert their mail into Royal Mail's downstream network for final sortation and delivery at an agreed price.

Since 2004 access volumes have increased rapidly with Royal Mail reporting in December 2009 that for the first half of 2009/10 around one in three items of mail delivered by Royal Mail was originally handled by a rival postal operator or large business customer. However, whilst there has been a rapid expansion in Access Competition, there has been almost no competition in the end-to-end delivery market (Royal Mail had a market share of over 99% in June 2009).

The issue of competition in the UK postal market and the effects it has had on its development was raised as part of a major independent review (commonly known as the Hooper Review) of postal services launched by the government on 17 December 2007. Following the review the Hooper Report was published on 16 December 2008. The Hooper Report concluded that there had been benefits for larger customers in the form of more choice, lower prices and better quality of service from the increase in Access Competition. However, the benefits, either direct or indirect, accruing to SME and residential customers are far from clear.

The Hooper Report also noted the lack of basic agreement between Postcomm and Royal Mail over the simplest facts, including whether Royal Mail's Access Services make a profit or a loss. This has led to some quite aggressive accusations being made by politicians and trade unions around the issue of 'cherry picking' as well as robust defenses made by the regulator of its approach to promoting competition (See the recent Business and Enterprise Committee meeting minutes on the Postal Services Bill on Tuesday 24 February 2009 for example).

*Objectives of the paper*

The objective of this paper is not to answer the question of whether or not the access headroom margin was set at the 'correct' level in the UK postal market. This task will be for the regulator and will require comprehensive cost transparency to be provided by Royal Mail to allow it to undertake this task. The broad objective of this paper is to answer whether competition in the postal market, in its different forms, can benefit all consumers either directly or indirectly. The questions this paper will endeavor to answer are:

- Can Access Competition *in principle* provide better outcomes directly or indirectly (efficient prices, better choice and quality as well as more innovative products and services) for *all* consumers or only a subsection of consumers?
- Are other forms of competition more appropriate in providing better outcomes for *all* consumers?

- If a particular type or types of competition can provide better outcomes for *all* consumers, what policies or practices need to be in place to efficiently facilitate these outcomes?
- Can competition damage the incumbent postal operator's ability to provide the universal service and if so are there ways to mitigate against this consequence?
- Is pure monopoly preferable to provide better outcomes for *all* consumers and as a result contrary to the liberalisation programme in EU postal markets?

### *Approach*

The main approach of this paper will be to:

- Provide a thorough review of the academic and industry literature on the evidence of the outcomes for *all* consumers following the expansion of Access Competition in the UK postal market.
- Gather the views of a variety of industry participants and commentators on the benefits and drawbacks for all consumers of different types of competition in postal markets.
- Where appropriate review the evidence from the industry literature and participants of the outcomes for all consumers of different forms of competition in other overseas postal markets.
- Where appropriate analyse examples of third party access in other industries which have been until recently monopoly businesses and the subsequent effects on consumers.
- Furthermore, discuss whether there are any lessons from these different industry experiences which can be applied to the UK postal markets and postal markets in general.

The main objective of this paper is to start a debate among all participants and commentators in the postal industry about what market structures are best to provide efficient prices, good quality of service and choice and innovation to all consumers and what actions need to be in place to make this a reality.

This paper is not necessarily going to provide a definitive answer as to what type or form of competition, if any, provides the best outcomes for all mail users. It will provide some preliminary insights into what the prerequisites (be it an ex ante or ex post regulatory approach for example) for policy makers are when deciding on different courses of regulatory design that may facilitate different forms of competition.

Gregory Swinand,\* Conor O'Toole & Sean Lyons

**Abstract: Estimating the Impact of Access Conditions on Service Quality in Post**

This paper studies the relationships between access and quality in the postal sector. Access and quality are of prime importance in the postal sector and in postal sector reform. A particular feature of postal sector reform and method of promoting competition has been allowing competitors access to the postal network pipeline. A key idea is that, since studies have shown delivery to exhibit scale economies, the incumbent can maintain the delivery function (and so continue to exploit scale and/or density economies), while (possibly) more focused or value-added competitors enter at different stages of the value chain. Quality and improved quality is often seen as a key way to maintain postal demand and the value-for-money of postal products.

*A priori*, the impact of access on quality is probably ambiguous. For example, access might relieve volume/capacity constraints which were shown to be a significant and important determinant of quality for the main operator (Swinand 2004). Alternatively, access could potentially degrade quality, for example: if the new mail is of a poorer address quality, by exacerbating existing problems with mis-sorting, or if the incumbent is not fully committed to the access product, etc.

The approach of the paper is twofold. First, we review the existing literature on access in the postal sector, and quality. There has been much theoretical work on access and access pricing in general and in postal systems, and some significant empirical work on quality in the postal sector (e.g., Swinand 2004, Swinand and Scully 2006), but the interaction of the two is somewhat less developed—a notable exception is Calzada (2009), which develops an access pricing model which determines optimal quality and demand with first- and second-class mail.

There has been, however, more considerable work with respect to vertical integration, access and quality (and non-price/quality discrimination) in the telecoms sector, with particular focus on incentives to the incumbent, such as quality-based discrimination of the incumbent towards competitors. For example, Weisman and Kang (2001) find that in order for the incumbent to have an incentive not to discriminate against rivals, these rivals must have a pronounced efficiency advantage over the incumbent. According to Cave, Correa and Crocioni (2006), previous research suggests that “the incentives [of the incumbent] to [engage in non-price discrimination] increases: the tighter is price regulation of the upstream input and the less intense is upstream competition.”

The second part of the paper then develops an econometric model of quality and access similar to Swinand et al (2008). In that paper, data on quality of international delivery was used along with UPU data to study the impact of price-cost margins on quality. We will use the same dataset, updated where new observations are available. The main empirical questions we try to answer is whether access appears to help or hinder quality, and whether there are any particular terms and conditions to access which help quality, that might be identifiable across jurisdictions.

A particular challenge will be developing an empirically meaningful variable of access across time and space. Further, different bulk product offerings (e.g., drop pre-sorted mail at a mail center) often may have quasi-access features. We will use UPU and IPC data as available, but supplement this with direct surveys of the main postal incumbents and regulators.

The work is still ongoing, but current expectations are that the particulars of access (how it is defined, sorted, etc) will affect quality. Other interesting hypotheses to potentially be tested may include whether the tightness of price regulation has any impact on quality when interacting with access (since this has been hypothesized to influence the incentives to engage in non-price discrimination, while Swinand et al 2009 found higher margins to improve quality).

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ABSTRACT

**HOW MANY POSTAL OUTLETS WITHOUT USO CONSTRAINTS?  
A CROSS-COUNTRY COMPARISON OF COUNTERFACTUAL SCENARIOS**

Claire Borsenberger

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The full market opening (FMO) process puts high on the agenda the questions of implementing the calculation of the cost of the USO.

Currently the consensus methodology to calculate the net cost of USO in the postal sector is the profitability cost approach (see Cremer et al. [2000] and Panzar [2000]), which consists in determining a counterfactual scenario in which the USP would adopt a commercial behaviour in the absence of USO constraints. This approach complies with Annex 1 of the postal directive.

Such an approach has already been implemented in several studies (cf. Frontier Economics, 2008; Postal Regulatory Commission, 2008). In particular, Borsenberger et al. (2010) focused on the cost of one component of the USO: the delivery frequency constraint.

This study resumes the work started last year. In this paper, we propose to focus on another constraint of universal service, the optimal number of postal outlets, which has never been (publicly) studied in depth. Indeed, postal presence through some kind of proximity of postal points (here after “accessibility” constraint) is part of the USO obligation.

In a first section, we will describe the current postal networks and the legal constraints upon accessibility to the postal outlets due to USO constraint, in selected European countries (Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Poland, Spain, Sweden and UK) and in the USA. We will also describe the different features of the postal presence (owned postal counters versus partnership for example) in order to better define the characteristics of the counterfactual scenario (here named the “commercial” network).

In a second section, we will describe a practical model, developed in the French accounting system, to determine the size, costs and revenues of a “commercial network”. This model permits to calculate the net cost of the accessibility constraint of postal outlets.

In a third section, we will present some ways to simplify this model in order to compare on the same basis the “optimal size” of the postal outlets network in each of selected countries. For this calculation, we project the French results on the selected countries using only public geographic and market data. This enables to give an idea on how binding is the accessibility constraint, by comparing the result to the actual (constrained) size of the network.

The last section stresses the limits and drawbacks of this work and avenues for future research are drawn.

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**Title :** Econometric models and the evolution of post-offices network

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In the last few years, postal operators across Europe have faced a drastic decrease of the attendance in their post offices. In France, while continuing to perform the public service missions entrusted by the State, the post offices network has evolved to try to adapt to those new consumers uses and needs. In particular, the nature of some post offices has changed as La Poste has developed partnerships with local retail shops and local administration. Furthermore, La Poste has a *multi-channel* strategy: services and products available on Internet, use of automat in offices for postal and financial uses.

The main objective of this paper is to quantify –using econometric models- the impact of those changes on relevant economic variables relative to the post offices network.

We first develop an econometric cost model to estimate returns to scale of postal counters in the different types of offices. The total cost function of a post office is explained by the level of a vector of outputs and some environmental variables. The production (output) of postal counters can be measured by all operations or services that are offered to customers at a counter in a post office. In France, these activities include not only strictly postal activities such as sales (all postal products) and after-sale activities (conveying registered letters for instance), but also front office financial services (money deposit or withdrawal, account consultation, postal orders, etc...).

Moreover we would like to analyse (1) the impact on the cost of the technology change represented by the use of automats (for the banking or for the postal activities) and (2) the impact in terms of substitution of this change, i.e. the impact of an automat on the activity of postal counters. The analysis of the impact of automats on the cost saving is realized on the framework of treatment models with non randomized assignment of the treatment. In a simple case the presence or not of an automat may be specified by a 0/1 explanatory variable but this variable should be considered as endogenous because the decision of implementation of an automat is certainly taken not independently of the expected impact of its introduction. Then the real impact of an automat should be measured after a correction of the selection bias. The econometric technology enables us to compute this impact by “the average treatment effect” concept.

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# The Value of Post Offices: How to Define the Question, Estimate the Answer and Interpret the Results

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Across the globe, universal service obligations state that users should have reasonable access to a full range of postal services. Post offices play a vital role in meeting this requirement. For this reason alone, post office networks are supported by a range of implicit or explicit subsidies.

In addition, post offices fulfill other social functions. They may provide other commercial services that would not be viable on a standalone basis and therefore would not be provided if the post office closed. And they may fulfill an important social role in supporting isolated communities and certain groups (such as elderly or disabled) in particular.

Nevertheless, post offices face serious threats. Usage is falling because of declining mail volumes, the availability of alternative mail providers or alternative ways of purchasing mail products, and the increasing use of cheaper alternatives (direct payments of benefits, online distribution of information and application forms) for some of the non-postal services traditionally provided by post offices.

This, together with general pressures on public expenditure, has led to significant contractions in the size of post office networks in many countries. It is natural, therefore, for policy makers to question the value that post offices provide.

This paper considers a number of different ways that post offices can be valued, giving examples and results from three UK studies (each of which addressed a different type of question) carried out by NERA and Accent.

We consider the question to be addressed by valuation exercises. The NERA/Accent studies have examined (a) the value of the existing network as a whole, (b) the value associated with individual rural post offices, and (c) the impacts, in practice, where post office closures have been implemented. The first two exercises are prospective valuations, considering the value associated with maintaining an existing facility, whereas the third study takes account of how users have adapted in practice when post offices have closed.

We discuss the methodologies that can be used. The NERA/Accent studies used large customer surveys, often employing stated preference techniques. Within this overall approach, different methodologies can be used and lead to a potentially wide range of estimates. Despite these potential disadvantages, it remains the most appropriate approach, and we discuss the significant advantages that stated preference studies offer in comparison with other possible methods (eg hedonic price analysis, bottom up modeling of alternatives) that could be used to estimate the value of post offices. We also discuss the potential role of studies that assess actual impacts, and whether they can provide a “reality check” on studies that consider hypothetical scenarios.

Finally, we discuss the policy implications that can be drawn from the results. Analyses of marginal changes (such as the impact of closing a single post office) are very useful when reductions to the size of the network are being considered. They can highlight the impact of individual closures and also help policy makers assess where closures might be least harmful. And our study of the value of the network as a whole provides information about the specific services that generate social value, and how this differs by area or between types of consumer. However, the absolute size of the findings is not necessarily a useful guide to public expenditure decisions, as these studies are carried out in isolation without considering other possible uses of public expenditure.

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Abstract for 18th Conference on Postal and Delivery Economics, June 2-5, 2010, Porvoo, Finland

## **Invoicing in 16 European Countries**

The main focus of this research is to examine the present state of, future plans for and prerequisites of electronic invoicing in 16 European countries, including Germany, Russia and the United Kingdom. This approach covers all types of invoicing from paper to different electronic channels such as invoice portal, internet bank, email and text message.

This quantitative study is based on comparative surveys using representative enterprise and consumer samples from each country. The consumer part of the study concentrates on invoice reception. The enterprise part of the research covers both outgoing sales invoices and incoming purchasing invoices. Paper invoice scanning for circulation and acceptance systems is also examined.

In the analysis the countries are classified according to their stages of, paths to and prerequisites for their development of electronic invoicing. Latent class cluster analysis is used in the modelling. Data collected in early 2010 is also compared with the results of similar studies in five countries in 2008.

The results of the study can be utilized both for the development of electronic invoicing and in efforts to prolong the life cycle of paper invoices.

**“Focusing on the Promising Customer as Future Strategy in Decreasing Mail Markets”**

P. Koppe (Dr. Koppe Unternehmensberatung / Koppe Consulting)

In most European countries the mail markets are decreasing at the moment. This trend is caused mainly by the switch of documents and other communication items to electronic channels. Results of current research show that this development will not be completely reversible. Parts of these communication channel changes lead to an improvement in service quality in the view of receiving customers. Some changes, however, lead to a lower quality customer relationship from the perspective of sending companies. In the latter case the potential to retain or regain mail volumes is possible.

For postal organisations, decreasing volumes give rise to tight cost-cutting measures. As the costs in the delivery network are not declining to the same extent as revenues, the challenge for the future is where else costs can be saved without jeopardizing revenues.

Particularly in times of decreasing volumes it is important for a Post to intensify its customer relations and show their customers the advantages and disadvantages of different communications channels. The question is how such investments in customer relations can be offered in times of declining revenues and eroding profits. Coming from public authorities with bureaucratic environments most postal operators made the step to professional account management in the recent past. As long as the revenues had been stable, they had been in the convenient situation to ignore focusing on the most profitable customers. Commonly discrimination between customers had been solely made on revenue classes and product use. Until now segmentation based on earnings (profit potential) is not in use in most of the Posts, and with existing cost accounting system not feasible either.

The decline in revenues will force the establishment of cost accounting systems which can support professional customer segmentation. In the meantime some other sources can help discriminating between customers even within the same revenue-category. A previous analysis presented at the 14<sup>th</sup> Conference on Postal and Delivery Economics showed that the main influence on future mail volumes is customer satisfaction of business customers with their post organisation. It is quite likely that even the change in sending behaviour triggered by the economic crises will not reverse the positive influence of customer satisfaction on future mail volumes. Arguably the first step towards profit-oriented customer segmentation would be having a deeper look at existing research on customer satisfaction. This the primary aim of the proposed paper.

Beside the change from revenues to profit orientated segmentation, a second step is necessary. The actual orientation on present revenues of customers has to be changed to one focused on potential future revenues. As in other industries the focus will have to be on customer groups which promise profitable future relations independently of whether they are important customers in the present. The empirical part of this paper will show how Decision-Tree-Analyses can be used to determine customer groups with high earnings potential. Considering these results, a postal organisation can focus its available resources on those groups that promise to bring the greatest profit.

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## Optimal Pricing for Mail and their Welfare Implications in a Communications Market

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Since there is a minimum mailing level for senders in the bulk mail market, this mail is particularly attractive to the universal service provider (USP) and competing postal entrants, in comparison to individual and smaller mailings of single-piece mail. 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. 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 form the focus of this paper.

In recent years mail volumes have been in decline within single piece and bulk mail. While this is in part a 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; and advertising mail has been substituted by alternative digital communication available, for example, through the internet (Soteri et al, 2009).

Optimal pricing within a global price cap and pricing with work share discounts in the bulk mail market have been explored in the literature (De Villemeur et al 2002, 2003). The effects on welfare and pricing of access and bypass mail competition in a mails market comprising of a single piece and bulk mail services have also been looked at in previous literature (De Donder et al 2006, 2008). Further, the effects on welfare and pricing of a downturn in mail volumes and potential changes to service quality have also been considered (De Donder et al 2010).

As a further development of this earlier literature, this paper looks 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 proceed with an economic model and explore the prices for end-to-end and access services within these markets where the advertising mail market also faces competition from an alternative communication medium. We calibrate this model to gain further insight on welfare and pricing effects in this wider communication market. As such the paper provides some further understanding of public interest and pricing policy issues for the mails market within a communication market whose relevance to and influence on the mails market has been increasing in recent years.

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ABSTRACT  
“Postal Regulation under FMO and Intermodal Competition”

M. A. Crew  
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Over the past decade Universal Service Providers (USPs) have become increasingly regulated as their reserved areas have been reduced or eliminated. Indeed, some USPs have already seen their reserved area completely eliminated, and all of the USPs in the EU are scheduled to lose their reserved areas as postal markets are opened up to competition (FMO) in 2011 and 2013. USPs will continue to be required to provide universal service as FMO envisages the retention of the Universal Service Obligation (USO). In addition, there is no sign of reduced regulation to accompany FMO. The situation is clearly paradoxical in that, as postal markets are opened up to competition, regulation is not on the wane but continues to thrive, which is more than can be said for the postal sector. The paradox is usually justified on the grounds that regulation is needed to protect nascent entry from the USP, which is thought to have considerable residual market power. Another justification is the need to safeguard the USO, thereby offering some protection for small customers. Neither of these justifications is particularly strong. Indeed, the current policy of postal regulation combined with FMO and a continuing USO is questionable. It ignores the basic realities of competition from intermodal competition already facing the postal sector. Despite this reality, abandoning the current path and eliminating regulation entirely seems highly unlikely. So, this paper will assume FMO along with a USO, but will examine possible forms that regulation might take in an era of declining demand for traditional mail products.

The paper will address regulatory policies employed in the postal sector primarily in the EU but will also refer to policies elsewhere including the US. It will also draw lessons from other sectors, especially telecommunications. Paradoxically, while telecommunications regulation normally provides few insights into postal regulation, in this case the mistakes made in telecommunications may yield some lessons. A case in point is the misguided attempt to introduce competition into traditional wire line telephony, especially as embodied in the Telecommunications Act of 1996 in the US. What is now apparent is that technology was changing so rapidly that intermodal competition from wireless and broadband was much more important than regulation of the natural monopoly in traditional wire line (the local loop).

The situation in the postal sector is significantly different in that it does not have a natural monopoly arising from transactions specific investment. So, unlike traditional telephony, competition has long been feasible except for one major problem – the USO. This has been a problem from the very beginning of the policy debate on FMO. Since then there has been a gradual attempt to introduce competition and manage the process through regulation. The direction regulation has taken has been problematical and the whole process has been oblivious to the lesson of telecommunications, namely, the importance of intermodal competition. In telecommunications intermodal competition meant that while traditional telephony was a natural monopoly, the monopoly was worth less and less over time. The pie became so much smaller that it was hardly worth fighting over. However, old style TELCOs were able to enter the business created by the new technologies of wireless and broadband. In the US and the EU, these technologies were minimally regulated compared to traditional telephony. So interest in introducing head-on competition in traditional telephony waned and regulation became less important because of inter-modal competition. The implications of this example have been lost in the implementation of postal policies. The charge to FMO and increased regulation has continued with government and regulators apparently oblivious to the rapidly declining pie they are attempting to share out. In addition, the big difference is that while the new technologies offered new opportunities to TELCOs, because they could build on their traditional technological platform, the same does not apply to the postal sector. Parcels and banking are highly competitive, but they offer nothing like the growth provided by wireless and broadband. So, USPs have (arguably) a greater public mission than TELCOs and yet have a serious problem of declining demand not faced by TELCOs.

This paper will address the implications for regulation of the three fundamental forces shaping the future of the postal sector: FMO, intermodal (electronic) competition and the preservation of the USO. It will review the objectives of regulation in this context. Under serious intermodal competition, the threat from abuse of market power is diminished even without FMO. Indeed, the issue is whether head-on competition has become somewhat irrelevant now that the powerful forces of intermodal competition are unleashed. The size of the postal pie, just like the traditional telephony pie, has shrunk. The implications of the shrinking pie for regulation and for the postal sector will be examined. In particular, the paper will examine the impact of scale economies which, under declining demand, lead to further shrinking the pie. The type of questions that will be addressed include:

1. What are the options available in the postal sector to maintain USO under conditions of falling demand and how does FMO and traditional regulation facilitate or hinder implementing these options? The options include increasing single-piece rates, increasing flexibility in pricing response, exploiting scope economies across different lines of business (eRetailing), exploiting network synergies (financial services) and more radical diversification.
2. Developing a more radical approach to regulation and governance, which implies, *inter alia*, the need for improved ability to manage inputs and respond to major stakeholders, including labor. Changes in governance also include the possibility of privatization.

3. New models of regulation and governance that recognize and come to grips with the tensions of declining demand and intermodal competition.

The basic thrust of the paper is to examine design principles for a new regulatory governance framework that encourages cost efficiency and product innovation in the sector as a whole, while recognizing the fundamental changes that are occurring and the need to support the valuation and accomplishment of continuing public mission(s) of the postal sector.

## Abstract

### Universal Service Providers, Financial Position, and Efficiency

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The coffers of many posts have been running on empty or near empty for at least the past few years. In many cases upper management has been driven to cutting expenses to steer the organization into the green. This paper will explore this especially pressing issue through the financial analysis of liquidity ratios including *Working Capital*, *Cash ratio*, *Current and Acid-Test ratio* for several countries including the United States. A postal operator's ability to carry debt in its capital structure and its long term ability to pay back debt is vital to examining risks inherent within the organization in meeting its long term obligations. We will examine this from an income statement perspective through the *Times Interest Earned ratio* and from a balance sheet perspective through the *Debt Ratios*.

Using the United States Postal Service as an example, we will explore two major hurdles threatening the financial viability of many posts operating today. These hurdles are the funding of post retiree benefits and the difficulty of aligning administrative expenses with drops in mail volume. Our analysis will include trends and financial analytical ratios for international and domestic postal operators to assess the treatment of these large cost components of the Postal Service in the wider international area. We will use the Postal Service historical financial statements, annual reports, integrated financial plans, and the financial statements and regulatory filings of other postal operators to perform our analysis in this section. Post PAEA trends in administrative expenses will be explored through the analysis of 2005 and 2007-09 In-Office Cost System (IOCS) data.

With the re-codification of generally accepted accounting principles (GAAP) in efforts to achieve a uniform international financial reporting standards (IFRS), the existing differences between the financial accounting and reporting regulations of international and domestic postal operators, specifically in the area of off-balance sheet hidden liabilities such as post employment retiree health benefits, will be examined.

We expect, through the examination and comparison of international and domestic historical financial and operational information to uncover effective solutions or alternatives to the liquidity crises facing posts today.

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# Competition and regulation in the Italian Postal Market

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### Abstract

Italy is one of the most interesting case of intense competition in the postal market due to ex-post antitrust regulation rather than traditional ex-ante regulation through European directives. While in the majority of member states the market liberalization followed a gradual and controlled path defined by the 97/67 directive (ended by 2006/8 directive that include the final date for full liberalization at 31 December 2010), in Italy a peculiar market opening process has been implemented.

In 2000, the European Commission took a decision concerning the provision of certain new postal services with a guaranteed day- or time-certain delivery in Italy (2001/176/EC). According to the decision, these services shall be considered outside the scope of the universal service, therefore non reservable. Although legally distinct from the ordinary business mail, services with guaranteed time are rather similar to special services provided in some member states, for example Germany. According to the German Postal regulator RegTp (2004), special services belong to the same relevant market as ordinary business mail, basically because there is no price threshold dividing the two products, so that prices for guaranteed time regardless of the extra value added provided can be, and almost always are, lower than ordinary services. The two products, in fact, are vertically differentiated; this condition arises when one product does everything a second does and more, so that there will always be a price at which the products are close substitutes (Caffarra and Kühn, 2001). In 2006 the Italian Regulatory Authority abolished all cumbersome procedures (such as written signature of the recipient) put in place just after the decision by the Italian Government to maintain separate the two markets through administrative entry barriers. Such regulation opened *de facto* the market for business mail.

This anticipation of the market opening raises a certain number of interesting regulatory questions, such as: i) the extent to which the new product becomes ex-post a good substitute for ordinary letters; ii) whether the incumbent Poste Italiane may react to the challenge by supplying a similar service, and this new service effectively substitutes the universal service product; iii) whether the new product effects national and local market shares in postal service delivery; iv) whether the existing universal service funding mechanism may be negatively affected, requiring a substantial revision for preparing the market to full liberalization, for example through schemes à la Armstrong (2001); v) whether the geographic price differentiation, implemented in 2005 for business mail for narrowing the gap prices-costs in different cost-delivering areas constitute an effective market discipline.

The Italian Regulatory Authority (the Ministry for Economic Development, Dpt for Communication) in the light of the implementation into the Italian legislation of the 2006/8 will have to investigate whether to review actual Universal Service Obligations (USO), including both their assignment to a single National provider or to several local operators and a review of its net cost financing mechanisms. The proposed paper describes this ongoing process aimed at strengthening and consolidating an effective competition across local postal markets in Italy.

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Center for Research in Regulated Industries  
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## Regulatory challenges and opportunities for postal operators between the Europe 2020 Strategy

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In the context of the “i2010 strategy”, the European Commission had already launched a number of initiatives to promote a digital economy across Europe and to simplify access of citizens and businesses to electronic public services. With Internet and digital technologies radically changing the essential communications needs, the EU regulatory focus on availability of – and access to – eservices, identification and certification requirements, cybersecurity, etc... offered innovative postal operators a key growth area and the opportunity to offset declining postal revenues with a variety of electronic postal services from online post offices and electronic certification postal marks to e-registered mail, hybrid mail, e-shopping platforms and e-government services. Then came the turmoil in the financial markets, which generated a call for trusted providers that could bring banking and financial services closer to citizens. By ensuring both national coverage and reliable local presence, postal operators happen to be ideally placed to offer essential electronic and financial services to everyone, including those who are (who may be at risk of becoming) digitally or financially excluded.

In this context, in July 2009, the Council adopted the new e-money Directive on the taking up, pursuit and prudential supervision of the business of e-money institutions. The new rules facilitate market access to newcomers and make it easier for e-money institutions engaged in other business activities, such as postal services, to develop innovative services into the payments markets. On the other side, as the implementation of the “i2010strategy” largely relies on cooperation with Member States and stakeholders, national strategies are being launched at Member States’ level: some are general ICT strategies, others address more specific policies. The UK government, for example, has announced its intention to develop the Post Office’s banking and financial services and launched a public consultation to seek views and suggestions for new postal products and services, and to identify citizens’ needs in the area of financial services.

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At the international level, the newly launched .post project is an important initiative for developing and providing secure and trusted postal services over the Internet: .post will be used for enhancing e-commerce and facilitating e-identification, linking electronic addresses to physical postal ones to serve as legal proof of a person’s identity. Against the background of the “i2010 strategy”, the e-money Directive and the .post project, the author will explore the regulatory challenges and opportunities of the electronic age and the financial crisis for postal operators: how are these affect EU postal services’ offer and regulation? And how will “postal” financial services develop in the new EU digital age?

# **Strategic Responses to Recession: A Comparison of the U.S. Postal Service to Other Leading Companies**

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IBM Global Business Services

The United States Postal Service has been buffeted by the global recession that has afflicted world economies over the past year. Like many other companies across the globe, the Postal Service has experienced significant declines in demand for its products and service, resulting in substantial revenue losses (over 9 percent in 2009). The Postal Service also suffered a corresponding decline in net income, with a \$3.8 billion loss in 2009. However, while many other companies suffered similar revenue declines during this recession, few exhibited this proportional level of net losses.

The purpose of this paper is to compare the response of the U.S. Postal Service to the challenges of this current recession to those of other companies in different sectors. The first section will provide an empirical comparison of the financial results of the Postal Service to other companies in the Fortune 100, with analyses separated by sector. The second section of the paper will explore some of the key differences in strategies employed by the Postal Service and other companies in the Fortune 100 generally and the mail, package, and freight industry more specifically, focusing on the effectiveness of actions taken by other companies to mitigate net income erosion in the face of steep revenue declines – actions that may not be available to the Postal Service because of its unique legislative, regulatory, and political oversight. The paper will go beyond traditional examinations of what other postal operators have done, such as entering new lines of business, and consider more drastic actions such as restructuring or changes in governmental oversight that have been undertaken in other sectors such as the financial and automotive industries. These results should be of interest to policy makers as they debate alternative regulatory and structural models that might allow the Postal Service to better weather economic storms in the future.

## Postal Markets and Electronic Substitution: What is the Impact of Convergence on Regulatory Practices and Institutions?

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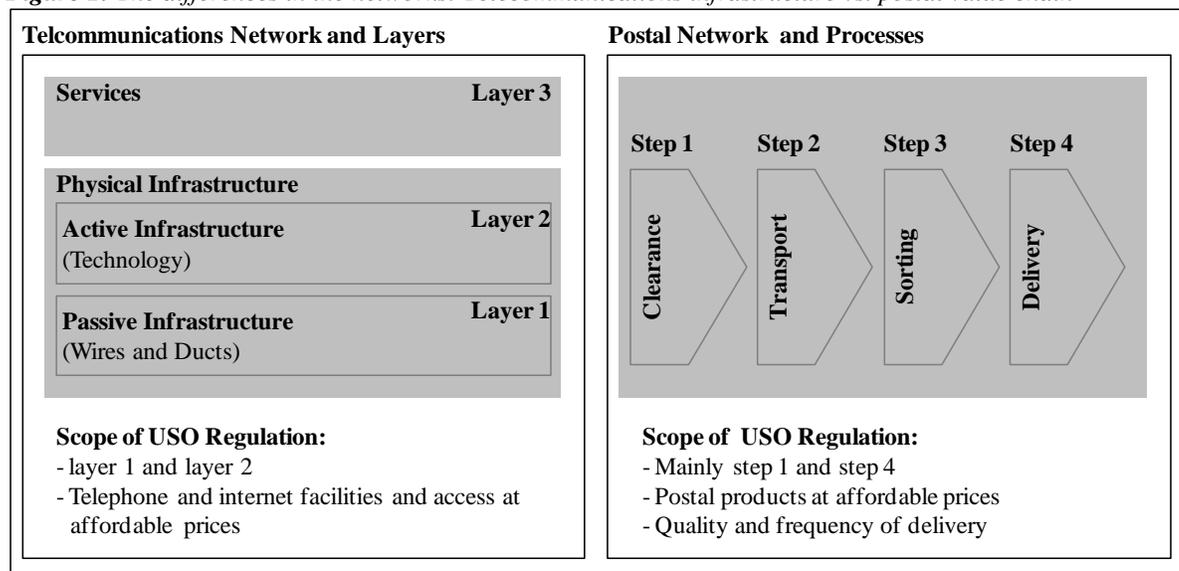
The European postal markets are undergoing a reform which aims at promoting competition on the one hand and protecting the benefits of public services on the other. The important topics concerning postal regulation and the development of markets are (1) the market regime, (2) the definition and financing of universal services, (3) market power control, and (4) emerging electronic substitution of postal services. Even though the decrease in mail volumes due to electronic substitution is discussed in the literature and experts agree that it will predominantly impact the development of postal markets in the future, there is hardly any discussion about the consequences for regulatory regimes and their evolution. Finding an appropriate co-evolution of regulation and market development is one of the primary challenges of postal reform. The crucial question therefore is whether the increasing convergence of postal and telecommunications markets also causes a convergence in regulation.

The postal sector is not entirely different from other network industries, except for the lack of a physically installed infrastructure while postal networks are rather virtual. The postal network is very labour intensive and not subject to high investments or sunk costs. In a disaggregated approach to network regulation, postal markets are often analyzed along the value chain (including clearance, transportation, sorting and delivery of items). Telecommunications markets are described based on their various network layers. Following the disaggregated approach, the telecommunication network can be analyzed as consisting of a passive network layer including infrastructure (e.g. cables in the underground), an active network layer which sends and receives signals and a third layer which represents the services and applications provided on this infrastructure (see figure below). So far, postal regulation focuses on process steps and quality whereas regulation in telecommunications focuses on those infrastructure layers which constitute monopolistic bottlenecks.

The postal universal services definition includes a minimum range of products and services including the accessibility of the postal infrastructure as well as quality and frequency requirements. Postal operators more and more invest in digital products and combine them with traditional physical postal services (e.g., electronic P.O. Boxes and hybrid post solutions). Furthermore, they increasingly aim at installing secure digital identities for their customers to provide safe electronic communication. They therefore provide complementary products and applications on the network operated by telecommunication providers. The European Universal Service definition of telecommunication does not include those services and applications but requires the physical interconnection between households at affordable prices. Nevertheless, the possibility of postal operators to develop applications in a digital environment also allows for creating hybrid solutions in combination with products of the universal service.

This increasing convergence between postal products and telecom applications is a new phenomenon which needs an according co-evolution of regulation. Which parts of current regulation will become redundant? Is there additional regulation needed due to new bottlenecks or changes in consumer behavior? In our qualitative analysis, we investigate the impact of intermodal competition and growing convergence between postal and telecom services on regulatory institutions and regulatory governance costs. We set up a comparison between the networks and compare the scope of universal services and issues concerning market power regulation in the two different industries. Finally, we derive several regulatory policy implications for postal services based on or combined with electronic solutions and how regulation could deal with this convergence.

**Figure 1:** The differences in the networks: Telecommunications infrastructure vs. postal value chain



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Offering Sensor Network Services Using the Postal Delivery Vehicle Fleet:  
Assessing Opportunities, Challenges and Implications

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Postal Regulatory Commission

Postal service providers world-wide are seeking additional revenue sources as mail volumes decline and electronic communications increase. This paper proposes a class of revenue-generating services for postal service providers, particularly incumbent operators carrying a universal service obligation. Customers can be offered the opportunity to lease a receptacle on postal delivery trucks to permit ready installation of a standardized sensor package module. The sensor(s) can be of any suitable type. The postal service can earn revenue by leasing access to use of the sensor platform, or alternately by marketing data collected by specified sensors. The paper explores the concept's opportunities, challenges and implications by evaluating the merits of the applications and identifying the existence of competing alternatives.

This concept builds on the postal service's intrinsic ubiquity -- its reaching nearly everywhere nearly every day. Because postal delivery reflects human activity, postal delivery routes cover most of the landscape, and the trucks traverse those routes daily. Postal routes in the real world seem tailor-made for a sensing network -- the existing routes likely resemble the structure of an efficient mobile sensor network designed from scratch. The proposed system would not require additional labor hours or route diversions and can be designed to avoid adding to the drivers' workload any tasks that would distract them from their primary delivery function.

Sensors at fixed locations are often handicapped by intrinsic functional and geographic limitations. In contrast, a mobile sensor network can provide tightly interlaced fine-grained coverage across a broad area. A network of mobile sensors can reach nearly everywhere in the country, yet also can achieve a high degree of geographic specificity and selectivity, for example targeting routes near specific industrial facilities, neighborhoods or critical infrastructure points, depending upon customer needs.

Sensing applications considered within the paper include:

- Chemical/Biological/Radiological Detection for Homeland Security
- Air Quality and Environmental Assessment and Molecular Sensing
- Gas Leak Detection
- Meteorological Data Collection
- Road Condition Assessment
- Broadcasting and Wireless Signal Coverage Measurement
- Law Enforcement Applications
- Biological Surveys
- Noise Level Profiling
- Photo Imaging
- Earthquake Sensing
- Pest Control
- Other Scientific Measurements

The paper weighs the value of these services with respect to various criteria including:

- The Needs of the Nation
- Compatibility with the Primary Obligations of the Postal Function
- Technical Feasibility
- Economic Value, Cost and Revenue Potential
- Identification of the Customer Base
- Revenue Potential
- Ability to Piggyback Multiple Sensors and Accommodate Multiple Customers
- Public Perception and Societal Acceptance
- Civil Liberties and Privacy Concerns
- Legal Risks

The paper identifies the general requirements for system design and operation, including the collection, management and transmission of collected data. Data can be recorded and provided continuously, intermittently or upon predetermined trigger points, or once daily. Data can be used to trigger alerts/alarms.

Such a system provides for substantial flexibility in deploying the sensors. Concepts described include accumulating or averaging data over time to establish a baseline or to locate irregular phenomena, adapting the deployment and use of sensors based on the data received, and accommodating multiple sensors on the same vehicle platform. Sensors at fixed post office locations could supplement mobile sensor coverage.

Additionally, the paper describes the need for careful oversight arising from potential civil liberties concerns. In some cases, there may be public or employee discomfort over certain uses, and thus there is a discussion of whether those uses are consistent with the underlying role and obligations of a postal service.

In short, this paper outlines a new way for postal operators to earn additional revenue by offering to public and private customers useful measurement services that would not otherwise be available at reasonable cost.

This paper would be of interest to postal operators and regulators, government officials, scientists and engineers, and a wide range of potential commercial and governmental customers.

“The Postal Service Business Model:  
Lessons From The American Railroad Industry”

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The declining volumes and deepening losses of the U.S. Postal Service and other major postal operators have led to widespread doubt about the continuing viability of their business models. In this regard, the postal sector today has striking similarities to the American railroad industry, another legacy network industry, in the 1970s.

In the early 1970s, three major American railroads, including the Penn Central, were in bankruptcy; most other major carriers were on the brink. The average return on investment of the industry was barely one percent, and one-third of the largest carriers had a negative ROI. Virtually no carrier, large or small, was earning returns sufficient to recover the cost of capital. Decades of underinvestment and deferred maintenance hobbled the industry’s ability to compete on service with trucks and other modes of transportation. By 1978, railroads carried only 35% of intercity freight traffic, less than half the share 50 years earlier.

Moreover, the railroad industry seemed helpless to change its course. The passenger service USO generated crippling losses. Abandonment of excess plant capacity, especially in lower-density rural areas, was blocked by legal obstacles and political opposition. A heavily unionized and politically powerful work force resisted major changes in work rules. And heavy-handed regulatory constraints sharply limited railroads’ ability to price flexibly or offer innovative services.

The situation today is very different. The decline in freight volume has reversed, and railroad traffic volume is expected to continue increasing for several decades. Industry returns on equity have risen above 14 percent. The attractiveness of railroads to investors is underscored by the recent bid by Berkshire Hathaway to acquire all of the outstanding equity of Burlington Northern Santa Fe. Yet rising productivity has allowed railroads to accomplish this financial recovery without an increase in the average price of a unit of service. To the contrary, average unit prices charged by railroads have fallen since 1970—indeed, for most of the period, even in nominal terms.

This paper will describe the turnaround of the American railroad industry and the lessons it offers to the postal sector today. In particular, the paper will explore:

- The importance of controlling costs, and the means by which carriers overcame legal and political barriers to abandoning unneeded or inefficiently sized network assets and gained control of labor costs and work rules.
- The steps taken to reform rate regulation, including the regulation of rate and service contracts.
- The legal reforms and transitional financial relief from costly and burdensome USO obligations and legacy costs.
- The limited contribution from diversification into new lines of business and revenue sources.

The paper will be policy oriented and will rely primarily on case studies. The policy implications of this paper are likely interest postal operators and regulators. Except for contract rates, the authors have not explored the analogies between railroad and postal regulatory reform. To the best of our knowledge, these analogies also have not been explored in previous CRRF conferences or the general economic literature.

## **We have a vision: the future of the Portuguese postal sector and the role of CTT**

Alberto Pimenta, CTT Correios

António Amaral, CTT Correios

The postal industry is experiencing a decisive turning point. The new technologies of information and communication (the electronic substitution), have transformed the reduction in postal traffic not a circumstantial but a consistent trend since the turn of the century, an inexorable momentum accelerated by the recent economic crisis. According to recent studies, it is expected, in most developed countries, that the loss of postal volume will exceed 30% within a 5 to 10 years timeframe.

The postal sector is on the verge of redefining its role within a changing economy. Most postal incumbents have invested over the last decades in a diversification of the business portfolios reducing their dependence on mail. Although mail remains the core business for most operators, it is a fact that the other activities, mainly parcels and financial services, are becoming very important in the economic performance of these firms. CTT is not indifferent to this irresistible movement for change in the sector: first, we still have our business anchored on the mail segment and, being the Universal Service Provider (USP), we hurry to adjust ourselves for the uprising complete liberalization. Secondly, we need to ensure a sustainable activity for the future. Hence, it is essential to define a strategy for sustainable growth of the firm and assure an efficient provision of its universal service obligations.

In the context of preparing the CTT for the next decade, thereby ensuring the provision of universal postal service, a strategic plan was developed based on two fundamental objectives: 1) maintain leadership in the mail business by improving efficiency 2) increase total turnover through the development of new business and value-added services, where a concrete strategic positioning in the digital chain must assume a crucial role. Thus, the mail segment is not regarded as being in a twilight phase, but a phase of profound transformation. Therefore, on the one hand, the business mail should be focused on those products and services that still have growth potential: developing the Direct Mail by offering services that integrate the several stages of the value of relational marketing; reset the mail services portfolio to anticipate the FMO and better needs satisfaction of the market in the binomial price-quality; providing multi-channel (physical and electronic) and differentiated mail solutions according to different customer segments. And on the other hand, through innovation and diversification into other areas such as telecom and electronic communications, GIS services, document management, e-logistics, etc., CTT is envisaging the challenge of strengthening its business portfolio becoming less dependent of the physical mail.

In this paper, we will introduce our vision of the future of the Portuguese postal industry (CTT, competitors, regulation), assessing its consequences for CTT and determining its optimal strategic position in order to assure a sustainable growth and reliable relations with all stakeholders (shareholders, workers, state, regulator, consumers).

The views expressed in this paper are those of the authors and do not necessarily reflect the views of CTT Correios

Abstract for the 18th Conference on Postal and Delivery Economics  
**“Allocating the cost of ‘Delivery’ to postal products – principles and practice”**

Cigno, Margaret; Forslund, Lars; Grazell, Jos; Hearn, John; Knott, Gavin; Penris, Wino; Rosenstok, Jonas; Waller, John  
PRC (US), University of Tilburg (the Netherlands); ComReg (Ireland), PTS (Sweden), Postal Services Commission UK, OPTA (the Netherlands),  
Consultant (the Netherlands). PRC (US)

The cost of establishing and maintaining the delivery networks of incumbent postal operators represents a significant proportion of the cost incurred by those operators in providing postal services. Moreover the creation and maintenance of these networks is not in line with a purely commercial approach and therefore is unlikely to be replicated by competing (private-owned) undertakings. (Competing delivery networks established in Sweden and the Netherlands typically offer delivery on 2 or 3 days a week for industrialized mail only). Finally such networks are often used to provide a wide range of postal (and non-postal) products in addition to the ‘first class’ letter, ranging from the delivery of registered mail and parcels to the delivery of unaddressed advertising. The manner in which the cost of creating and maintaining these networks is allocated to particular products not only determines the profitability or otherwise of such products but can have a significant impact on how competition develops.

The objective of the paper is to examine the cost structure of such delivery networks and to identify best practice in allocating the costs to individual products. Initially the issues are considered from the viewpoint of a postal operator subject only to market forces. The need for regulatory control is then examined and the methodologies available to achieve regulatory objectives are defined.

The intention is to use economic and anti-trust (competition law) principles to define how to identify and classify the costs, how to ensure that those costs are controlled to ensure efficiency and how to allocate such costs to individual products to safeguard the interests of operators, customers and to ensure that markets are not distorted where an operator has a dominant position on any particular market. The paper will draw on previously published material, particularly for data and examples of current practice.

To ensure that the conclusions and recommendations are applicable to operators and regulators in most countries where all or parts of the postal market are being opened to competition the paper is being written by regulatory staff and academics from a cross-sector of European countries and the United States of America.

## **Between Financial Inclusion and Postal Banking: Is the Survival of Posts Also There?**

José Anson & Joëlle Toledano

According to the World Bank, 70 % of adult population in developing and emerging countries has simply no access to basic financial services, i.e. a population of 2.7 billion individuals among the poorest in the world. Even in the United States, FDIC recently estimated that 60 million adult Americans are unbanked or under-banked.

While many governments are assessing financial inclusion strategies aiming at reducing exclusion from access to finance – searching for the right private and public partners to pursue this goal – postal networks all over the world are increasingly looking for new levers of growth and diversification strategies.

Intuitively, governments and postal operators' interests – as well as sometimes banks' interests – could increasingly converge with respect to financial inclusion. Mail traffic declines have become larger due to the lasting effects of the financial crisis on mail consumption and progressive electronic substitution, thereby leading to higher unit costs associated with under-utilized networks and excess capacity. This calls for diversifying the services offered by Posts through their network. Simultaneously, governments – but also banks – need large trusted networks to achieve respectively financial inclusion and economies of scale and a large customer basis with economically viable approaches.

This paper will provide theoretical and empirical evidence related to this key postal topic yet to be explored. First, it will provide an evaluation of the past and current developments in the area of financial inclusion and Posts, given the recent striking experiences led in emerging countries (e.g. Anson and Bosch Gual, 2008). Second, it will identify the success criteria for the models of provision of financial services through the postal network in a future. Third, it will determine how these models could simultaneously allow more people to access formally the financial system. The analysis will follow the distinction already highlighted by Anson, Toledano et al. (2006, 2007) between the postal economics models in developing countries with respect to advanced economies. It will take into account the initial capacity of Posts in their offering of financial services as well as local circumstances (no “one-size fits all solution” exists). It will partially draw – when necessary – on incomplete contract theory and transaction costs economics using principal-agent models *à la* Grossman-Hart (1986) or Williamson (1993). Different models will be compared, such as agent banking models where the Post acts as an agent for one or several banks, or fully-fledged postal bank models, among a few typical others.

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December 10, 2009

Abstract for 18th Conference on Postal and Delivery Economics

“POSTAL LAW IN CHINA”

James I. Campbell Jr. and Bailey Leopard

(v)

**Objective of Paper.** To provide international postal policymakers with an overview of the development of postal law in China up through adoption of a new postal reform law in April 2009.

**Approach.** The paper will briefly review unique aspects of Chinese postal history, including the development of a national post office by foreign powers in the 19th century and efforts of the Chinese to develop a locally controlled post office in the first half of the 20th century. The history and provisions of the first postal law in China, adopted in 1986, will be described. Subsequent legal developments relating to the rise and regulation of domestic and international couriers will be addressed. These, in turn, were reflected in China’s 2001 accession to the World Trade Organization (which included commitments relating to postal and express services) and the 2009 postal law. The paper will seek to show how these developments are related to one another and to postal developments in the world generally.

**Original contribution.** There appears to be no academic paper in English succinctly describing the development of postal law in China. The best account extant is a difficult-to-read translation of an official history of prepared by China Post in connection with the 1999 UPU Congress in Beijing. This account is out of date and in any case fails to consider issues pertinent to recent postal policy scholarship or the role of China in the global postal market of the future.

**Relationship to previous papers.** The only previous conference paper dealing with the development of postal law in China appears to be the 2008 (Albuquerque) paper, “Developments in Privatization and Liberalization in the Asian Postal Market,” by Shoji Maruyama and Shinichi Sano, subsequently published in *Handbook of Worldwide Postal Reform* (2008). This paper was a survey of postal development in 12 Asian countries. The proposed paper will make use of this analysis but provide a much more focused and detailed account of Chinese postal law.

**Interest and timing.** China has been described as the second indispensable nation in the development of global policies (in addition to the United States). In the postal sector, as in most other areas of public policies, educated policymakers and observers need to have at least a general understanding of the Chinese position. China has been a prominent member of the UPU for the last decade. Rather than joining the modern trend towards opening of traditional postal markets to global networks, China seems to be advocating, inter alia, that the 19th century division of postal markets into national territories should be extended to express services well. The potential implications are such an approach for global trade are apparent and significant. The proposed paper should thus be of interest of all observers of global postal policy developments.

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*Abstracts Due: December 15, 2009*

[http://crri.rutgers.edu/call/Postal\\_Call10.pdf](http://crri.rutgers.edu/call/Postal_Call10.pdf)

**The 18th Conference on Postal and Delivery Economics**

*Haikko Manor, Porvoo, Finland, June 2-5, 2010*

### **“Postal Financial Service Economics and Regulation”**

**by Marie Odile Pilley and Gonzales d’Alcantara**

The objectives of the paper are to explore the specifics of Postal Financial Services Economics and to define a possible research agenda in the field of its Regulation.

Literature about the specific features, if any, of Postal Banking (Deutsche PostBank, ING, La Banque Postale, New Zealand Post, China Postbank, Japan Postbank) and Postal Financial Services (Switzerland, Italy, Morocco, Brazil, India, Russia, Ukraine) is limited. Traditionally, the postal financial services were confined to payment and savings services. They were simple, convenient services serving the mass market and more particularly the un (der) banked population. Starting in the eighties, some of these institutions went through major restructuring. Some have become fully fledged banks. Others have been modernised while retaining their non-bank financial institutions status. Others have disappeared altogether in the Nordic countries, the transition countries and the developing world. The sleeping giant postal financial services institutions of China and India have woken up in the last four years. New Zealand, Brazil and South Africa have used the postal infrastructure to implement their financial inclusion policy.

Until recently, the large international institutions have focused on remittances and microfinance and remained silent on the role of posts as infrastructures and for the delivery of financial services to households and SMEs. However they represent by far the largest network in the world with 650,000 branches offering more than 1.5 bn. accounts (savings and deposits). Now that financial inclusion has been put on the public policy agenda, it is time to assess the role of postal financial institutions and see how they could be re-modelled to fulfil demanding financial inclusion objectives.. Three points need to be considered:

1. What is the current situation of existing Postal Banks and Postal financial services institutions d in the world? What are their characteristics and trends compared with the non Postal Banking Sector and other non –bank financial institutions? This question is to be answered both with historical and quantitative information about the sector.
2. If the postal network is an essential infrastructure for economic and social inclusion in rural and underprivileged areas of developing and emerging countries, what are the interactions between Universal Postal Service policies and Financial Inclusion? Are they complementary because of the network of Postal Offices or in conflict because of the cost of the USO? What advantages do they generate from the point of view of the Governments to be considered simultaneously? Are there other specific financial inclusion banking institutions (agricultural banks, SME cooperative saving banks, microcredit institutions, Islamic Banks...) or models (correspondent banking) and what are their characteristics?
3. Are there several postal financial services models? Are they sustainable and profitable? Which incentives have to be considered from the point of view of public policies and what are possible specific regulations, distinct from general banking regulations, to be recommended or not? A research agenda could be defined as a conclusion.

At our knowledge no extensive contributions were made on this topic before, either descriptive, or theoretic. It may always have been left as an in between issue, nor enough Postal, nor enough Banking.

Some universal service operators faced with deregulation and open competition must make fundamental decisions regarding their post office network. Others derive major benefits from the outreach of their network and the universal service delivery of basic financial services. In other cases, financial institutions are aware of the network potential but reluctant to commit themselves as providers or joint venture partners due to USO cost. In all these cases they need to base their decision on a better understanding of postal financial services economics and regulation.

The increasing interest of large international postal organizations such as UPU (Berne) or banking institutions (World Savings Banks Institute, aisbl, Brussels) can be measured by the number of workshops focussed on the Postal Bank issues. The recent financial crisis has motivated the governments to reshape the Banking Regulatory System also requires particular attention from the point of view of Postal institutions. Case studies could include for example Belarus, Belgium, Kazakhstan, Korea, Indonesia, Italy, a country from Maghreb, Mauritius, New-Zealand ...

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ABSTRACT: 12 DECEMBER 2009

STATE FUNDING AND COST SHARING OF THE USO UNDER THE 2008 EU POSTAL SERVICES DIRECTIVE

By Richard Eccles, Partner, Bird & Bird LLP

This paper will assess the methods allowed for in Article 7 of the 2008 EU Postal Services Directive for ensuring the provision of universal services, including public procurement, and the relationship between any state subsidy or compensation mechanisms and the EU State aid rules. The analysis will also involve reference to the scope of the USO, the extent of universal service obligations imposed on the USP; these factors affect the overall cost of the USO.

In order for a compensation fund or cost sharing mechanism to be implemented under the 2008 Directive in favor of the USP, there must be both a net cost to the USP of the USO, and an *unfair financial burden* on the USP.

The “net cost” must be determined in accordance with the criteria of Annex I of the Directive. This refers to universal service obligations which are incapable of performance other than at a loss and in a situation where the USP would not have chosen to have fulfilled the relevant universal service conditions if it were not subject to the USO. Annex I of the Directive requires calculation of the difference between the net costs to the USP of operating with the universal obligations and the costs of the same USP operating without those obligations. The net cost of the USO therefore involves subjective assessment of the counterfactual.

The paper will then assess the factors that may be relevant in determining an “unfair financial burden”, which is not defined in the Directive. This will involve consideration of various factors, including the following: the scope of the USO and the ability of the USP to generate revenue from non USO postal services activities, the extent to which the USP’s operations are controlled by regulation, and the ability of the USP to reduce costs through reasonably achievable efficiency improvements.

As regards compensation schemes under the Directive or State financial support for the universals service, the paper will address the fact that State aid will arise where any State subsidy results in over-compensation to the recipient undertaking by reference to the necessary costs plus a reasonable margin. The costs are to be benchmarked, in the absence of a public procurement procedure, against those of a typical efficiently well-run undertaking. The paper will conclude with comments on the implications for the designation of the USO and the scope and extent of USO conditions.

**“Intangible benefits related to universal postal service”**

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Submitted on 14 December 2009

In Europe, according to the Third Postal Directive (2008/6/EC), Member States may provide compensation for the net cost of universal service. Compensation for USO net costs may be granted from public funds or by means of a compensation fund financed by contributions from postal operators and/or users of postal services. The Third Postal Directive requires that the calculation of net costs must take into account “any intangible and market benefits”. Therefore, in calculating USO net costs, regulators and universal service providers in Europe must study benefits related to the universal service, the subject of this paper.

While some consensus has emerged in the literature on how to calculate the direct net cost of the USO (profitability cost)<sup>3</sup> there is much less literature on the benefits related to universal service. Against this background, the objectives of this paper is to identify and classify intangible benefits that accrue to designated universal service providers, and to discuss methodologies to determine the value of intangible benefits.

The paper first reviews the existing literature on USO benefits in the postal sector,<sup>4</sup> and experience from the electronic communications sector. All articles reviewed in our paper predate the Third Postal Directive, and the paper thus discusses the relevance of the benefits identified in these sources in the context of the current legal framework.

Second, the paper develops criteria to separate, for the current purpose, intangible from tangible benefits and establishes a framework for classifying these benefits into a) intangible benefits of the USO; b) tangible benefits of the USO; and c) other commercial benefits that incumbent postal operators have, but which are not related clearly to the USO. Using this framework, the paper identifies potential intangible benefits and discusses their relevance in the context of the USO. This discussion specifically addresses the interrelation between the benefits that should be included in the calculation of USO net costs on the one hand, and other elements of the net cost calculation, e.g. a net calculation presented by a universal service provider, on the other hand.

Third, the paper presents a formal model to analyse intangible benefits of the USO in the postal sector, and discusses methodologies for quantifying these benefits.

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<sup>3</sup> See Cremer et al. (2000) and Panzar (2001). In the last years, a number of reports by regulators, operators and consultants have calculated this net cost using the framework set out by Cremer et al. and Panzar.

<sup>4</sup> Articles and studies that touch upon the issue of USO benefits in the postal sector include: Cremer/De Rycke/Grimaud (1997); NERA (1998); Rodriguez/Storer (2000); Postcomm (2001); Barkatullah/Ramada (2002); Burns/Carlslake/Houpis (2002); London Economics (2002); BDO/WIK-Consult (2007); and Copenhagen Economics (2008).

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## Practical Approaches to USO Costing and Financing

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### Abstract

Assessing the net cost and unfair burden of universal service obligations (USO), and determining how this should be financed, is a key issue for postal operators, regulators and other stakeholders. The Third Directive provides some guidance as to how the net cost should be calculated; however, there is no defined prescriptive approach. The calculation of the net cost of the USO is extremely complex and given that it is likely to be funded by the public or other operators any assessment needs to be extremely robust. In this paper we propose to present a robust and practical approach to assessing properly the net cost of the USO in line with the guidance provided by the Third Directive.

The financing of universal service provision in the postal sector has traditionally relied on granting the provider a reserved area. The need for alternative funding sources after full liberalization has increased the interest of regulators and the public in knowing the cost of universal service provision. The universal service provider (USP) should be compensated correctly for its burden. The most prominent approach to USO costing is the profitability cost approach pioneered by Panzar (2000) and Crémer et al. (2000). It defines the net cost of the (USO) as the difference in the USP's profit with and without the obligation. This approach has been discussed and practically implemented in a number of countries.

Recently it has been argued that the market structure within which the incumbent operates and the actual cost/burden of USO are directly related to the regulatory regime and the funding mechanism in place. Jaag et al. (2008) provide an outline of how the net cost of the USP varies with the choice of selected compensation mechanisms (two-part tariff, lump sum, global lump sum) and how changes to the USP's cost structure affect pricing, market equilibrium and hence indirectly the net costs of the USO. They also show that individual elements or dimensions of the USO cannot be priced separately as this would either result in inconsistent or biased cost estimates. This is due to the inter-relationship between various dimensions of the USO. For example, a restriction on pricing only may not result in high net cost if service quality and area coverage can be chosen freely by the operator. The same is true for a restriction on area coverage with the operator's freedom to reflect cost differences in its prices. It is the combination of quality and price restrictions that results in a high net cost of the USO. Boldron et al. (2009) argue that the challenge of establishing a funding mechanism is that the market structure and the effective cost/burden of USO are endogenous to the regulatory regime and the USO funding mechanism. Similar points are raised in theoretical contributions by Jaag and Trinkner (2009) and Borsenberger et al. (2010). While the former discusses the competitive impact of various cost sharing and compensation mechanisms on the competitive equilibrium, the latter focuses on the appropriate tax base for a sharing mechanism. In this paper we aim to provide a holistic approach that incorporates these developments in assessing the net cost of the USO and presents a robust methodology for practical implementation.

The net cost of the USO involves comparing the difference in profit levels with and without USO which implies knowing the differences in costs and revenues in scenarios with and without USO. The Third Directive states that in deriving this net cost one needs to consider the impact on profits and all other relevant elements, including any intangible and market benefits which accrue to a postal service provider designated to provide universal services. While the cost side is relatively easily understood because it is directly linked to products and processes, the revenue side is somewhat more difficult to assess (and not yet fully understood) because indirect effects also need to be taken into account ("intangible benefits"). The intangible benefits of the USO can be equated to the incremental profits that the operator enjoys solely from the provision of the USO (e.g. the profits on non-USO products that are delivered 5 days a week due to the provision of the USO but where volume (and associated profits) would be lost if the operator moved to a 3 day a week service given the freedom to do so following the removal of its USO). The Directive states that these intangible benefits should be calculated separately to avoid the double counting of any direct or indirect benefits and costs. However, we do not believe that the benefits of the USO should be assessed separately from the costs of the USO as they are both intrinsically

linked to an operators' profits. We believe a properly executed profitability approach calculation will capture these intangible benefits and that separate assessment increases the risk of double-counting benefits.

Therefore, in this paper we propose to analyse the issues relating to assessing the net costs of the USO with particular focus on the benefits associated with USO and current empirical approaches to calculating the net costs. We then present an overview of approaches that have been applied already in various countries and highlight their strengths and shortcomings in light of the rather theoretical aspects discussed in the first part of the paper. Finally, we present a practical approach that we believe assesses robustly the net cost of the USO.

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