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A proposal to redefine Universal Service Obligations

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This presentation is focused on USO products and obligations in delivery (its main component) only

With declining volumes there's a need to reshape USOs for ensuring a long run sustainable basic nationwide distribution and clearance of postal items

Present USOs reflect the basic conflict arising on its definition: while some products are labeled as USO or not, the true obligation comprise to deliver de facto all items in loss making areas

USOs require to be redefined with a specific focus on Individual consumer's protection, strengthening its right to freely receive non express postal items. It's in the interest of the whole industry to not let postal network externalities collapse because of some part of the country is not served anymore

The proposal is intended to solve the main point: how to ensure in the long run that postal services are provided in areas where delivery is uneconomic?

The proposal is to define an asymmetric USO framework that includes:

- a) **in clearance**, single piece C2X mail and basic parcel accepted at USP postal counter or inserted in post boxes only;
- a) **in delivery**, all mail and parcel (excluding express) delivered in specific areas (e.g. single or grouped postcodes), where either USP is the only provider (ie delivery is not contestable) or, being competition absent, it faces significant losses because of insufficient volumes delivered

To ascertain whether delivery in a specific area or postcode should be subject to USO or not, just let observe how the market works or look into USP's specific regulatory data

- If a competitor provides services in a given postcode, this is an evidence that, being such postcode contestable, the USP can profitably deliver on it as well. In this case (nearly 70% of postcodes in Italy) it is not part of USO, therefore dropped from USO net burden calculation
- If, in a given country where competition in delivery does not exist, the USP's postcode balance sheet in delivery shows significant losses, it should be included in USO
- Contestable and non contestable postcode database require to be updated by the regulator on a yearly basis
- The USP should provide the regulator data on volumes delivered by postcode: each postcode has its own delivery balance sheet

- The regulator is asked to carefully monitor efficiency of delivery in non contestable areas: delivery routes should be flexibly and continuously adapted, as express couriers and, to some extent, mail competitors do by using georeferenced software

### **Implications of the proposal**

- Non contestable areas become the regulated part of the postal delivery network, while contestable areas are its competitive part
- In non contestable USO areas, fully regulated prices are set for all non express products delivered, therefore VAT exempted
- A full playing level field is then guaranteed, since market access in both areas is the same for all market players, including USP
- It allows to clearly separate the effect of the true USO burden from USP's increasing network unsaturation - the main expected phenomenon to occur in the next coming years - but not *per se* a true USO cost

- In coming years, with volumes more and more declining, the non constable part of the delivery market is expected to grow, but both competition and USP's financial equilibrium would not be threatened
- USO net costs are substantially reduced, but in some cases an external financial source may be required, either a public transfer or a compensation fund, or both
- The compensation fund, if enforced, requires an analytic market study on the interchangeability conditions of products that may compete with reshaped USO products
- Were this study being absent, all decisions concerning both the compensation fund as well as all regulations affecting competition would be considered as illegitimate
- If enforced, a tax levied on competitors for USO financing should satisfy the proportionality criterion: competitor's profitability and market entry decision should not be distorted