

ERGP **Stakeholders Workshop**



on

The Implementation of the Universal Service in the postal sector in view of the market developments

Bucharest, 19 November 2014

**Revised and supplemented
December 2015**

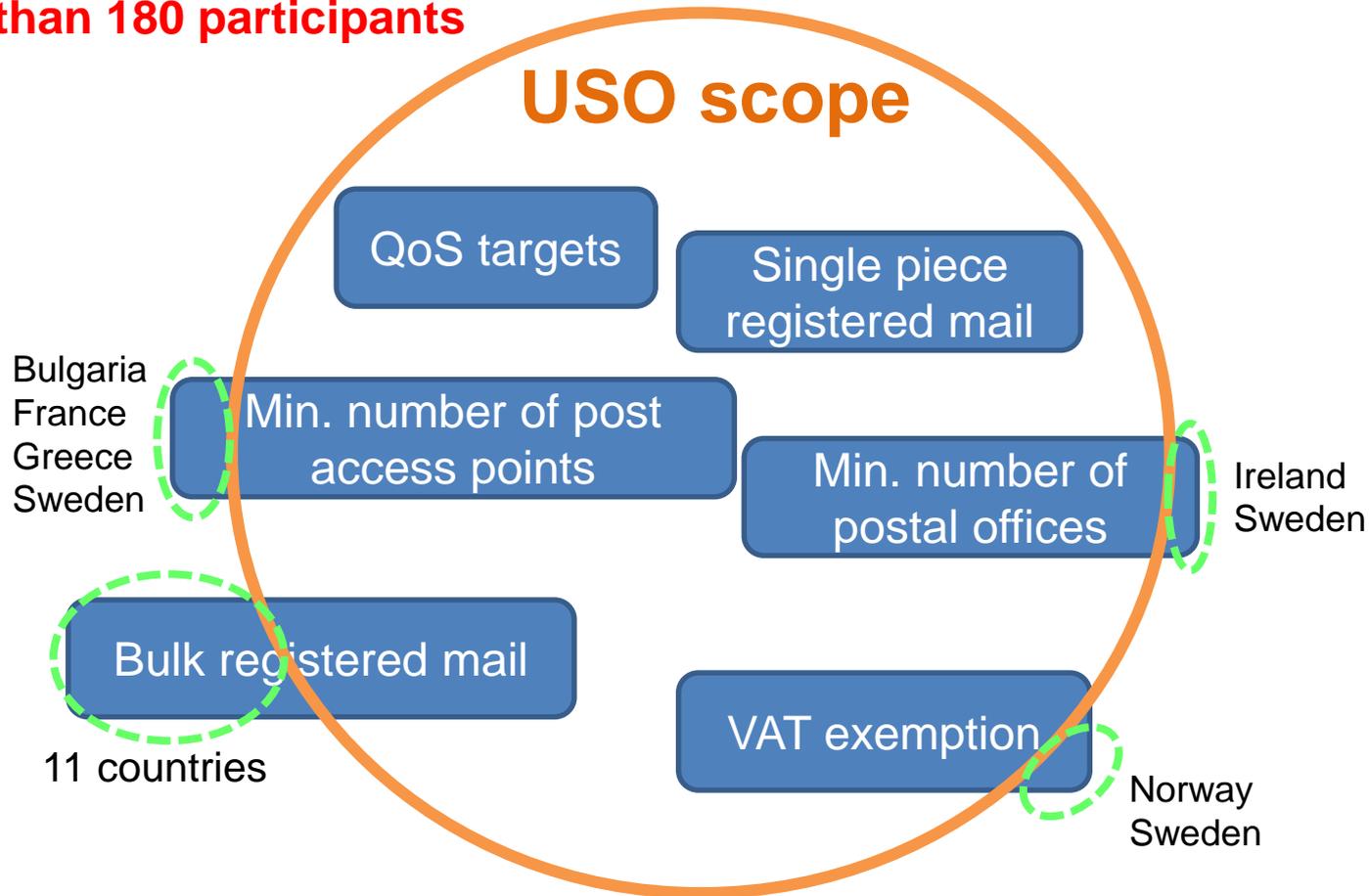
Camilla Sebastiani, Lars Forslund
AGCOM & PTS

Co-chair of ERGP “Subgroup on net cost of USO - VAT as a benefit/burden”

Findings on current situation of USO



More than 30 contributions
More than 180 participants





The questions under consultation

- Based on the gathered information and the outcomes described, ERGP addressed some key questions to the stakeholders, focused on:

US definition

- What could the common European minimum scope look like?
- What essential elements should be guaranteed?
- What essential elements need to be regulated?
- How essential is it to have a uniform base level taking the need for country specific solutions into consideration?
- Which user categories should be targeted by the USO? Individuals, individuals in rural areas, disabled in rural areas, small offices and/or home offices? Is it possible to identify changes in this respect in a forward looking perspective?

USP designation

- Is it necessary to designate an USP for the provision of USO?
- In the perspective of a changing postal market, what could be a reasonable designation period and a relevant designation process?

US financing mechanism

- Does the current scope of the USO lead to excessive costs?
- Would changes in the scope of USO affect the possibility to finance US for instance by a compensation fund (and if so in what way and with what consequences)?

Competition

- Could tariff regulation (e.g., affordable prices and VAT exemption) introduce a competitive distortion on postal markets?
- Could there be a reason for protecting competitors through the USO?

US Definition



Views of participants

Most stakeholders agree on the need to

- Reduce or at least consider the scope of and the elements in US
- Provide for flexibility
- Consider needs of specific user groups

If you look more closely into it divergent opinions are expressed!

US Definition



Views of participants

Elements to that could be considered

- Minimum delivery - 3 days a week/ maximum delivery per week/ maximum and minimum
- Reduce service levels in metropolitan areas – The New Zealand model
- Collection and delivery frequency could be reduced, especially in rural areas
- Basic services; D+2 or D+ 3 instead of D+ 1
- Delivery to cluster boxes – The Canadian model
- Registered postal items,
- Delivery of social mail items only
- Exclude parcel delivery
- The guarantee of one postal point per municipality
- Protection of users who are blind, disabled and elderly, specific needs of users in rural areas
- Price no. 1 priority of the users, quality of services and frequency less important
- Strengthening US in some respects – parcels delivery in remote areas
- Ensure that on line customers always have the option of delivery by the USP
- The scope is adequate, but reassess the requirements for the provision of USO
- Delivery on time is an essential element to be guaranteed

US Definition



Views of participants

Flexibility

- Move away from “one-size fits all and always will”
- USO needs to be dynamically interpreted and implemented: the objective should be a sustainable future USO in each MS specifically tailored to be responsive to and proportionate with needs of its users - both senders and addressees.
- Requirements need to correspond to the needs at a particular place and time
- Flexibility on the national level in all (?) respects full (?) account of national differences.
- US; national coverage but how and how often must be up to MS, but do not undermine cross border.
- EU regulation could ultimately be restricted to the principle of accessibility, affordability and quality without details of Implementation

Different views whether the current Directive provide for the necessary flexibility

US Definition



Views of participants

Targeted user groups

Individuals, SMEs, vulnerable users such as users in rural areas, disabled and elderly people. But what other groups, if any?

No targeted user groups, US should rather be regarded as part of the communication industry meeting the needs of the users

US Definition



Views of participants

Comments of a more general nature

- Any changes of the USO must create less pressure on the USP
- Reduce or abolish the USO
- Balancing adaptation to changing needs at the same time not undermining US
- USO should only include services that could not be offered on a commercial basis - Indispensable but unprofitable services
- We need a clear definition of USO and quality of services
- Deep revision of the USO at the European level providing for a set of obligations that only refers to affordability and ubiquity
- Regardless of technological advancements / internet penetration, the provision of USO should remain responding to the needs of consumers.
- A common minimum scope should be defined for for all MS while existing degree of flexibility should be maintained
- Each country should develop a "Universal" network, owned & managed by the operators using it as well as by she state

US Definition



Views of participants

- The call for a new Directive sounds premature
- Regulators need to obtain a clear understanding of the core needs of postal users.
- Market specific analysis to determine users that could be considered vulnerable in a perfectly liberalized market

USP Designation



Views of participants

USP Designation should be carried out following a **public auction/tender procedure**. If alternative providers are not given the chance to express their interest to provide the USO, then they should not be asked to contribute to any net cost of the USO.

The **designation period** should be **in line with the periodic review of the USO scope** and should ensure a balance between the interests of continuity of delivery and the ROI of market players.

Operators should be invited to call for tender if there is a market failure and tender can be open for any/single services: unbundling of the postal services will foster competition and innovation

BUT: *are we sure there are operators interested in offering postal services – participating at the tender?*

AND (more in general): *are we sure we have to designate one or more USPs?*

Designation generally provides clarity or certainty regarding the rights and obligations related to the US provision. Moreover, European state aid law makes an entrustment act a pre-condition for the compatibility of any compensation.

However, we should further investigate the German case where no USP is designated.

US Financing Mechanisms



Views of participants

US should not rely on subsidies from industry players/taxpayers, but it should be **self-financed** by setting prices covering costs or through the USP's own resources.

If prices cannot be fixed appropriately due to regulatory constraints, before considering any Compensation Fund (CF) the USO scope should be adjusted according to the actual user needs to reduce the USO cost. Otherwise, any USO cost should be financed by the state budget ("*who order pays*" principle).

Compensation fund (CF) should not finance US since it creates perverse incentives for efficiency, impede investment decisions and evolution of market driven services.

Need to designate more than one USP to benefit from compensation.

CF should be an exception: if there is any compensation fund, the EU framework should clearly define beneficiaries, contributors and the way to contribute.

An independent Body (NRA) should manage the CF.

Who is going to pay for the CF? Operators or only the USP due to its market share?

The determination of the US provision cost should be based on the cost of an efficient USP, otherwise competitors will subsidize inefficient USPs through the USO CF.

USO net cost should be analyzed only in areas with no competition in delivery.

Competition



Views of participants

Maintaining current minimum USO scope should take precedence over the development of competition, which will be protected by safeguarding US.

The aim of USO is to protect customers, not competition.

VAT exemption is a competitive advantage for USPs, which may result in competitive distortion, especially when applied to services offered in competition with other providers (e.g. C2C parcel delivery services).

USO products could be supplied VAT free to targeted/disadvantaged groups or VAT exemption should apply for all operators (USPs and competitors) and services, thus favoring the creation of a *level playing field* for competition whilst protecting users.

Tariff and access regulation could help to avoid market distortion by keeping US prices geared to costs, but more consistency across MSs in methodology and calculation is needed (including standardized VAT regimes for cross border services).

Reducing the delivery frequency would decrease the US burden thus allowing a *level playing field* among operators.

Any change to the PSD should look only to promote competition where it does not undermine the financial sustainability of the USO.



ERGP Stakeholders Workshop
Bucharest, 19 November 2014

Thank you for your
contributions