

# A NEW STAGE FOR POSTAL SECTOR REGULATION?

Insights from the latest developments in Denmark

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What will be the next stage for postal sector regulation in the EU? According to the Danish example, where letter volumes have declined faster than anywhere else in Europe<sup>1</sup>, the answer seems to be the abolishment of the universal service obligation (USO).

On 28 June, the Government and a broad political majority in Denmark reached an agreement where they decided to abolish the postal USO applying to Post Danmark<sup>2</sup> as the designated universal service provider (USP). However, a few targeted measures will still be applied where and when needed. This includes the safeguarding of postal services to island communities, free shipments for the blind, and international mail.<sup>3</sup>

The rest of the services currently covered under the USO (see Annex 1) are expected to be provided by the market at the desired quality without any regulatory intervention, but the national regulator will increase its monitoring of the market to ensure that this will be the case.<sup>4</sup>

## *How will this work?*

To ensure that the three services mentioned above will continue to be provided, the Danish Government will make several public tendering processes. Post Danmark can participate in the tender process on equal terms as other postal operators.

The tenders will be launched at different times as they require different degrees of preparation. In the meantime, politicians will try to agree with Post Danmark that it continues to manage the three areas until the operator winning the tender process takes over the task.

Moreover, the Danish regulator will increase its monitoring to safeguard that the market provides a nationwide uniform service, apart from the three elements mentioned above. If any shortcomings are identified through the monitoring, the Ministry of Transportation can designate a postal operator to provide services at the desired quality (i.e., a fall-back provision to re-introduce a service obligation for some specific services).

<sup>1</sup> Copenhagen Economics (2022), "Main developments in the postal sector (2017-2021)", page 44.

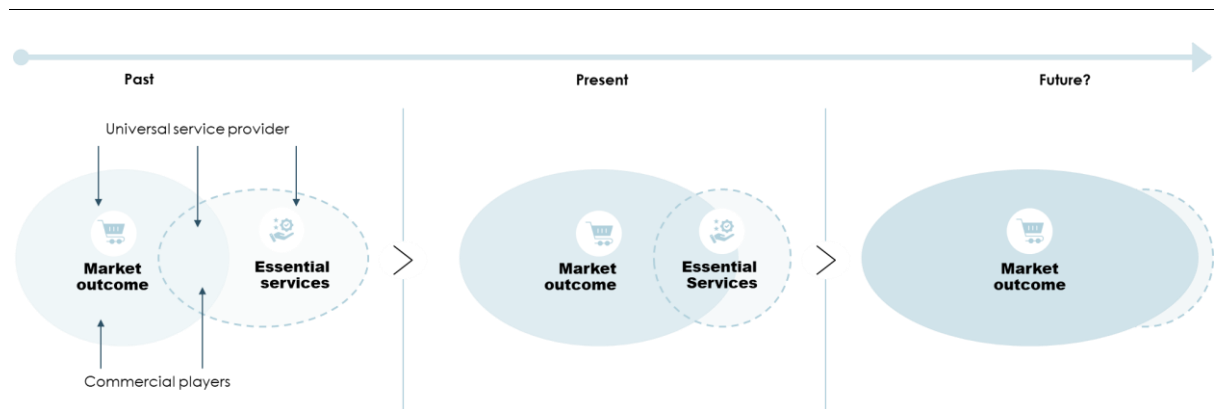
<sup>2</sup> Post Danmark is a wholly owned subsidiary of the PostNord Group.

<sup>3</sup> It ensures that Denmark complies with the EU Postal Services and the UPU convention.

<sup>4</sup> Agreement on the framework for the future organization of the postal sector from 1 January 2024.

**Figure 1**

The essential services, which the market will not cover, are shrinking



Source: Copenhagen Economics

### *Why is the Danish Government abolishing the USO?*

A postal USO safeguards the provision of essential services. While the market covers some, others are only covered by the USP, see Figure 1. The provision of such unmet needs entails a benefit to society but may also constitute a cost to taxpayers.

The increased digitalisation of societies means that the essential nature of physical postal services is losing its importance. At the same time, the expansion of e-commerce delivery markets means that the scope of traditional postal services provided by the free market is increasing. Consequently, the size of the unmet demand shrinks, which reduces the need for broad market intervention.

Furthermore, the cost of providing the USO in Denmark has changed significantly in recent years. This is a natural consequence of having to maintain an extensive infrastructure to deliver on regulatory service requirements at the same time as volumes (and thereby revenues) are falling drastically. Prior to 2017, Post Danmark did not receive any compensation for its provision of the USO. However, during the period 2017-2019, the Danish and Swedish authorities granted Post Danmark a compensation of approx. €160 million to support its transformation and for carrying out the USO. For 2020, Post Danmark received €30 million.<sup>5</sup>

### *Is Denmark an outlier, or is this a recipe for other countries too?*

Some market circumstances make Denmark look like an outlier, thereby indicating that the route taken there would not be relevant for other countries. First, Denmark is a relatively small country with a population of 5.9 million and a geographic size of 43 thousand square kilometres (less than 10 per cent of the size of France). Second, Denmark experienced an extraordinary decline in mail volume, amounting to close to a 90 per cent decrease<sup>6</sup> from its peak in 2000 to 2022. Third, Denmark has one of the most digitised societies.

However, the fundamental dynamics are similar across many postal markets. First, an increasing number of countries in Europe experiencing an accelerating decline in mail volumes and an increasing need for financial support to maintain the level of universal services. Second, e-commerce delivery markets are expanding, providing more options in terms of delivery operators and services across larger geographical areas. Third, concerns over environmental sustainability increasingly shape policy agendas in the transportation sector. This further makes the trade-off between a broad postal USO and more environmentally friendly options more evident.

<sup>5</sup> Case number [SA.49668](#) and [SA.57991](#).

<sup>6</sup> PostNord Annual- and Sustainability reports.

*Could postal sector regulation be entering a new stage?*

Depending on market developments, governments need to adopt different approaches to postal sector regulation. We have historically observed three stages of postal sector regulation, see Figure 2.

*In the first stage*, the postal sector regulation’s focus is on taming old postal monopolies by resolving existing market failures to promote efficient competition.

*In the second stage*, the postal sector regulation shifts focus from ensuring competition to ensuring a financially sustainable provision of the USO. This is normally a consequence of declining mail volume. The financial sustainability of universal services typically requires increased pricing flexibility or operational flexibility for the universal service provider.

*In the third stage*, the postal sector regulation focuses on providing effective financial subsidisation of the USO. Continuous decreases in mail volume eventually means that countries reach a stage where more commercial flexibility cannot be provided without jeopardising the provision of universal postal services.

But what happens when mail volumes decline even more and even to a point where the cost of safeguarding all the essential services will be disproportionate to the

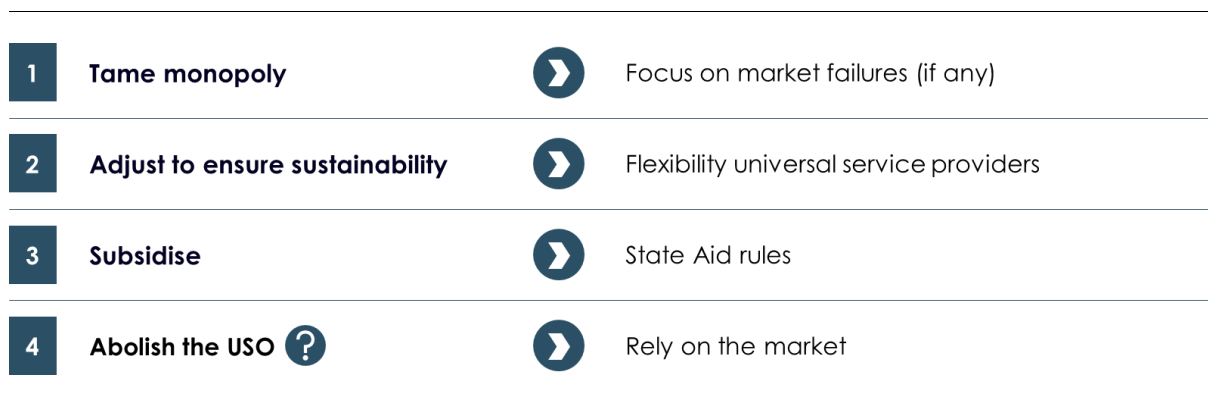
social benefits of doing so? In Denmark, the solution seems to be the abolishment of the USO, which could mark the start of a new stage in postal sector regulation in other countries as well.

To determine if the decision in Denmark could be a model for other countries, a thorough analysis of the costs and benefits of the USO must be conducted. Such review is best achieved using a cost-benefit approach that compares the impact on the net cost of the USO to the consequences on users and other stakeholders.<sup>7</sup>

A cost-benefit analysis must account for country-specific circumstances and cannot merely be based on generic assumptions. It is, therefore, not to be taken for granted that the abolishment of the USO in Denmark is the best solution in other countries. Nonetheless, it could indicate that Denmark is pioneering a new stage of postal regulation.

**Figure 2**

The development in Denmark suggests a new stage in postal sector regulation



Source: Based on Copenhagen Economics (2019), *Postal services in the EU*.

<sup>7</sup> Copenhagen Economics (2018), “Main developments in the postal sector (2013-2016)”, chapter 5.

## Annex 1 The current USO in Denmark

The USP in Denmark is Post Danmark, which is obliged to ensure accessibility to all universal postal services. The USO includes the clearance of i.e., letter boxes and access points, and the sorting, transport, and distribution of letter mail items and parcels.

### Product scope

- Addressed letters up to 2kg.
- Addressed daily, weekly and monthly newspapers and the like, periodicals and addressed items with uniform printed content, up to 2 kg.
- Addressed parcels up to 20 kg, including a parcel service with or without delivery.
- Delivery of registered and insured items.
- International inbound and outbound shipments and shipments to the Faroe Islands and Greenland.
- Free shipments to the blind, up to 7 kg.

### Prices

Prices for services provided under the USO must be cost-based, transparent and non-discriminatory. Only single-piece items are required to be offered at uniform prices throughout the country. Single-piece items include stamped letters and parcels not covered by a contract with Post Danmark. The Danish Transport, Construction and Housing Agency approves the price for domestic ordinary letters weighing up to 50 grams sent as single-piece items. Post Danmark sets the price of other mail items without any need for approval.

The tariffs for distributing items from international destinations encompassed by the USO are determined based on multilateral or bilateral agreements between Post Danmark and international postal operators or based on the terminal dues applicable according to the rules of the UPU Convention.

### Delivery frequency and speed

Delivery must take place at least five days a week throughout the whole territory of Denmark.

The quality standards require that 93 per cent of domestic letters and parcels must be distributed within five and one working days. The quality standard for addressed shipments of periodicals, magazines, journals, catalogues etc. is fixed by Post Danmark itself.

The quality standard for cross-border items is that 85 per cent of such postal items must be delivered within three working days of submission and 97 per cent must be delivered within five working days of submission.

### Network of postal access points

Post Danmark must maintain a nationwide service network of postal service points able to perform all services covered by the delivery obligation.

Source: [Postloven \(LOV nr 1536 af 21/12/2010\)](#) // [Notice on postal service and postal companies \(BEK nr 727 af 24/06/2011\)](#) // [USO compensation to Post Danmark A/S for 2020](#)

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