

# 10<sup>TH</sup> ANNUAL COPENHAGEN ECONOMICS POSTAL & DELIVERY CONFERENCE

*Postal reform and Universal Service evolution*

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# Economic vs. societal value of postal services

- **Letter mail volume decline puts USPs' financial sustainability under pressure**
  - Since 2011, aggregate mail volumes have declined by close to a third in advanced economies and fallen by over three quarters for some posts
  - Similarly, footfall in retail network has strongly declined and the cost of maintaining such physical infrastructure has increased
  - These declines are driven to a large extent by e-substitution
  - Consequently, mail revenue and margins are shrinking, despite letter rate adjustments: the average EBIT margin of USPs has been gradually declining by around 10 per cent annually between 2013 and 2020
- **Nevertheless the social utility of traditional postal services remains high, as shown by many reports**
  - 2021 Report from the Commission on the application of the Postal Services Directive: "The main takeaway of the Report is that maintaining some form of universal postal service for all EU citizens is justified"
  - 2021 WIK report on User Needs: "At a general level, the need for universal service remains undisputed in the foreseeable future. Despite the postal users' changing communication habits, they still need a ubiquitous postal service (...)"
- **In this context, it is crucial to compensate USPs for the USO net cost**
  - Due to the fall in letter mail letters and the necessity to finance an infrastructure characterized by huge fixed cost, compensation funds financed by users or postal service providers are ineffective
  - State aids are wholly justified

# Postal State aids are under high scrutiny.. (1/2)

- **The TFEU recognizes in some circumstances government interventions are necessary for a well-functioning and equitable economy**
  - Public service compensations, such as universal postal services, are considered as compatible with the Treaty on the Functioning of the European Union
- **The European Commission is in charge of ensuring that State aid complies with EU rules**
  - EU State aid control requires prior notification of all new aid measures to the Commission
  - Each notification triggers an in-depth investigation by the Commission before deciding if the aid is compatible with EU rules
    - In the French USO case, the pre-notification and notification process lasted 27 months
  - The amount can not exceed the SGEI net cost (i.e. the opportunity cost incurred by the service provider)
- **The annual net cost is calculated or at least verified *ex post* by the national regulatory authority**
- **Everybody can easily access information about awarded aid: name of the beneficiary, amount, location, sector and objective**

# Postal State aids are under high scrutiny.. (2/2)

- **The calculation of the net cost is based on a credible, robust and reasonable counterfactual scenario, challenged by the EC case team**
  - The calculation is based on a “commercial approach”, on the “net avoided cost” or “profitability cost” methodology and an “incrementality” principle as advised by Copenhagen Economics
    - In the French case, a robust method has been implemented to avoid any double-counting between the various SGEIs
    - Several conservative hypothesis which do not necessarily reflect the optimal (profit maximizing) strategy that La Poste would implement in the absence of any constraint, have been made
    - *Ad hoc* technico-economic models have been built to determine the costs La Poste would bear in the counterfactual scenario
    - Only incremental costs, including fixed and variable costs directly attributable to the SGEI considered and when relevant, an adequate contribution to the common fixed costs shared between the SGEI and commercial activities, have been taken into account
    - All synergies that may exist between the different activities carried out in this counterfactual have been taken into account

# ... their amount must be relativized...

- According to Copenhagen Economics report, “in recent years, the European Commission (EC) has approved direct aid to individual postal operators ranging from around €15 million up to €335 million annually for the provision of the postal universal service obligation with the total value of annual aid to postal service operators amounting to around €1.5 billion in 2020”
- This total amount of €1.5 billion represents (State aid scoreboard 2021)
  - 0.33% of all State aids granted in EU member States in 2020 (€452 billion)
  - 0.67% of State aids except Covid special measures (€ 224.1 billion)
  - 2.2 % of railways sector aids (€67.74 billion)
  - Less than 25% of agricultural state aids (€ 6.28 billion)

# ... and are always lower than the net cost incurred

Postal operator	SGEI / Period	State aid case	Net cost estimation over the period (except when indicated)	Amount of the compensation over the period (except when indicated)
Post Danmark	USO / 2017-2019	SA.47707	€ 345,000,000	€ 160,000,000
Correos	USO / 2011-2020	SA.50872	€ 1,282,761	€ 1,280,000
Poste Italiane	USO / 2020-2024	SA.55270	€ 1,598,000,000	€ 1,300,000,000
Poczta Polska	USO / 2013	SA.38869	€ 33,580,000	€ 22,880,000
Czech Post	USO / 2013-2017	SA.45281	€ 164,469,000	€ 97,630,000
Czech Post	USO / 2018-2022	SA.55208	€ 369,883,558	€ 277,500,000
La Poste Groupe	USO / 2021-2025	SA.100746	Between € 3,300,000,000 and € 4,800,000,000	Between € 2,520,000,000 and € 2,600,000,000
La Poste Groupe	Newspapers delivery / 2023-2026	SA.102817	Between € 521,000,000 and € 581,000,000	Max. €153,500,000

# As over-compensation, under-compensation generates problems

- In theory, a company receiving government support may gain a distortive advantage over its competitors
  - This is why Article 107 TFEU generally prohibits State aid unless exceptionally justified, as in the case of SGEIs
- However, in the same way, a company receiving government support *significantly lower* than the net cost generated by the SGEI it provides, suffers from a distortive *disadvantage* over its competitors
  - SGEI providers could try to compensate the lack of government support by increasing their price and/or decreasing their QoS but such “strategy” is constrained by current postal regulation and beyond a given threshold, becomes counterproductive (leading to a graveyard spiral)
  - Under-compensation impedes investments
  - All of these factors create competitive distortions at the benefits of SGEI provider’s *competitors* and challenge the provision of the SGEI itself
  - The potential harm of under-compensation is higher than in the past due to the increasing discrepancy/gap between their profitability and their financial needs to overcome the challenges they are facing (competition, evolution of users’ needs, climate change, ...)

**THANK YOU !**