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Discussion on Gautier et al. paper

Universal service financing in competitive postal markets: One size does not fit all

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Agenda

1. **A brief recall**
   - The USO financing issue: a well-known story in theory ...
   - ... But a very complex issue to implement in practice

2. **The contributions of the paper**

3. **Some comments**

The USO financing issue: a well-known story in theory

- FMO could be a threat for the financial viability of the universal service provider and the USO sustainability (cream-skimming phenomenon).
- This issue has been extensively studied in the postal economic literature (De Donder et al., Crew and Kleindorfer, D'Alcantara et al., ...).
- The 3rd European directive permits Member States to introduce a compensation mechanism if "the universal service obligations represent an unfair financial burden for the universal service provider".

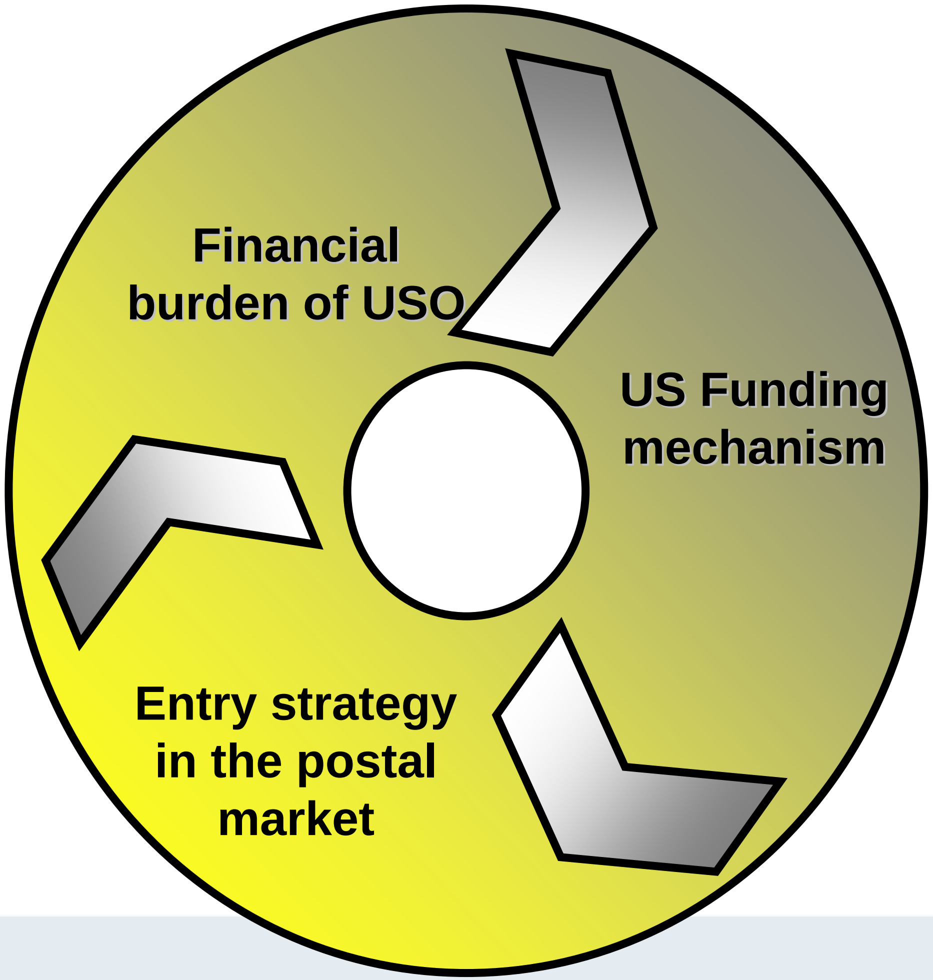
… But a very complex issue to implement in practice

- The USP's needs for financing do not necessarily correspond to the net cost of USO.

- Boldron et al. (2009) distinguished two types of burden put on the USP:
  - The unfair but sustainable pressure on USP's profit: the USP makes a positive profit but lower than a "reasonable" or "fair" level regarding the market conditions.
  - The unsustainable pressure on USP's profit: the USP makes a loss.

- The choice of the funding mechanism is not trivial since by itself, it affects the USP's needs for financing via its impact on market equilibrium.

- This is an endogenous problem.



The contributions of this paper (1/2)

- This paper contributes to a better understanding of the practical implications of various financing mechanisms in a liberalized environment.
  - Output tax
  - Revenue tax
  - Entry fee
  - Tax on covered routes

- Objective: Shed light on the question of the most appropriate tax instrument.

The contributions of this paper (2/2)

- It takes correctly into account the endogenous aspect of the problem.

- Gautier et al. distinguish three types of distortions induced by a tax:
  - Changes in the entrant's market behavior (affect its price strategy or its bundle of products)
  - Changes in the entrant's scale of operations (affect its coverage strategy, and so its price)
  - Changes in the entry decision

- To emphasize the importance of having a contextualized approach, the authors consider three hypothetical countries with heterogeneous geographical characteristics.

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Main conclusions of the paper

- There is no one size fits all tax instrument.

- A contextualized approach is needed to define the best compensation fund in each country.

- The best funding mechanism would be
  - Entry fee in homogenous country
  - Coverage tax in monotone differentiated country
  - Output tax in dual country

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Some comments (1/2)

- Some intuitions or previous results are confirmed by this work.
- The more important cross-subsidies under monopoly, i.e. the more contestable the market, the more important the need for financing and in consequence, the more distortive should be the financing mechanism to make USO sustainable (entry fee < coverage tax < output tax).
- Output tax dominates revenue tax (Borsenberger et al., 2010).
- This work supports the choice made in France, a dual country, to finance USO through a compensation funds funded by an output tax (new postal law of February 2010, 9th).

Some comments (2/2)

- Work should be pursued
  - To analyze the sensibility of results to calibration (cost efficiency of entrant, displacement ratio, ...)
  - To take into account additional constraints like price affordability
- What happens if the demand for entrant product depends on its coverage and more generally on its quality of service (number of deliveries per week, and so on)?
- What happens if operators have several products (USO / non USO) and could arbitrate between them to soften tax pressure?

Thank you for your attention !