

Towards a Sector-overlapping USO for Communication

The Economics of the Postal Sector in the Digital World

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Agenda

- (1) Current universal service obligations (USO)**
- (2) Economic rationale for USO**
- (3) Outline of a communication USO**

Current European Postal USO

Directive 97/67/EC

Article 3

1. Member States shall ensure that users enjoy the right to a universal service involving the permanent provision of a **postal service of specified quality** at all points in their territory at **affordable prices** for all users.
2. To this end, Member States shall take steps to ensure that the **density of the points of contact and of the access points** takes account of the needs of users.
3. Member States shall take steps to ensure that the universal service is guaranteed not less than **five working days a week**, [...] (clearance and delivery).

Annex 1

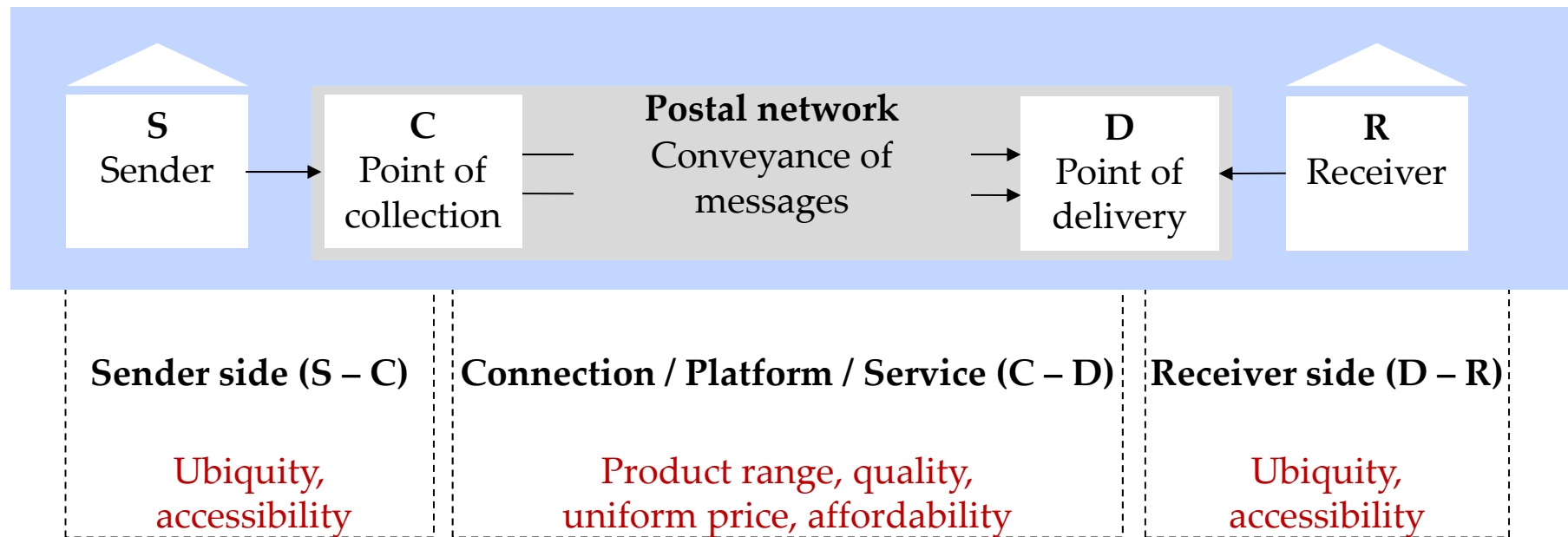
Those obligations may include, among others, the following:

- a **number of days of delivery**, superior to those set in this Directive,
- **accessibility to access points**, in order to satisfy the universal service obligations,
- the **tariffs affordability** of the universal service,
- **uniform prices** for universal service,
- the provision of certain free services for blind and partially-sighted persons.

- **Minimum characteristics to be guaranteed by each Member State**
- **Flexibility in the USO implementation**

Understanding USO

The Two Sides of Postal Markets



Understanding USO

Nature of USO

Two natures of USO as a public policy instrument:

- **Intended nature:**
„Safety Net“ for social inclusion: Makes sure people who might be at a disadvantage can have a certain service.
→ Complements market as allocation mechanism
- **Actual nature:**
„General Allocation Rule“
→ Substitutes market as allocation mechanism

Understanding USO

Cost and Benefit of USO

Social Cost of USO

- Inefficient allocation due to distorted competition
- Over-/underprovision with certain goods
- Distorted prices

Social Benefit of USO

- Fairness
- Social cohesion / inclusion
- Efficiency

Benefit of Postal USO

Coping with Allocative and Distributive Concerns

- 1) **USO regulations for redistribution in perfect markets**
→ Uniform pricing
- 2) **USO regulations based on general market imperfections**
Asymmetric information: Enforcement of property rights / facilitating commerce
→ Availability of registered mail
- 3) **USO regulations based on sector-specific market imperfections**
 - Asymmetric information
→ Quality monitoring
 - Transaction cost
→ Uniform pricing
 - Externalities
→ Ubiquity, accessibility, product range, quality, uniform price

Cost of Postal USO

Effect on Postal Competition

Effect on Universal Service Provider

- + VAT exemption
- + Commitment device in strategic interaction to defend market share
- + Economies of scale and scope
- Excessive cost due to inefficient processes; compliance
- Distorted innovation incentives (e.g. reverse hybrid mail, RHM)
- Distorted choice of product range and quality

Effect on Competitors

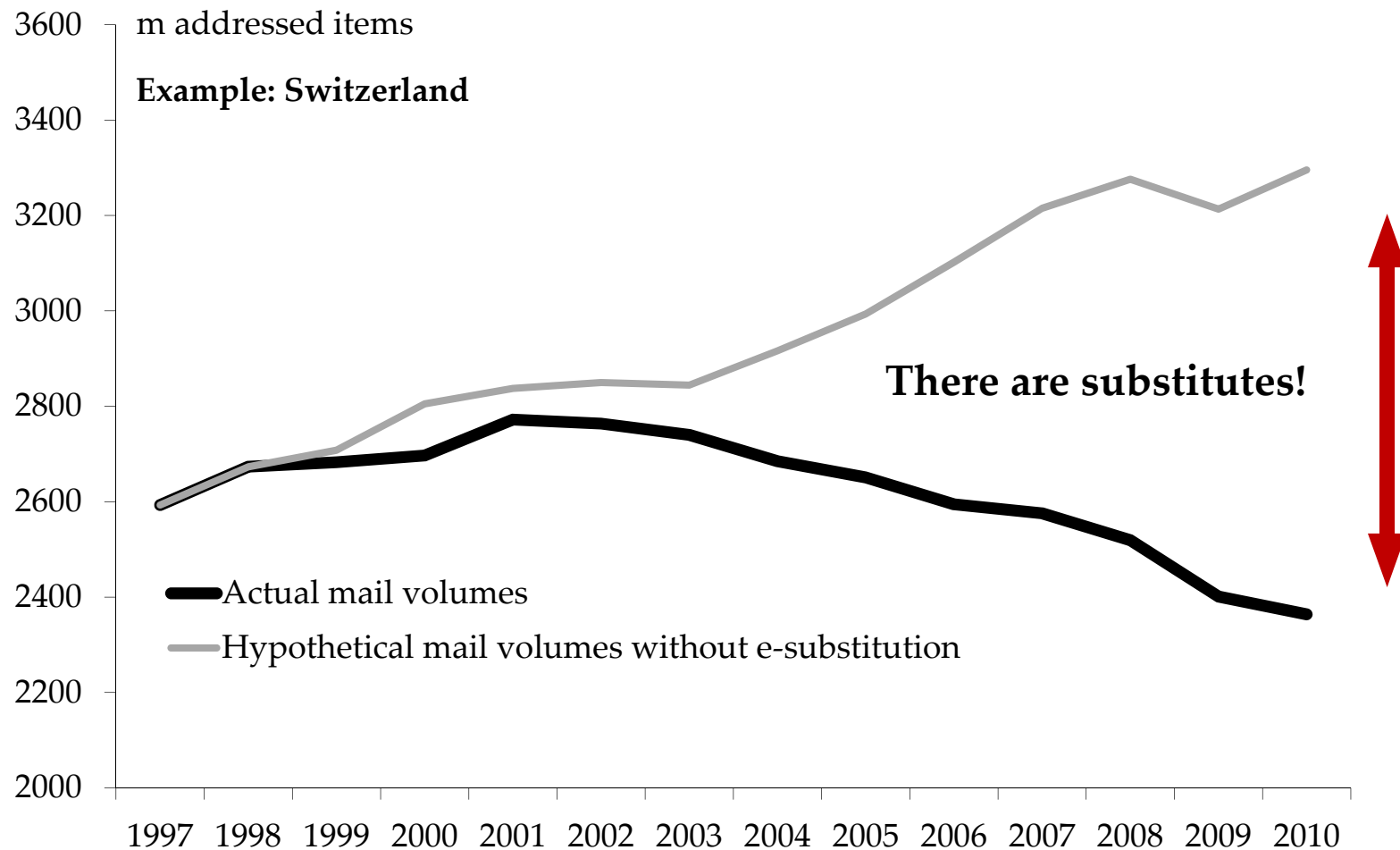
- + Comparatively high flexibility
- Contributions to the financing of the USO

Effect on Consumers

- + Guaranteed availability of services
- Prices?
- USO move away prices from the competitive (efficient) equilibrium
- USO affect market structure

Competition in Communication

Increasing Intermodal Competition



Telecommunications USO

Directive 2002/22/EC (Universal Service Directive)

Article 4 – Provision of access at a fixed location and provision of telephone services

1. Member States shall ensure that all reasonable requests for connection at a fixed location to a public communications network are met by at least one undertaking.

2. The connection provided shall be capable of supporting voice, facsimile and data communications at data rates that are sufficient to permit functional Internet access, taking into account prevailing technologies used by the majority of subscribers and technological feasibility.

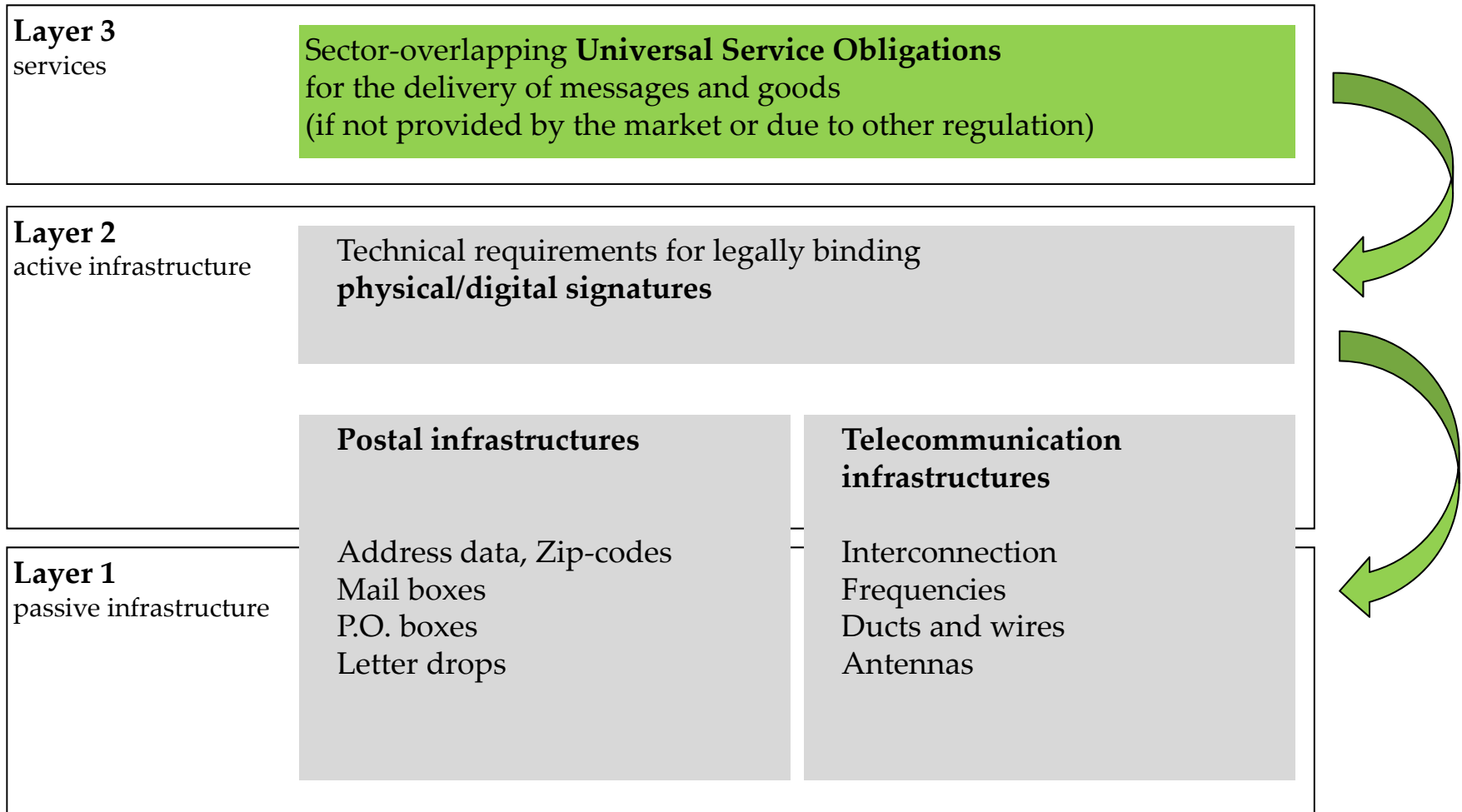
3. Member States shall ensure that all reasonable requests for the provision of a publicly available telephone service over the network connection referred to in paragraph 1 that allows for originating and receiving national and international calls are met by at least one undertaking.

- **Voice and internet services (limited to narrowband data rates)**
- **Telecom Package (2009) allows Member States to define data rates at national level, may include broadband speeds**
- **Basis not only for substitutes but also for complements to letter mail (see RHM)**

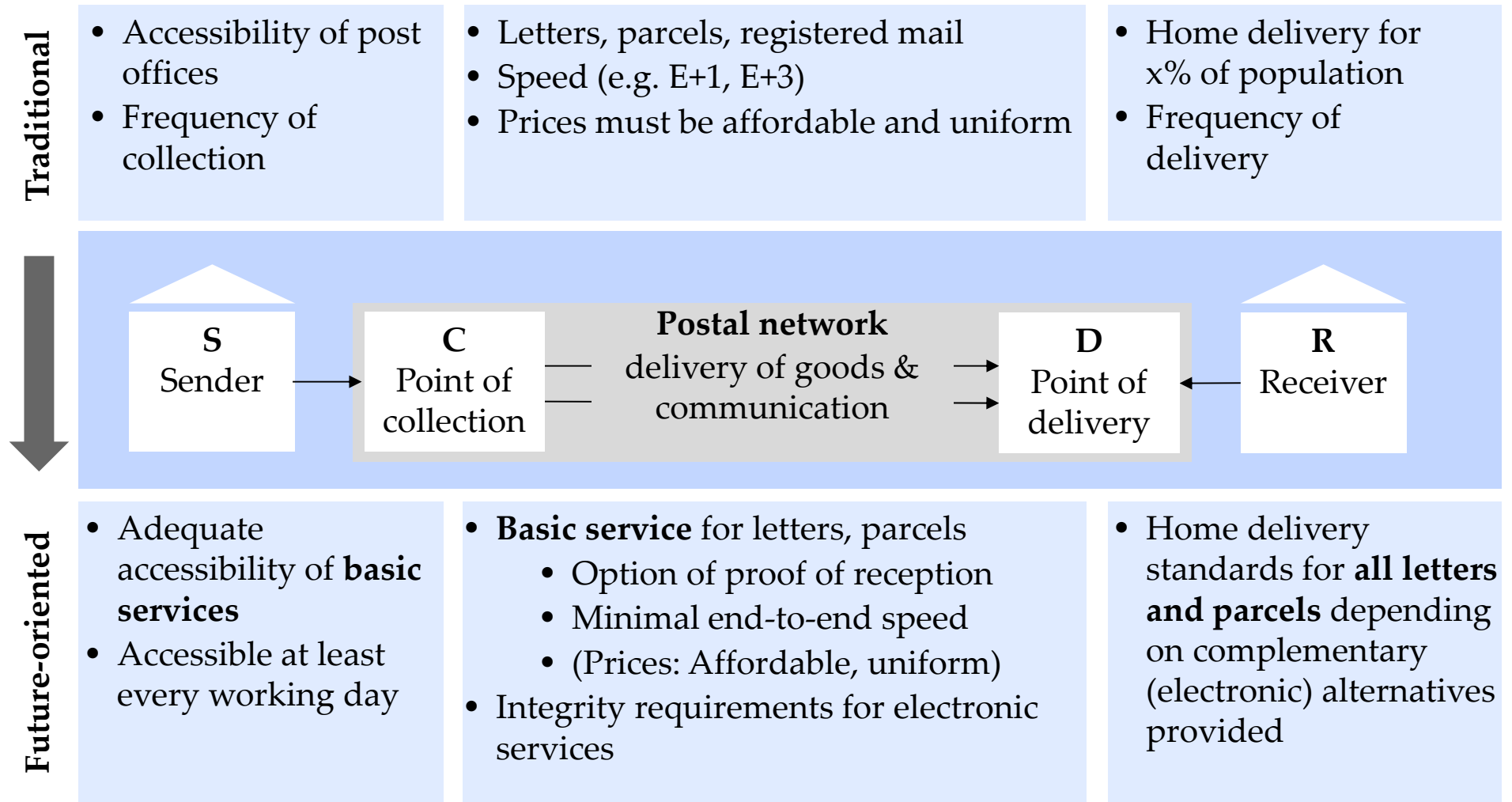
Principles for Future-Oriented USO

- **Output-orientation:** Satisfying consumer needs; regulating outputs rather than inputs
- **Technological neutrality:** No focus on a specific technology applied or on a specific sector
- **Product neutrality:** Generic regulation to allow the universal service provider to amend his product portfolio over time
- **Necessity:** A safety net addressing the consumers' most basic needs. USO are only necessary where certain services are not provided (by the market or through other regulation) in the socially desired quality or quantity, i.e. if there are no substitutes
- **Viability:** Avoid an excessive external funding need

Outline of Communication USO



Outline of Postal Aspect of USO



Conclusion for Postal USO

(1) Universal service obligations and competition are closely interdependent.

USO affect all operators' competitive position. They thereby complement and partly substitute the market allocation rule.

(2) Markets converge. So should USO.

Postal USO have to be adjusted to reflect

- the economic rationale of USO regulations,
- consumer preferences and
- the current and future role of electronic complements and substitutes.

(3) A modern and integrated communication USO maintains the benefit for consumers while reducing the burden on the economy.

Neutrality and the formulation of USO as a safety net favorably shift the balance of their social costs and benefits.

Thank you!

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