

# **Shaping the USO?**

## **An Outline of Thought from an Economic Perspective**

**Urs Trinkner**

**IPC Senior Executive Forum on Regulation**

**October 15, 2009**



# Introduction

## **The typical Universal Service Obligation (USO) includes**

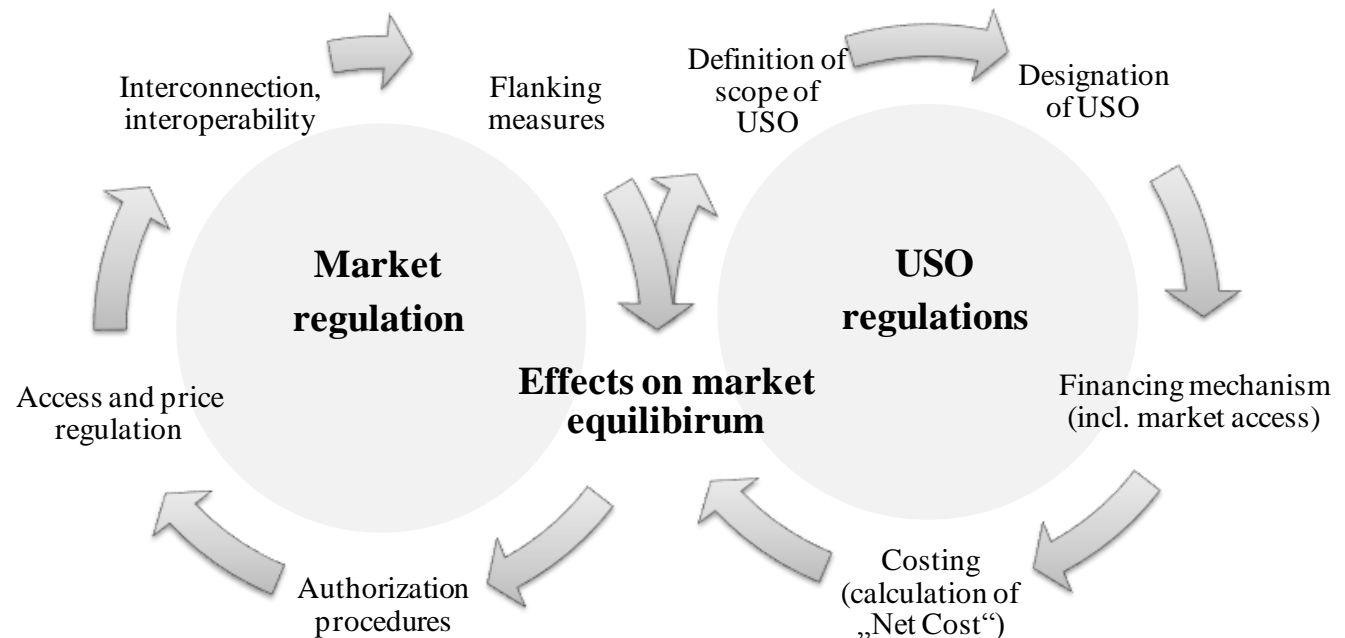
- Minimal product range: A list of services covered by the USO;
- Ubiquitous (nationwide) collection and delivery;
- Frequency and Quality of Service;
- Affordable and uniform prices for all or some USO products;
- ... and sometimes infrastructure requirements.

## **Future scope? Any need for a change?**

**Aim of presentation: Provide an economic point of view and basis for a discussion among the IPC members.**

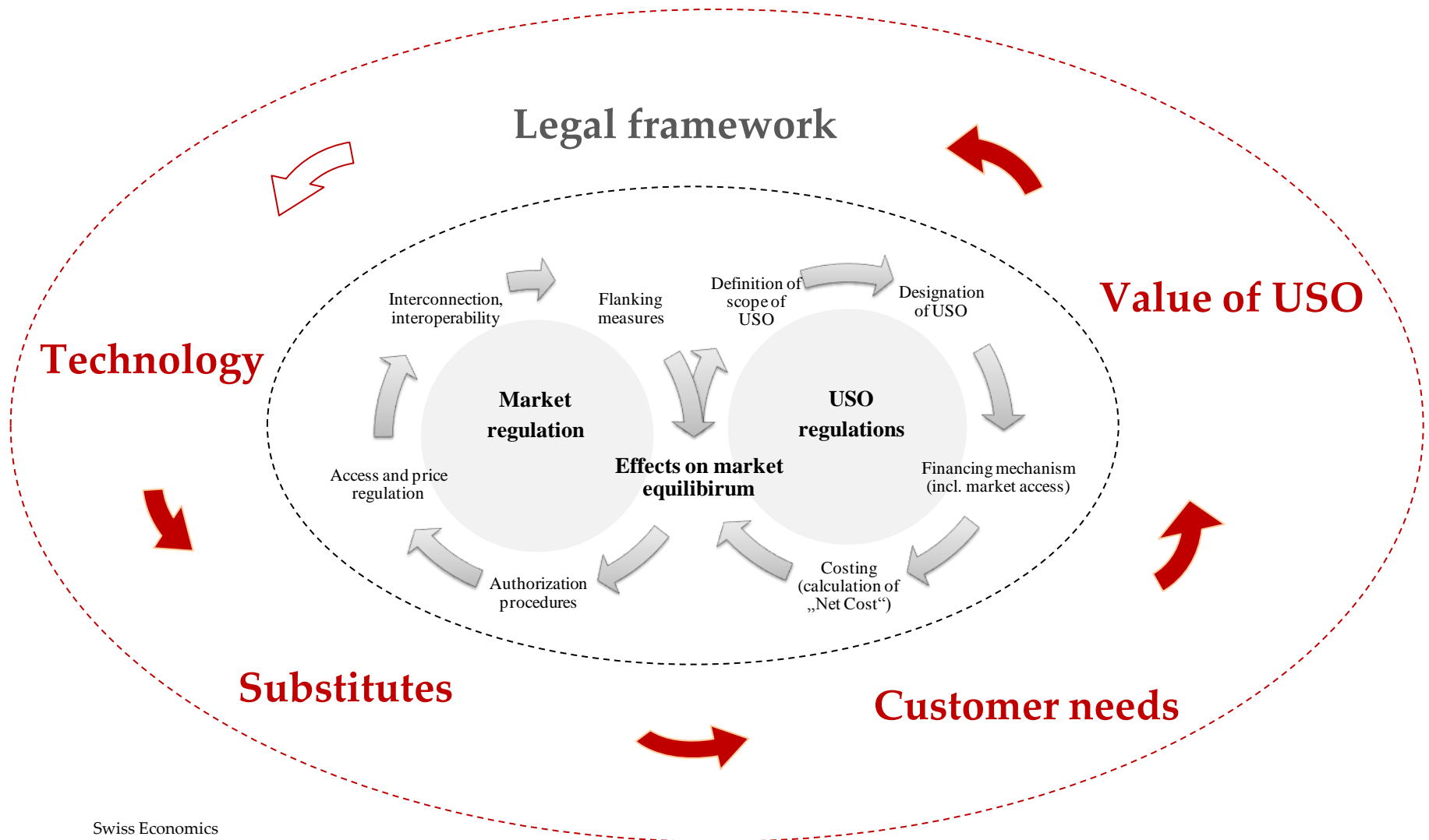
# Aspect of the USO

- **Political Aspect:** Impact of USO on rural regions, labor, cohesion, accessibility to citizens for voting and taxing, ...
- **Competitive Aspect:** Impact of USO and its financing on levelness of playing field
- **Economic Aspect:** Impact of USO on overall welfare (“value of USO to the society”)

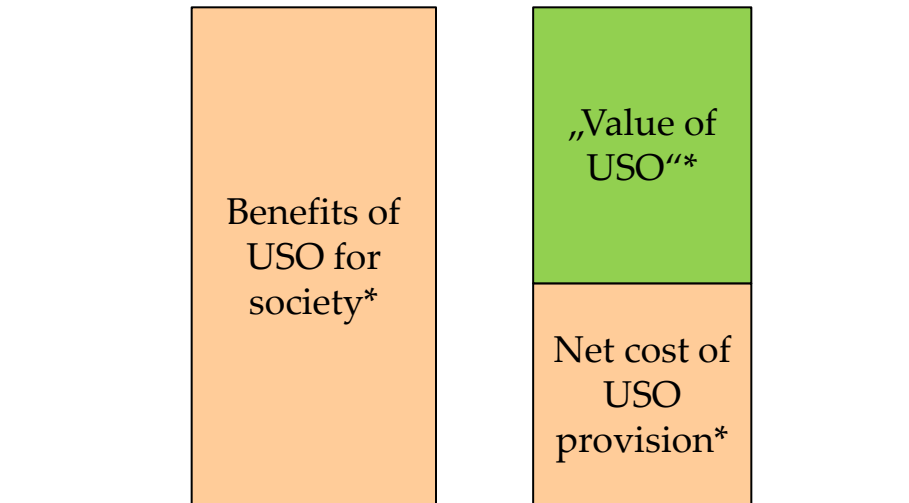


# Context of the USO

## Subject to important changes



# Value of the USO



\*Our definition:

*(Social) Value of USO  $\equiv$  Benefit of USO to society – Net Cost of USO.*

This is about correct if government funds are used to finance the net costs and the shadow costs of public funds are zero.

# Major functions of USO (and Posts)

## Two major functions

- **Traditionally: „Economic enabler“:**  
Universal postal services *enable* other parts of the economy by reducing transaction costs and overcoming distances between buyers and sellers. Examples:
  - Canada Post Annual Report 07: “We are a substantial enabler of the Canadian economy.”
  - Swiss Post Corporate Vision: “We are the backbone of an efficient Switzerland”
- **More recently: „Transformer of last resort“:**  
Posts fill the increasing gap between the physical and digital world, they are “*bridges*” between the physical and the digital and take the role of a “transformer of last resort”.
- **In the future?**

# Posts as economic enablers

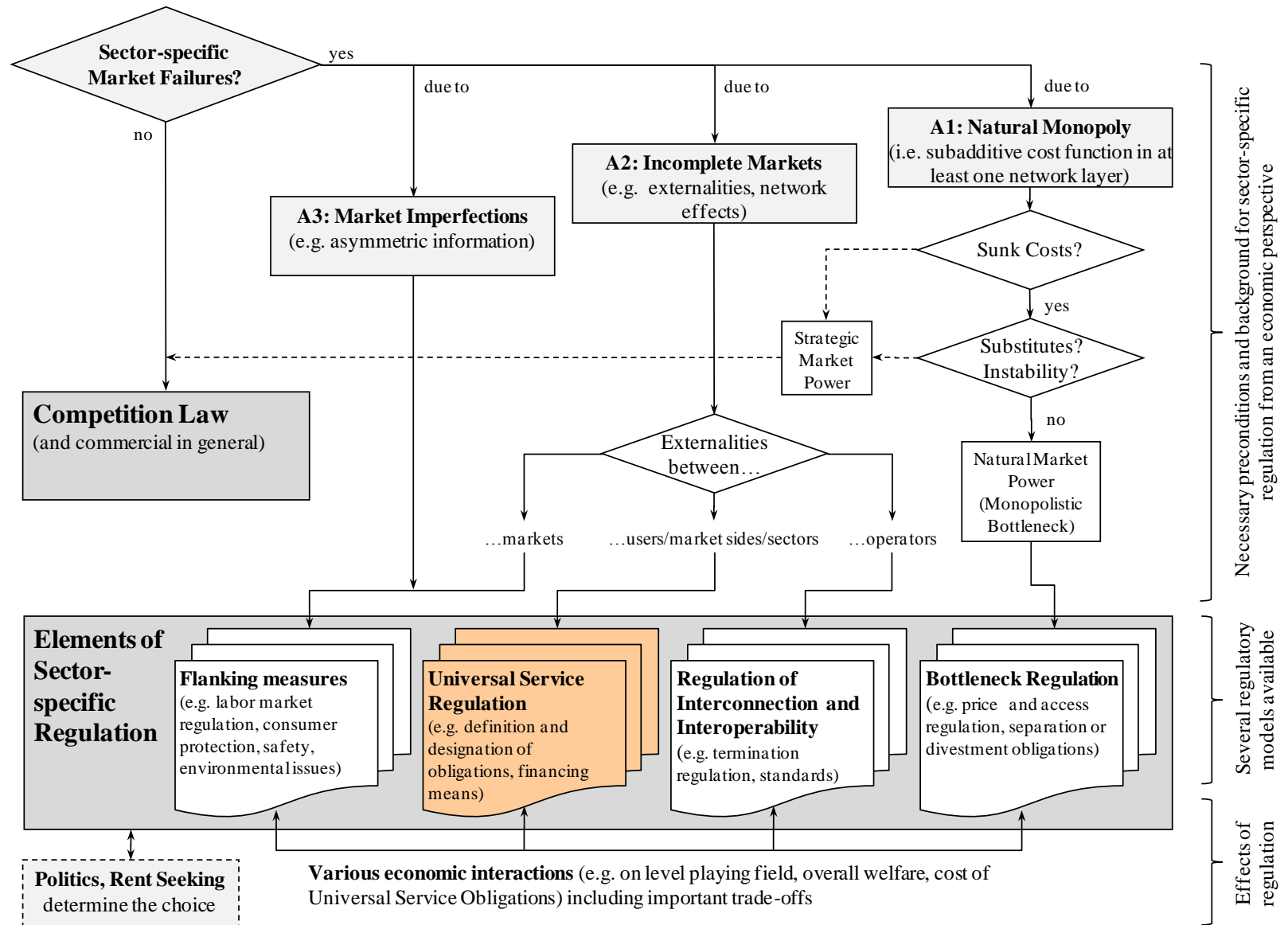
## Basic steps in commercial activity and the role of postal services

Process	Role of Postal Services
(1) Advertisement	Addressed an unaddressed mail
(2) Closing a deal	Letters, registered mail
(3) Delivering	Parcels, Periodicals & Newspapers
(4) Billing	Invoices, reminders, registered mail, writs
(5) Payment	Checks, Postal Counters, online solutions
(6) Cancellation (of subscriptions)	Letters, registered mail

## Economic view: Posts...

- reduce transaction costs
- play an important role in enforcing contracts (also by law)
- provide positive externalities (cf. Excursus)

# Excursus – Framework for Sector-Specific Regulation



# Excursus – Externalities in the Postal Sector

**Definition of an externality:** Action of one economic agent has an external effect on the utility of others (positive or negative)

**Problem:** Markets usually fail to „internalize“ these externalities. For example, there is no price to pay for polluting the air.

## Externalities in postal markets

- Positive externalities among users: A postal network is more valuable to an individual connected to it if others are connected too.
  - Externalities among market sides:
    - Positive externalities between receivers and senders;
    - Negative externalities of advertizing mail on recipients.
  - Positive externalities among operators
  - Positive externalities for other sectors: Posts as economic enablers
- **Ubiquity, Accessibility**
  - **Quality, Integrity**
  - **Robinson Lists**
  - **Interconnection**
  - **Affordability**

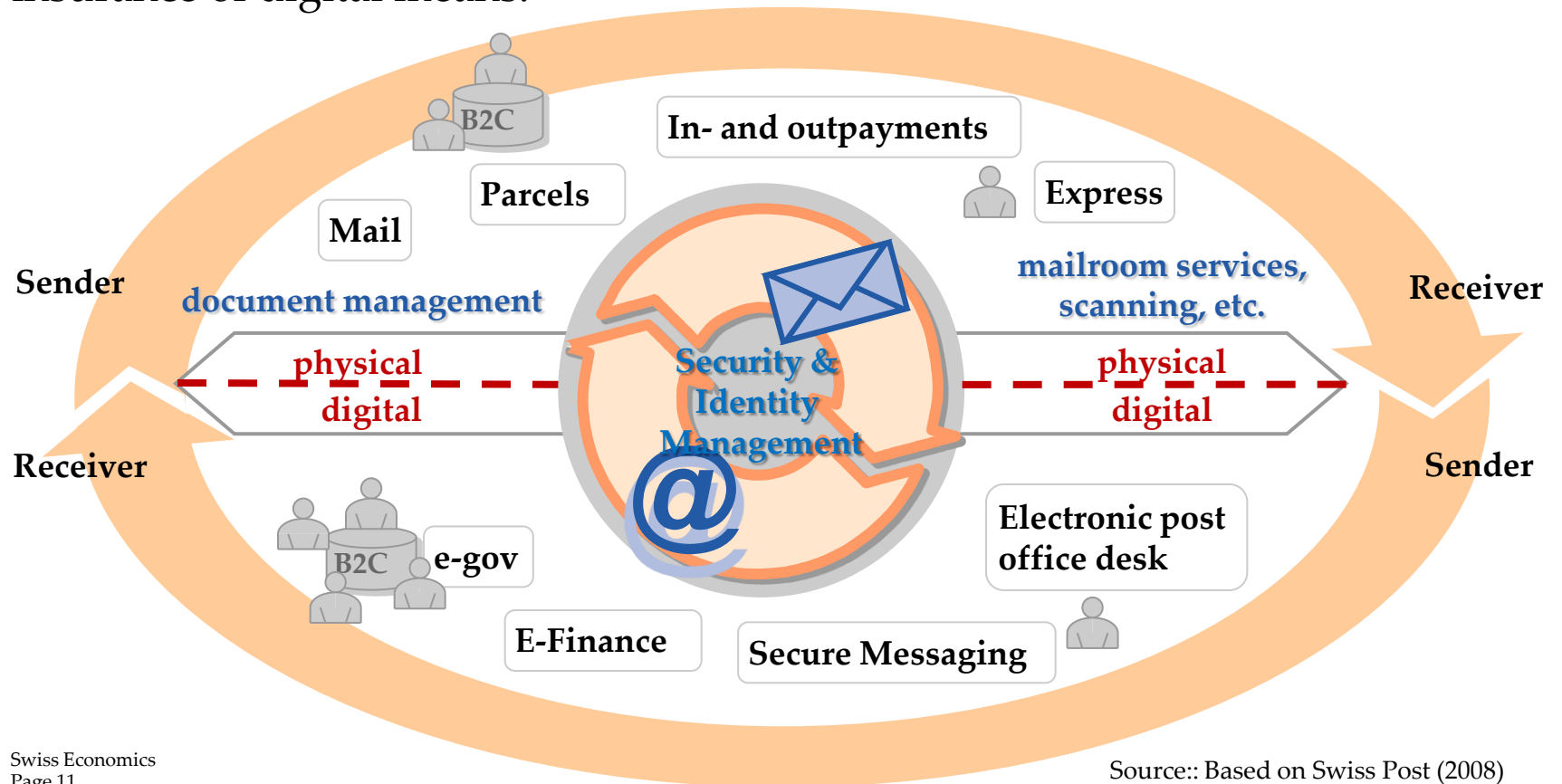
# Aims of USO in this light

Ensuring a service that

- enables everybody in the economy
- to reach everybody else (anybody connected as sender and recipient)
- within a reasonable timeframe (for example next day)
- on a reliable basis (one must know that the recipient indeed receives the sent items)
- conveniently (no large effort to use the service as sender or recipient)
- at affordable rates (these should be considered as “cheap”).

# Post as "Transformers of Last Resort"

Posts increasingly ensure the link between the physical and the digital world. They act like "transformers of last resort", providing a physical insurance of digital means.



## Intermediate Result

- Universal Postal Services play a key role in our economies. [But not necessarily USO which are only relevant where the obligations are not provided by the market.]
- Will the same be true in the future? Will evolving technologies, substitutes, and customer needs change the value and role of the USO?

# Problem 1: Financing the USO with Declining Volumes

- Strongly declining volumes expected, e.g. Koppe Rutgers 2009:

	worst case	best guess	optimistic case
2009	- 4,7%	- 2,1%	+ - 0%
2014	- 17,1%	- 10%	- 3,9%
2025	<b>-62,9%</b>	<b>- 44,3%</b>	<b>- 27,2%</b>

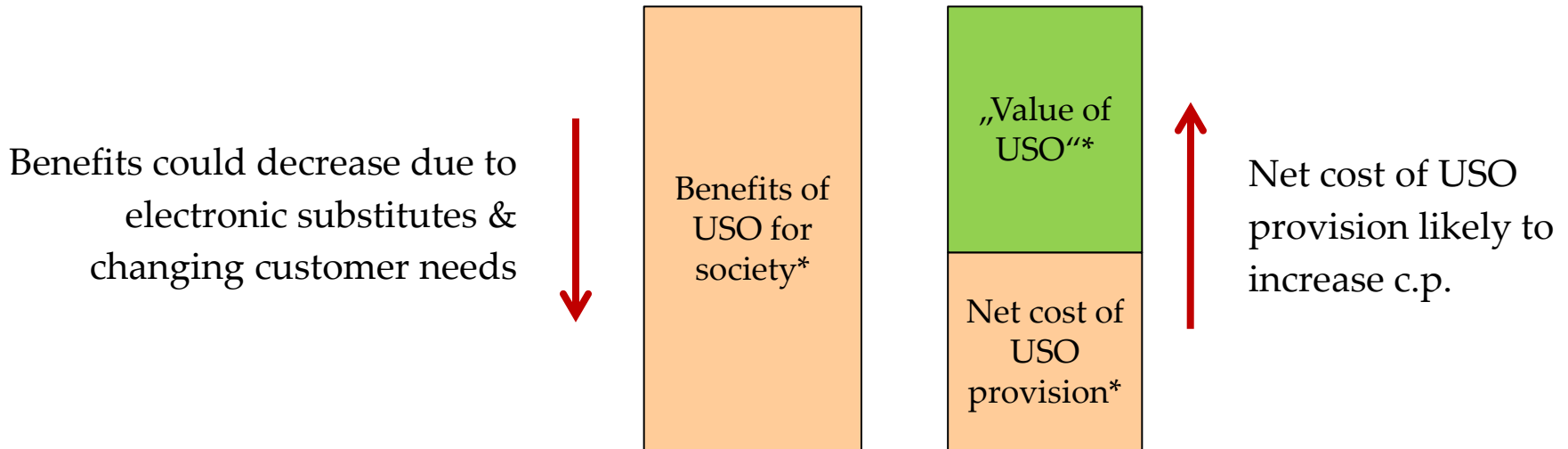
These figures are the result of the workshop series of experts and employees of the Strategy department but is *no official statement of Austrian Post*. These figures refer *only to the decrease of volumes due to electronic substitution and do not include other effects as the financial crisis, increasing DM volumes, etc.*

- Cost elasticities are significantly below 1 ( in particular in delivery). I.e., with constant prices, costs will decrease less than turnover.
- There are upper limits in pricing: Increasing direct competition (effects of FMO about to come) and increasing indirect competition (causing the decline in volumes/e-substitution).
- Governments might not be able and will not be prone to raise large amounts to subsidize the USO.

## Problem 2: Commercial Viability of Operations

- Even in a financially balanced situation (i.e. the USP is fairly compensated for its USO mission) it will be a priority for any USP (a) to offer products that are in line with the market/the customers; (b) not to rely to a large extent on subsidies/politicians.
- Strongly declining volumes mean that customers preferences are changing.
- Hence, adapting to the customer needs and positioning postal services in an evolving environment will be crucial.
- A traditionally defined USO does not necessarily allow for the necessary changes to ensure viability of commercial operations.

## Problem 3: Value of the USO



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➤ **Long term impact on value of the USO?**

# Are there new ways to fulfill the USO?

## USO aims to ensure a service that...

- enables everybody in the economy to reach everybody else (anybody connected as sender and recipient)
- within a reasonable timeframe (for example next day)
- on a reliable basis (one must know that the recipient indeed receives the sent items)
- conveniently (no large effort to use the service as sender or recipient)
- at affordable rates (these should be considered as “cheap”).

## Will there be new means?

- Digital: Yes  
Physical: No
- Much faster digital ways
- Digital identities, digital signatures, track & trace, ...
- Digital: Yes  
Physical: No
- Digital: Yes  
Physical: Probably not

- There will be new digital means.
- However, physical connections and interfaces will remain important.
- How exactly?

# Key questions for the USO of the future

- How will digital channels evolve?
- Importance of physical channel? Legal status of mail?
- Are there clever combinations of the two channels?
- And if so, which characteristics of the physical channel will remain important, which ones less so?
- Thereby, how can we secure commercial viability of physical operations?
- Answers to these questions are crucial for any future USO discussion and definition.

Example: A “more technology-neutral” USO in delivery?

# USO in Delivery Towards Electronic Delivery?

## Printing The NYT Costs Twice As Much As Sending Every Subscriber A Free Kindle

Nicholas Carlson | Jan. 30, 2009, 4:35 PM | 121

Tags: Media, Media, New York Times, Newspapers

Print

Not that it's anything we think the New York Times Company should do, but we thought it was worth pointing out that it costs the Times about twice as much money to print and deliver the newspaper over a year as it would cost to send each of its subscribers a brand new Amazon Kindle instead.

Here's how we did the math:

According to the Times's Q308 10-Q, the company spends \$63 million per quarter on raw materials and \$148 million on wages and benefits. We've heard the wages and benefits for just the newsroom are about \$200 million per year.

After multiplying the quarterly costs by four and subtracting that \$200 million out, a rough estimate for the Times's delivery costs would be \$644 million per year.



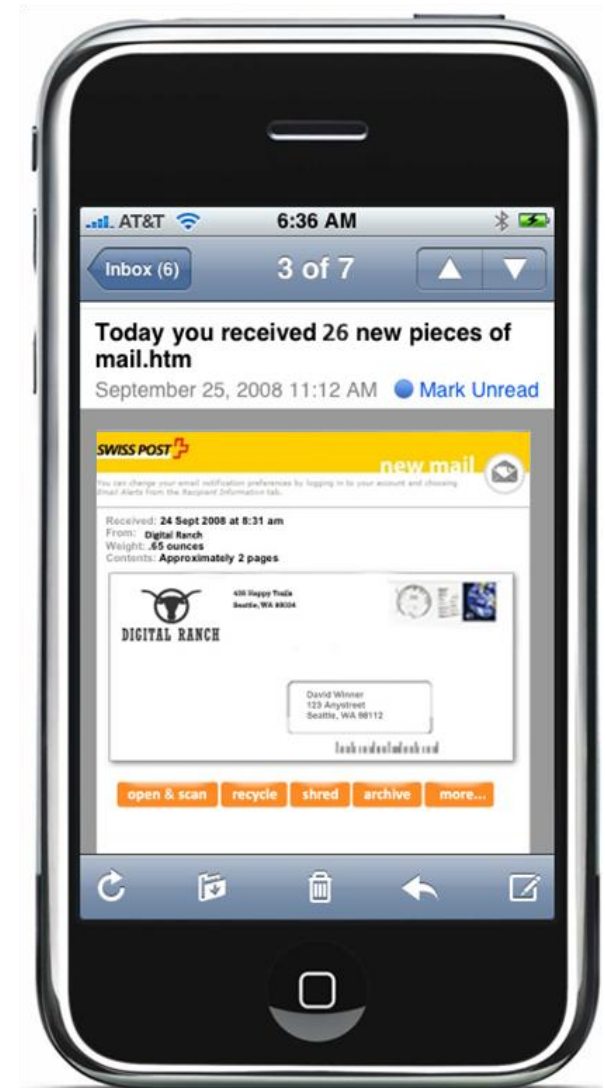
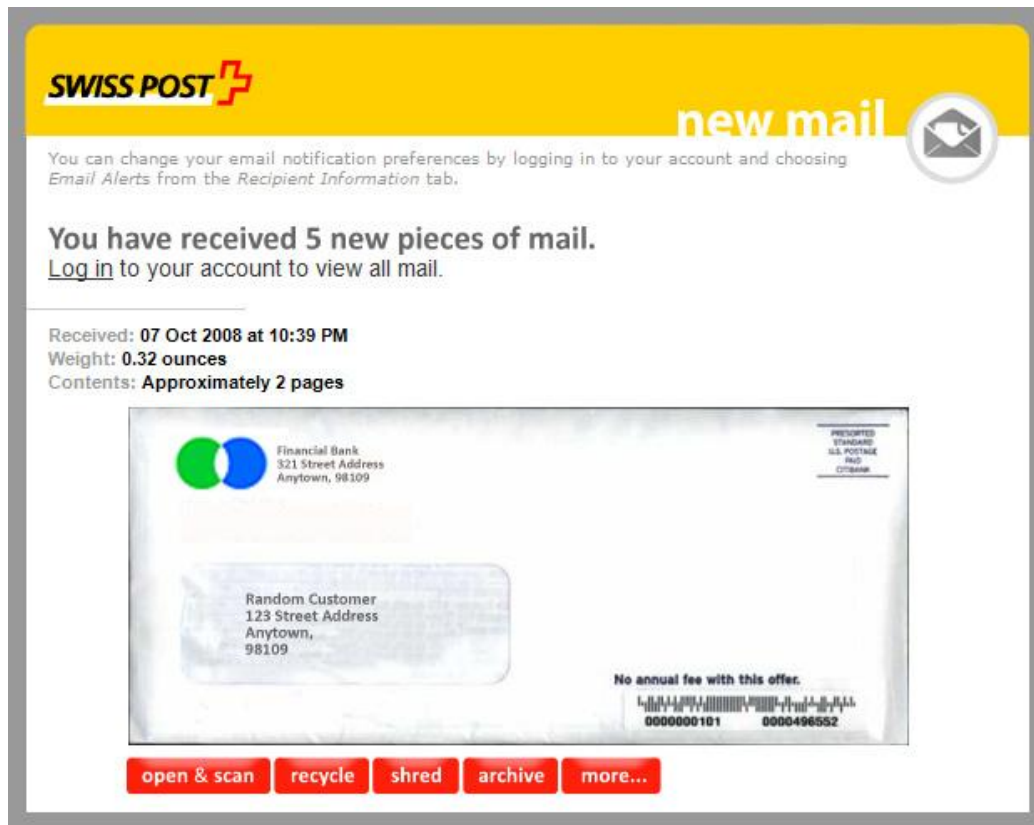
Amazon's Kindle:



Source: businessinsider.com

# USO in Delivery Swiss Post Box

The receiver has the choice to open & scan, recycle, archive, transfer securely or ship to a physical address.



# USO in Delivery

## It's all about choice



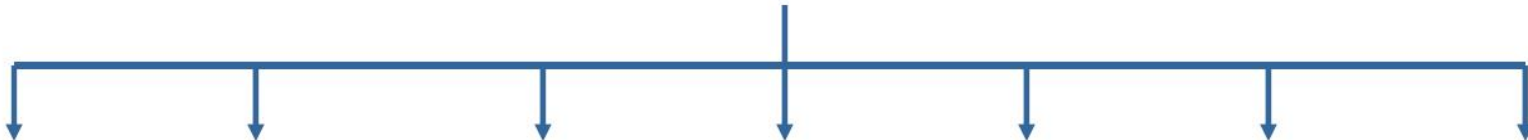
Mail received  
on behalf of  
customers



Envelope images are  
immediately sent to  
recipients



Users view their  
mail online and  
"click to process"



Scan  
contents to  
PDF file



Forward-ship  
to another  
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Deliver to  
employee's  
desk



Deposit  
check



Recycle  
or  
shred



Securely  
archive  
paper  
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Securely  
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# USO in Delivery

## Consequence: A “more technology-neutral” Definition?

- Traditional USO in delivery: At least five physical deliveries per week throughout a country.
- Traditional solutions to relax this obligation / save costs:
  - Remote centralized Post Office boxes,
  - Reduced frequency in remote areas ,
  - Outsourcing rural deliveries,
  - Differentiated pricing.
- Problem: Concerned recipients might disagree, lacking political support, legal constraints.
- Why not relaxing the USO in delivery where convenient alternative means are present? For example, a recipient might not insist on a daily delivery if he get's in turn a workable electronic delivery (thereby ensuring that all requested items are delivered physically).

# Conclusions

## A “more technology-neutral” Definition of the USO?

- The very aims behind the USO have sound economic grounds. Whether regulation will be necessary to ensure those aims or not is a question that has to be answered on a national scale taking into account the individual situation in a country (habits, infrastructures, etc.).
- However, it is not clear (1) whether future mail volumes will allow for sustainable USO financing, (2) whether changing customer needs call for adequate changes to ensure commercial viability of USP's, (3) and whether the evolution of the value of the USO might undermine its political support.
- Hence, one might need to think about selected adaptations of the USO that allow for clever combinations of physical and digital means.
- One solution might be a “more technology-neutral” USO definition (neither purely physical, neither purely digital/technology-neutral).
- The very adaptations should be of general nature and allow for the current status quo as one possibility. For example, an adapted EC postal framework should leave it to the member states on whether or not to change the USO.

**Thank you very much!**

**Dr. Urs Trinkner**, Managing Partner

[urs.trinkner@swiss-economics.ch](mailto:urs.trinkner@swiss-economics.ch)  
[www.swiss-economics.ch](http://www.swiss-economics.ch)



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