

UNIVERSAL SERVICE IN CONDITIONS OF FULL MARKET LIBERALISATION

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Abstract: *Universal service is a service of general economic interest whose goal is to treat equally the needs of all citizens regardless of the specific features of the territory where they live. The scope of the universal service is defined by national legislation of each particular country in conformity with the Postal Directive. The Directive allows to member countries to define a minimum scope of the universal service, along with the obligation of maintaining and monitoring quality, in accordance with European standards. For the purpose of universal service a state designates a provider to whom it incurs the right and obligation to provide universal service in conditions of full market liberalisation, but also the way of functioning if the mentioned obligation results in net cost which presents an unfair financial burden for the designated universal service provider.*

Key words: *postal market liberalisation, universal service, quality performance of postal services, net cost.*

1. Introduction

At the beginning of the liberalisation of postal services market there appeared a need to ensure universal postal service in such a way as to guarantee a minimum range of quality services that would be offered in all member states at an affordable price for all users, regardless of their geographic position.¹

The goal of the universal service is to enable an easy access to postal network for all users, by providing a sufficient number of access points and ensuring satisfactory conditions concerning frequency of acceptance and delivery of mail. The universal service provision must meet the basic need of granting continuance of business activities and being at the same time adaptable to users and guarantee a fair and non-discriminative procedure.²

Although the process of liberalisation of postal services market has not yet been finished in majority of EU countries there is still a need to maintain universal service in the way as defined in the first Postal Directive 97/67/EU of the European Parliament and the Council, adopted on 15 December 1997.

¹ Preamble 11 of the Directive 97/67/EC from 15 December 1997

² Preamble 12 of the Directive 97/67/EC from 15 December 1997

2. Scope of the universal postal service

The Directive 97/67/EU of the European Parliament and the Council from 15 December 1997 provides a minimum scope of the universal postal service including acceptance, directing, transport and delivery of:

- postal mail items up to 2 kg
- parcels up to 10 kg
- registered mail and
- insured mail.

In order to ensure the minimum scope the member states, i.e. the universal service providers must provide on every working day and at least five days a week one acceptance i.e. one delivery to home or business address of each physical and legal person. Only special geographic conditions and other circumstances regulated by each member state and communicated to European Commission can be exempt from the rule.

In addition to the above stated, universal service prices must be affordable, cost oriented, transparent and non-discriminative.³ Also, within the minimum scope of the universal service the users have the right to services at an adequate quality level in all territories.

Differences in defining minimum scope of the universal postal service between member states are presented in Table 1.

The term universal service was introduced into Croatian legislation with the Postal Act, approved at the end of 2003, which defined universal postal services as postal services available to all users in the whole territory of the Republic of Croatia, including the following:

- letter mail items up to 2 kg and mail for the blind up to 7 kg
- parcels of the weight up to 20 kg
- postal and telegram money orders and
- special services concerning mail (i.e. registered mail, mail with confirmed delivery, insured mail, EMS mail items, express mail, mail with advice of receipt, COD mail items, mail items that are delivered to the addressee in person, mail with paid reply (IBRS/CCRI) and consignment mail items)⁴

The earlier Postal Services Act (from 2009) defined universal postal services as a group of postal services with determined quality level, available at affordable price to all users in particular territory for which the approval has been issued, the public operator must ensure the availability of services under same conditions concerning particular level of quality and affordable prices for all service users in the whole territory of the Republic of Croatia. Under universal postal services following services were concerned:

- acceptance, directing, transfer and delivery of mail items, registered mail items and insured mail items weighting up to 2 kg
- acceptance, directing, transfer and delivery of parcels weighting up to 10 kg and directing, transfer and delivery of parcels weighting up to 20 kg in international inbound traffic

³ Article 14 Third Postal Directive amending Article 12 of the Directive 97/67/EC

⁴ Article 10 of the Postal Act (NN 172/03)

- acceptance, directing, transfer and delivery of mail for the blind weighting up to 7 kg, free of charge⁵

Table 1: *Scope of the universal postal service in EU member states*

	Basic letter post (FSC)	Bulk letters	Direct mail	Periodicals	Non-priority letter post	Basic parcel post	Bulk parcels
AT	■	■	■	■	■	■	■
BE	■	■	■	■	■	■	■
BG	■	■	■	■	■	■	■
CY	■	■	■	■	■	■	■
CZ	■	■	■	■	■	■	■
DE	■	■	■	■	■	■	■
DK	■	■	■	■	■	■	■
EE	■	■	■	■	■	■	■
EL	■	■	■	■	■	■	■
ES	■	■	■	■	■	■	■
FI	■	■	■	■	■	■	■
FR	■	■	■	■	■	■	■
HR	■	■	■	■	■	■	■
HU	■	■	■	■	■	■	■
IE	■	■	■	■	■	■	■
IT	■	■	■	■	■	■	■
LT	■	■	■	■	■	■	■
LU	■	■	■	■	■	■	■
LV	■	■	■	■	■	■	■
MT	■	■	■	■	■	■	■
NL	■	■	■	■	■	■	■
PL	■	■	■	■	■	■	■
PT	■	■	■	■	■	■	■
RO	■	■	■	■	■	■	■
SE	■	■	■	■	■	■	■
SI	■	■	■	■	■	■	■
SK	■	■	■	■	■	■	■
UK	■	■	■	■	■	■	■
IS	■	■	■	■	■	■	■
NO	■	■	■	■	■	■	■
CH	■	■	■	■	■	■	■

Source: WIK, *Main Developments in the Postal Sector (2010-2013)*

The Postal Services Act in force from 1 January 2013 defines the universal service as a group of postal services of particular quality, available at affordable price to all users of postal services in the whole territory of the Republic of Croatia, regardless of their geographic location. Universal service comprises:

- acceptance, directing, transfer and delivery of mail items weighting up to 2 kg
- acceptance, directing, transfer and delivery of parcels weighting up to 10 kg

⁵ Article 8 of the Postal Services Act (NN 88/09)

- acceptance, directing, transfer and delivery of registered mail and insured mail items
- acceptance, directing, transfer and delivery of mail for the blind weighting up to 7 kg, free of charge
- directing, transfer and delivery of parcels weighting up to 20 kg in inbound traffic.⁶

The Universal Service Ordinance defines more closely questions concerning the provision of universal services as e.g. measures and criteria that must be satisfied by the universal service provider's postal network, conditions for participation in public bidding for the selection of universal service provider, list of Croatian standards for the universal service quality measurement, principles of determining price for accessing the postal network of the universal service provider etc.

3. Legal framework for providing universal service

The starting point for all regulation concerning universal postal service in legislations of all countries members is the first Postal Directive i.e. Directive 97/67/EC from 15 December 1997, brought by the European Parliament and the Council.

In the Republic of Croatia universal postal service today is regulated by the Postal Services Act brought at the end of 2012, but in force from 1 January 2013, when the full liberalisation of postal services officially started. The Act enabled full accommodation of the legislation of the Republic of Croatia to all three postal directives.

Besides in the Postal Services Act universal postal service is regulated in more detail in the Universal Service Ordinance which, in line with the legal regulation was brought within 90 days from entering into force of the new Act.

4. Universal service price regulation

The main goal of the price regulation is to encourage efficient competitiveness in accordance with market competition principles; hence, it is justified when the market can not impose a realistic price. In conditions of the full market liberalisation, primarily in countries where the share of universal service provider (with dominant position in the market) has significantly decreased⁷, a question arises whether the price regulation is justified.

Postal Directive (consolidated text) in Article 12 regulates the ways how to determine price of the universal postal service. In accordance with the Directive the prices of postal services must be:

- cost oriented
- affordable
- transparent and
- non-discriminative.

⁶ Article 15 Postal Services Act (NN 144/12)

⁷According to official data of HAKOM, the share of HP – Croatian Post Inc in the total postal services market, immediately before market opening was only 66%

Also, they must not contain any additional charges which the postal services provider would determine exclusively on the basis of its own considerable strength in the postal services market and should not be set below unit price cost with the intention to take over or maintain significant market power in the postal services market. Universal service provider can approve rebates to users sending larger amount of mail under condition that such rebate is cost based, anticipated in the universal service pricelist and applied in the same way to all service users sending mail under similar conditions.

The majority of European countries have incorporated the determinant form the Article 12 of the Directive (consolidated text) into their national legislations, but its interpretation - especially the principle of transparency – is in the practice of some countries diametrically contrary. Actually, the transparency does not merely imply just the publishing of the price list, but also transparent publication of conditions under which the users get their discounts. In practice, the regulator is in charge of monitoring of the basic principles of pricelist application.

The practice has shown that it is very difficult to reconcile the affordability criteria with the cost orientation, because of the fast cost increase in scarcely populated and geographically remote areas. The Directive offers an opportunity to provide some service categories free of charge, e.g. services for the blind or vision-impaired persons.

4.1. Price regulation methodology

In the practice of European countries different approaches to price regulation by the regulator can be identified, but all can be reduced to two basic models, such as:

- ex ante price regulation
 - “price cap” price regulation
- ex post price regulation

Ex ante price regulation implies price approval by the regulator before its entering into force. The universal service provider submits the prices for approval to the regulator before they enter in force, along with the explanation which must be cost-oriented. Such way of price approval by the regulator is every day less present in the conditions of market liberalisation and mainly concerns services used by individual users. Ex ante price regulation can be implemented only on particular category of services (network access, access to directing and sorting data...) in such a way that the universal service provider – which enjoys the majority position – submits its price proposal to the regulator for approval.

“Price cap” price regulation implies determination of maximum service price by the regulator. By such way of price regulation more flexibility in price formation is given to the universal service provider since it provides the option of increasing the price of just one service segment contained in one category, e.g. only accounts up to do 100 gr.

Ex post price regulation implies price regulation after they enter into force, giving thus an option to the regulator to put them out of force if the analysis proves them as unjustified. Such model can cause some problems in practice if after entering into force the regulator finds out that the prices are not justified and puts them out of force. In such case the greatest damage will be done to users, but also to the universal service provider whose prices have been put out of force.

Research conducted by Wik Consult (Main Developments in the Postal Sector 2010-2013), has proven that in practice of European countries the ex ante price regulation is much more often than the ex post price regulation (Table 2)

According to the above mentioned conducted research a vast majority of European states applies ex ante regulation, primarily in the segment of single letter and parcel items (services aimed at individual users). Ex ante price regulation was implemented by 12 states which represent 12% of the EU postal services market, price cap regulation was implemented by nine states members in about 63% of the total postal services market in EU, while the ex post price regulation was implemented in three Nordic countries and in Hungary.

Table 2: *Methods of postal services price regulation in EU countries*

	Single items	Bulk mail	Direct mail	Printed matter newspaper	Non-priority mail	Individual parcel	Bulk parcel
Ex Ante approval	AT, BG, CY, EL, ES, IE, LT, LU, LV, MT, RO, SI, SK, IS	AT, CY, EL, LU, LV, MT, RO, SK, IS	AT, CY, EL, MT, RO, SK	AT, EL, FR, MT, RO, IS, CH	BG, EL, LT, LV, RO, SK, IS	AT, BG, CY, EL, ES, LT, LU, LV, MT, RO, SI, SK	AT, EL, MT, RO, SK
Price cap	AT, BE, DE, EE, FR, HU, IT, NL, PL, PT, NO	FR, IT, PT, NO	FR, OT	IT, NO	BE, FR, HU, PL, UK	BE, EE, FR, IT, NL, PL, PT, NO	FR
Ex post check	DK, FI, HU, SE	DE, ES, SE	DE, DK, SE	DE, SE, SK	DK, FI, SE	DE, DK, FI, HU, SE	DK, ES, HU, SE

Source: *Wik Consult - Main Developments in the Postal Sector (2010-2013)*

4.2. Cost accounting

The Directive (consolidated text) in Article 14 defines cost accounting rules in accordance with regulator's requirements concerning the goal of transparent monitoring of income and cost realised in the segment of universal postal services as separate from income and cost realised in other services.

Accounting separation (AS) is among tools used for detecting activities that preclude market competition.

Cost accounting relates to a number of rules and procedures that enable cost and income attribution to single activities and services, taking special account of costs which can not be directly attributed to a particular service or product (indirect costs).

When direct analysis is not possible, common cost categories are allocated on the basis of indirect connection with another cost category or a group of cost categories for which direct allocation is possible and indirect connection is then based on similar cost structures. When it is not possible to attribute costs by applying direct or indirect criteria, a cost category is allocated on the basis of a common allocation factor, which is calculated with the coefficient of all directly or indirectly allocated costs or it is allocated to each service offered as universal postal service on one hand and other postal services on the other. Common costs necessary for the provision of the universal postal service and other postal services will be adequately allocated when universal postal service and other postal services use the same cost sources.

Along with the cost accounting system a mechanism of monitoring and storing of accounting data is established as well as the mechanism of identifying and monitoring of operational costs which in the end results in transparent relation between

cost and price in single service. Cost accounting system makes possible the fulfilment of the obligation of accounting separation and the checking of cost oriented prices with the goal of preventing mutual subsidising, too high prices or inefficient procedures.

By introducing the accounting separation obligation no rules or desirable business organisation are incurred on the universal service provider, but only the content and form of collecting accounting data and of regulatory reporting, in order to prevent discrimination in the market and enable monitoring of the profitability of single products and services offered by the universal service provider as well as to facilitate the detecting of mutual subsidising.

The implementation of cost accounting obligation is in practice unharmonised, so that in some countries the obligation of cost accounting is only applied on universal postal services (like in the Republic of Croatia) while in some other countries the obligation covers all postal services. Table 3:

Table 3: *Service categories to which cost accounting applies*

RESPONSE	NO.	COUNTRIES
Only to universal services	11	BE, EE, ES, FI, IT, LT, NL, PT, RO, SI, HR
To all postal services	12	AT, CH, DE, FR, HU, IE, LU, MT, NO, PL, SE, SK
To all services offered by the operator	4	CZ, EL, LV, NO

Source: *Copenhagen Economics "Pricing behaviour of postal operators"*

With the goal of transparency of universal services, the regulatory framework in some countries goes so far as to prescribe the cost accounting methodology as public obligation. Examples of public notice of the cost allocation methodology per EU countries are presented in Table 4.

Table 4: *Countries with published cost allocation methodology*

RESPONSE	NO	COUNTRIES
Yes	5	EL, FR, IE, LV, NO
No	20	AT, BE, CH, CZ, DE, EE, ES, FI, HU, IT, LT, LU, MT, NL, PL, PT, RO, SE, SI, SK
No response	6	BG, CY, DK, IS, LI, UK

Source: *Copenhagen Economics "Pricing behaviour of postal operators"*

5. Net cost of the universal service obligation

In accordance with the Annex to the first Postal Directive, if the universal service obligation creates net cost, which represents unfair financial burden for the universal service provider, the universal service provider is entitled to compensation of the unfair financial burden.

Net cost is any cost necessary for provision of the universal postal service and connected with the service; it is calculated as the difference between the net cost of the universal service provider with universal service obligation and the net cost which the universal service provider would have if it had no obligation of providing universal postal service. The methodology of calculating net cost is more closely described in Directives.

To the purpose of calculating net cost, the universal service provider with the obligation to perform universal postal service, must prepare a presentation of its business activities with and without the universal service obligation, whereat the following is considered:

- net cost based only on the cost of the provision of the universal service of prescribed quality;
- in calculating the net cost only following components of the universal service are taken into consideration:
 - those which create loss for the provider of the universal service or those incurred when the universal service provider provides service under cost conditions which are beyond the usual rules of conducting business in the market.

5.1. Net cost compensation

The majority of EU countries before the full opening of the market used reserved area as an instrument for financing the universal postal service. After the full implementation of the third Directive and full liberalisation of the universal service market, the reserved area can not further be an instrument for financing the universal postal service obligation. Countries members must ensure the respect of principles of transparency, non-discriminativity and proportionality when founding compensation funds and deciding on the level of financial contribution. Such decision must be founded on objective and confident criteria and publicly noticed.

Twenty two countries members (AT, CY, CZ, DE, DK, EE, EL, ES, FR, HR, HU, IT, LU, LV, MT, PL, PT, RO, SI, SK, UK, IS, HR) have introduced in accordance with the directives a compensation fund as the first step to financing net cost which presents unfair burden in performing the universal postal service, which is filled by contribution payments from service providers and from the state budget in case when there is not enough money in the fund. The practice has shown that the funds collected in this way present only minor compensation of the established unfair burden of net cost.

6. Quality of the universal postal service

Postal Directive (consolidated text) in Article 16 defines the obligation of the member state to establish and publish the quality standard of the universal postal service in order to guarantee the quality of postal service. Quality standards must particularly focus on delivery time, on regularity and reliability of services, which is an essential feature of universal postal service. By ANNEX II of WHICH?!?!? Directive the obligation is imposed to countries members to implement minimum standards on mail exchange between EU countries.

Table 5 shows which of the member countries have set up criteria for the quality mail transport standard which the universal service provider must satisfy for particular mail categories.

Table 5: Countries which have established quality standard for postal services

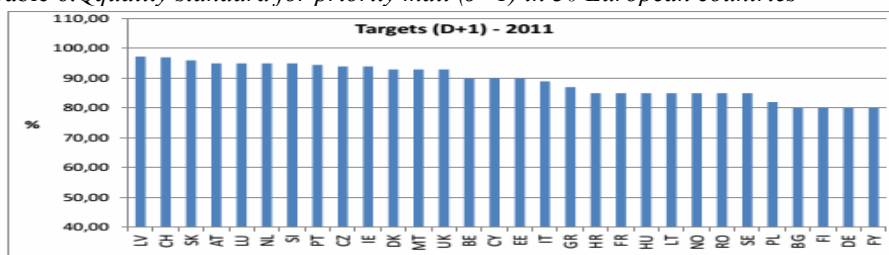
PRIORITY MAIL	AT, BE, BG, CY, CZ, DE, DK, EE, EL, ES, FI, FR, HU, IE, IT, LT, LU, LV, MT, NL, PL, PT, RO, SE, SI, SK, UK, IS, NO, CH, HR
BULK MAIL	AT, BE, CY, ES, HU, IT, LT, LU, LV, MT, RO, SK, IS, NO
NEWSPAPERS, PERIODICALS	BE, DE, FR, LU, MT, PT, SI, NO
NON-PRIORITY MAIL	BE, BG, DK, FI, FR, HU, LV, PL, PT, SK, UK, IS, NO, CH, HR
BULK PARCEL	AT, DE, DK, ES, HU, MT, SK
SINGLE PARCEL	AT, BE, BG, DE, DK, ES, FR, HU, IT, LU, LV, MT, PL, PT, SI, SK, UK, NO, CH

Source: Wik Consult - Main Developments in the Postal Sector (2010-2013)

It is evident from the table that the majority of countries have established quality standard in the categories of priority letter mail and single parcels, while the standards for delivery of newspapers and periodicals have been set up in just a few countries. The reason for not determining standards for bulk mail items is the fact that these are services used by business users and therefore the standards for the category are agreed in the majority of countries individually, which leaves greater freedom to the universal service provider for shaping individual offers tailored to their business users' needs.

The quality standard has been determined in national legislations for priority letter mail in national service in 30 European states (Table 6) and it is by its percentage the lowest in Bulgaria, Germany, Finland and Macedonia (80%), and the highest in Switzerland and Lithuania (97%). It can be concluded that the average percentage for priority mail is 89.16%. Transit time for priority letter mail is measured in accordance with the standard EN 13850, and in 10 from 15 states stated in Table 5, the transit time of non-priority mail is measured according to the standard EN 14508. Standard for non-priority mail has been defined within great span from J+1, J+3 and sometimes even J+5. The criterion for parcel mail transfer has been accommodated to the standard TR 15472 in just three countries (BE, FR and SI).

Table 6. Quality standard for priority mail (J+1) in 30 European countries



Source: ERGP report on the quality of service and the end-user satisfaction

7. Conclusion

Regardless of the level of liberalisation of the postal services market in particular EU states, there is still a need to protect the minimum number of services with prescribed quality standards, at an affordable price for all users. The scope of the universal postal service can be changed – probably in future with the increase of the level

of market liberalisation the scope will decrease – however, the need of protection of a number of services will always exist and so the idea adopted already in the first Postal Directive, far back in 1997 has proven to be visionary.

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Summary: *Universal service is a service of general interest which aims to equalize users' needs regardless of territory's specificity. Universal service scope is defined by the national law of every country, but in accordance to Postal Directive. The Directive allows member states to define minimal scope of the universal service and maintain and monitor the quality according to European norms. In order to maintain universal service, a universal service provider is designated and it has the right and obligation to provide universal service in completely liberalized market. Regulated is also the way of financing in case universal service obligation results with the net cost which is an unfair financial burden for the designated universal service provider.*

Key words: *liberalization of postal market, universal service, quality of postal service, net cost*

UNIVERZALNA USLUGA U USLOVIMA POTPUNE LIBERALIZACIJE TRŽIŠTA

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