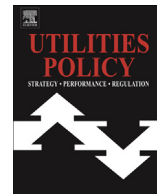




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# Postal-sector policy: From monopoly to regulated competition and beyond

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## ABSTRACT

### Keywords:

Postal sector  
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Liberalization  
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Regulation  
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This paper discusses the main aspects of the competitive and regulatory state of the postal sector. It presents the different models for postal competition and regulation in the EU and the US and their history, together with their implications on regulation, with a focus on universal services and network access. While postal monopolies used to be the main source of funding for universal service obligations, the need for alternative funding sources after full liberalization has increased the interest of regulators and the public in knowing the cost of these obligations. In parallel, new means of electronic communication and consumer needs call the traditional scope of universal services into question. This paper outlines the economic rationale of current policies and directions for future postal regulation to strengthen the postal services' commercial viability in a competitive age, while safeguarding their relevant characteristics for the economy.

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## 1. Introduction

The postal sector encompasses activities performed by historic and new operators involving the collection, sorting, transport, and delivery of addressed mail, unaddressed mail, parcels and express services. There is no physical network consisting of cables and rails, as found in more typical network industries. Instead, the postal network consists of postal outlets (or franchised counters) for the collection of items and mailmen who build up the delivery network anew every day by driving or walking. The postal sector may also be considered a network industry based on the network effect arising from the two-sidedness of delivery services (see Section 3.1). Unlike other network industries, it is mostly the sender who is the direct customer of postal operators, since the sender makes the decision to buy services or not, and it is also the sender who pays. Recipients usually do not have to choose a postal operator and do not pay for postal services.

Fig. 1 shows the traditional postal value chain.

Compared to sectors such as telecommunications, energy or rail, the postal sector is very labor-intensive. In Europe, it represents a significant part of the economy, accounting for approximately 0.6 percent of GDP (EUR 70 billion) and 0.75 percent of employment (EUR 1.6 million) (Okholm et al., 2010).

This paper explores the postal sector's evolution from state-run monopolies to regulated competition and beyond, with a focus on developments in the US and the EU. It also discusses the regulatory policies related to universal services and network access. An analysis of the current economic rationale of these policies in the postal sector suggests directions for their further development.

Recent developments in the legal framework of the postal sector can be understood in terms of regulation, liberalization, and privatization:

- **Regulation** is the entirety of legal constraints on economic activity in the sector. The postal sector is characterized by a dense regulatory framework. Regulations may be concerned with fair competition, and be symmetrically targeted to all operators in the sector (*market regulation*). Alternatively, regulations may focus on correcting market failures by providing a socially desired level of service quality or redistribution. This second kind of intervention (*universal service regulation*) is often integrated as part of universal service obligations (USO), which have long been the main motivation for establishing state monopolies (reserved areas). Such monopolies have implemented necessary further regulations to deal with market dominance.
- **Liberalization** is the abolishment of reserved areas and the opening of markets for new operators. In recent years, the postal sector has become liberalized in many countries. Moreover, new services based on electronic communication have become available, stimulating indirect competition by creating

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**Fig. 1.** The traditional postal value chain.  
Source: author

substitutes for mail or complementing the delivery of parcels, thereby rivaling brick-and-mortar businesses.

- **Privatization** is the process of transferring ownership of a postal operator from the public sector (government-owned) to the private sector. The precursor to privatization is corporatization, which transforms postal government agencies into corporations.

In parallel with liberalization and increased competition, sector-specific regulation in the postal sector has become a widely discussed topic among academics, policy makers, industry economists and regulators themselves. The focus of these debates has usually been on whether such regulation is necessary, and, if so, what its optimal design should be. Some argue for deregulation (that is, the abolishment of price regulation or USO), whereas others propose re-regulation, which involves the replacement of pre-existing (monopoly-related) regulations with new regulations that aim to safeguard service levels and competition. The resulting compromise is often somewhere in between de- and re-regulation.

This paper follows the approach of (Jaag and Trinkner, 2011a) in analyzing the interaction of various elements of regulation with competition (see Fig. 2). The market equilibrium in the postal sector is determined by regulatory policies in two domains: First (on the left-hand side of Fig. 2), market regulation aims to ensure fair competition. It governs market access (for example through a reserved area or a licensing regime) and network access to monopolistic bottlenecks. It also regulates interconnection, such as through provisions related to addresses or post-office boxes, and flanking measures, such as labor conditions. Second (on the right-hand side of Fig. 2), universal service regulation intends to ensure the provision of quality postal services to the entire population in all regions of a country. The first aspect to be governed is the concrete definition of obligations. In a second step, one or several operators have to be designated if the market does not spontaneously provide the desired level of service quality. If USO constitute a binding economic constraint and a relevant burden on the designated operator(s), a financing mechanism is needed to compensate. Depending on the mechanism, and if the universal service provider (USP) cannot finance USO by itself, this requires a calculation of the actual burden or the net cost of USO.

Liberalization and access to the market may require further regulation concerning network access and other flanking measures, such as regulation of labor conditions (see Heitzler and Wey, 2010) to ensure consistency in the regulatory and market framework. Due to the labor-intensity of the postal sector, labor laws may potentially hinder new entrants by denying them the full flexibility in employment conditions that would otherwise be permitted under general labor legislation (such as flexibility in wages and work rules). Hence, they may restrain the direct competition that liberalization is intended to foster. (Dieke et al., 2013) found that sector-specific labor regulations do not pose a significant impediment to liberalization of the postal sector markets in the EU as whole, although provisions in certain member states (such as Belgium or the Netherlands) may warrant further consideration.

USO are politically motivated by efficiency or equity considerations, and potentially necessitate a proper financing mechanism if the cost of USO is significant. Due to strong interrelations,

fundamental trade-offs have to be made: for example, USO are often shaped asymmetrically by binding only one operator in the marketplace. The financing USO either removes the burden from the USP by granting compensation, or shares the burden with other operators via a USO fund. Both USO and their financing affect competition and distort the market outcome.

The remainder of this paper focuses on the core policy issues and their interactions in the postal sector. It is structured as follows: Section 1 outlines the history of postal legislation and regulation in the EU and the US. Section 2 discusses recent developments and the current state of competition in the postal sector in general. Section 3 covers the rationale, scope and financing of USO. Section 4 discusses competitive and regulatory aspects of network access. Section 5 concludes.

## 2. Postal regulation and legislation in the EU and the US

In the late 15th century, the invention of the printing press and the expansion of education created demand for letter mail, and made carrying mail a profitable business in Europe. The most extensive delivery system was built by the Thurn and Taxis family. Their system developed throughout the 16th century until it covered most of Europe, using 20,000 couriers to operate a relay system that was fast, efficient, and highly profitable (Encyclopedia Britannica, 2013). The rise of nation-states with strong central governments was reflected by the establishment of national postal systems under the control of the state. Private enterprises still succeeded by introducing services that were not provided by the state systems, such as local collection and delivery services for prepaid letters that were stamped to indicate the place of posting and the time they had been sent out for delivery. As a reaction, state monopolies expanded their scope and improved their own services.

In 1837, Rowland Hill demonstrated that the then-current charging scales based on distance were irrelevant. He also realized that the collection of payments on delivery was easily avoidable by introducing a uniform rate of postage, regardless of distance, and prepayment of postage by adhesive stamps sold by the post office. Hill's proposals gained strong support, and a uniform rate using prepayment via stamps was introduced in 1840 (Encyclopedia Britannica, 2013).

The advent of the steamship and the railway provided the opportunity for faster international postal services, and the expansion of commerce ensured a growing demand for them. Postal relations between states were still subject to bilateral treaties, which necessitated the maintenance of detailed accounts between countries. Eventually, in 1874 a "Treaty concerning the Establishment of a General Postal Union" was signed (Encyclopedia Britannica, 2013). The Universal Postal Union still provides a uniform framework of rules and procedures for the exchange of international mail (see UPU, 2013).

### 2.1. Postal policy in the EU

In the second half of the 20th century, the postal-sector policy in Europe was strongly influenced by the economic and political

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