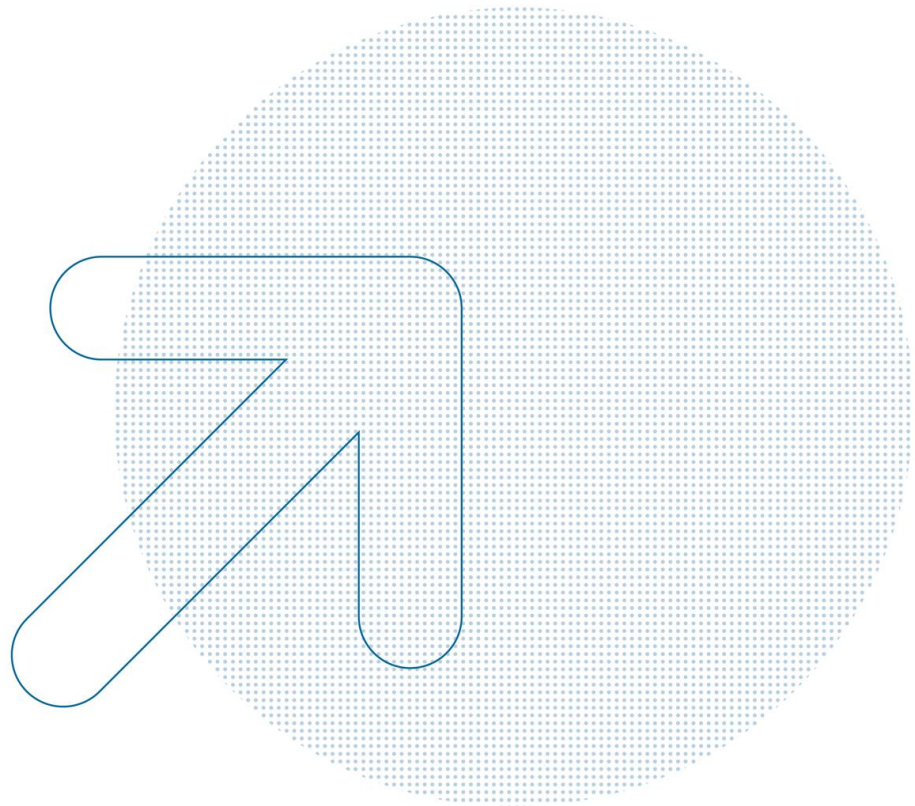


# WIK-Consult • Final Report

Study for the Australian Competition & Consumer Commission



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## Overview on international regulatory arrangements for postal services

Authors:  
Sonja Thiele  
Antonia Niederprüm

## Imprint

WIK-Consult GmbH  
Rhöndorfer Str. 68  
53604 Bad Honnef  
Germany  
Phone: +49 2224 9225-0  
Fax: +49 2224 9225-63  
eMail: info@wik-consult.com  
www.wik-consult.com

### Person authorised to sign on behalf of the organisation

|  |                                |
|--|--------------------------------|
| General Manager  | Dr Cara Schwarz-Schilling      |
| Director<br>Head of Department<br>Smart Cities/Smart Regions | Alex Kalevi Dieke              |
| Director<br>Head of Department<br>Networks and Costs         | Dr Thomas Plückebaum           |
| Director<br>Head of Department<br>Regulation and Competition | Dr Bernd Sörries               |
| Head of Administration                                       | Karl-Hubert Strüver            |
| Chairperson of the Supervisory Board                         | Dr Thomas Solbach              |
| Registered at  | Amtsgericht Siegburg, HRB 7043 |
| Tax No.  | 222/5751/0926                  |
| VAT-ID   | DE 329 763 261                 |

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## 1 Introduction

This draft report on international regulatory arrangements aims at providing an overview on recent changes in relevant postal regulatory frameworks in a selection of countries. In Australia as well as in postal markets worldwide, letter volumes are declining, challenging the financial sustainability of the universal postal service. The postal regulatory framework, and the scope of community service obligation (in Europe: the universal service obligation) may limit the flexibility of the Post to react to volume declines and structural demand shifts.

In light of these changing market and demand conditions, this report describes how postal regulators and policy makers in three Member States of the European Union and two non-EU countries have adapted regulatory arrangements in order to ensure the financial sustainability of the postal universal service provision, while at the same time ensuring a universal postal service that meets the needs of users. The report focusses on key regulatory measures which enable the national postal operator to either increase prices, reduce quality (and thus save costs), or measures with a direct financial impact. We describe measures in four relevant areas: 1) the scope of the universal postal service, 2) the performance standards, 3) price regulation, and 4) compensation provided for the obligation to provide the universal postal service. The report examines changes since 2015, although in some countries, the key changes have taken place before that date. In that case, also prior changes have been included.

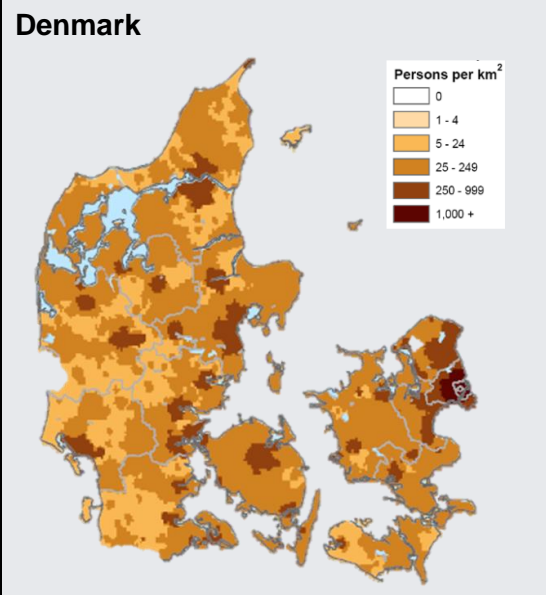
Together with ACCC, it was agreed to include the following five countries:

- Denmark
- Germany
- France
- United Kingdom
- United States

These countries were selected on the basis of market developments comparable to Australia (parcel business growth and letter volume decline, each at varying extent), a comparable level of economic development, and a substantial share of rural areas.

The report is structured country-wise. Each chapter starts with a selection of key facts on country characteristics and the national postal operator, and highlights major regulatory changes service in sub-sections. Chapter 7 concludes.

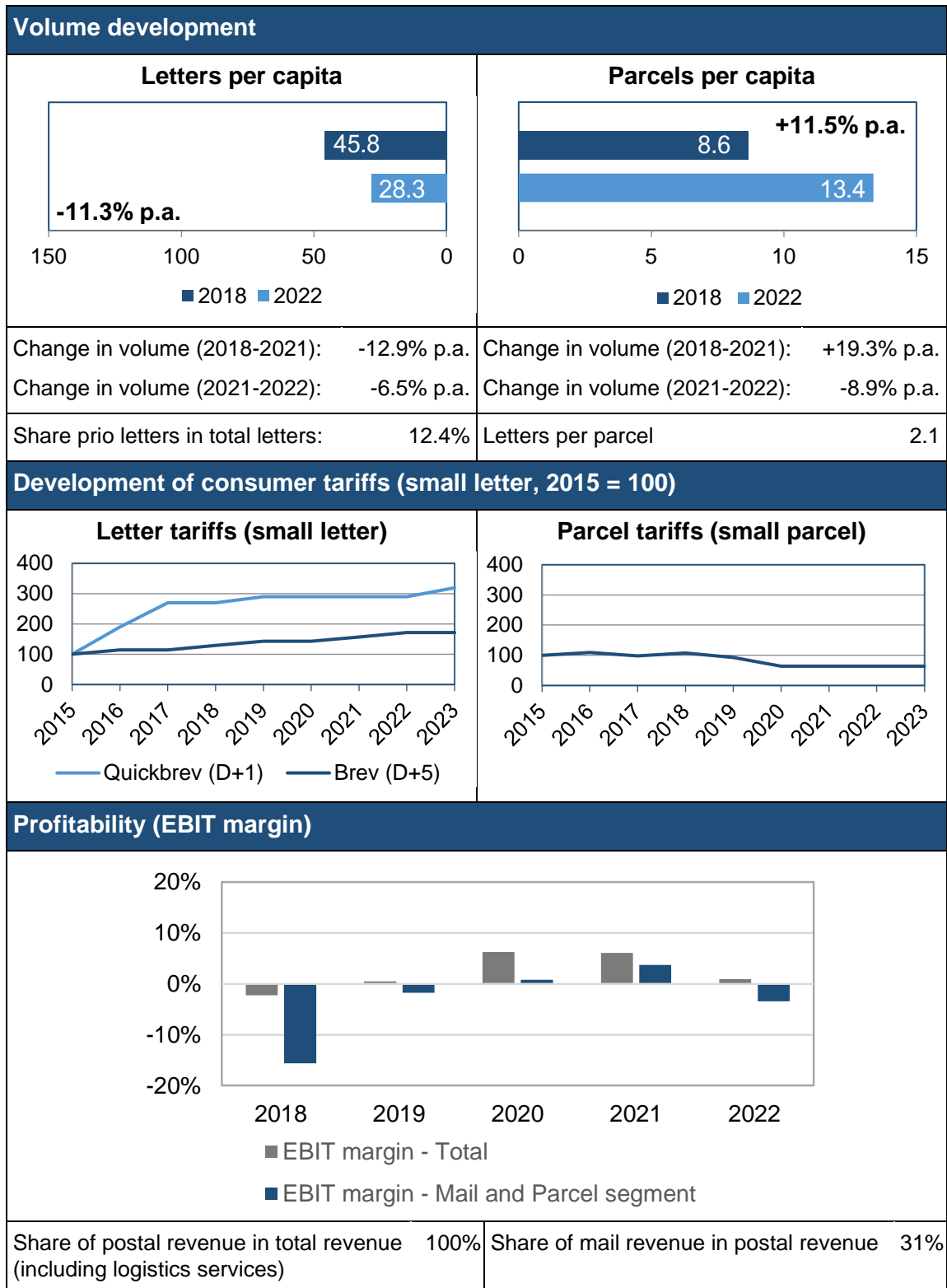
## 2 Denmark

| Country characteristics Denmark (2022)  |  |   |
|---|--|---|
| <b>Denmark</b><br> | <b>Country characteristics</b><br>Country size (in sqkm):<br>Population (in Mio.):<br>% of rural population<br>Population density:<br>GDP per capita (in Mio. AUD):  | 42,925<br>5.9<br>11.6%<br>137<br>97,117 |
|   | <b>Digital access and e-commerce</b><br>Fixed broadband subscriptions (per 100 people):<br>Active mobile broadband subscriptions (per 100 people):<br>SMEs selling online (% SMEs)*:<br>% online buyers (last 3 months): | 45<br>142<br>38%<br>77.9%               |

Notes: \* Data refers to the year 2021.

Sources: NASA Socioeconomic Data and Applications Center (2020) Population Density Map, Eurostat (2022), Worldbank Statistics (2022), Digital Economy and Society Index of the European Commission (2021), and Digital Development Dashboard of the ITU (2022).

| Characteristics of the national postal operator: PostNord Denmark / PostNord (2022) |  |  |               |
|---|--|--|---------------|
| <b>Structural information</b>   |  |  |               |
| Legal form: plc (since 2002)  |  | Ownership: 100% public<br>60% Swedish / 40% Danish Government since 2009 (voting rights 50/50) |               |
| <b>Market share (by volume)</b>   |  |  |               |
| Letter market   |  | >95%   | Parcel market |
|   |  |  | 40-45%        |



Sources: Website, Annual Reports and Price Lists of PostNord, and WIK estimation (market shares).

## 2.1 Summary of changes in the regulatory arrangements to ensure the financial sustainability of the postal universal service

A wide range of measures have been carried out in Denmark to provide sufficient flexibility to Post Danmark (the national brand of PostNord), enabling it to ensure the financial sustainability of the universal service and to cope with substantial volume declines that started earlier than in most other European countries.

**Headroom for price increases** was granted even before 2015. Post Danmark was allowed to increase letter prices significantly for the first time in 2010, when the price for a domestic priority letter (lowest weight step) increased by 45% within one year. Further room for price increases has been granted since then. However, price increases were not sufficient to stabilise the financial sustainability of the universal service so further measures were taken.

**Reducing the scope of the universal service obligation** came along with substantial reductions in **performance standards** (reduced frequency of delivery, reduced transit time standards). Most of these changes took place in 2016, although even before some reductions in the scope of the universal service had taken place. Recently, the Danish government has decided to end the obligation to provide a universal service on Post Danmark at the end of 2023.<sup>1</sup> From then on, the USO shall be provided by the market as a whole, i.e. all postal operators contribute to the provision of the USO. To protect vulnerable users and those in remote areas, it is planned to introduce a tender procedure for provision of services for the blind as well as delivery to small islands and international postal services.

## 2.2 Specific regulatory arrangements

There is no reserved area in Denmark to finance the provision of the universal service.

In Denmark, the license to PostNord Denmark (resp. Post Danmark) plays a major role in defining regulatory arrangements for the universal service. The license is issued by the Danish postal regulator, Trafikstyrelsen (Danish Civil Aviation and Railway Authority), which is also responsible for supervising compliance with the license.

Since 2015, the content and duration of the license has been changed several times (details are described in the following sections). There was a license from 2014-2016, whereas the next license period applied from July 2016 to December 2019. Since 2019, the Danish Transport and Construction Agency has extended the 2016 license several times, as temporary permits valid for one year. This was against the background of political discussions to end the universal service obligation of Post Danmark. Therefore,

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<sup>1</sup> See Transportministeriet (2023), Bred aftale om fremtidens post, 28 June 2023 (<https://www.trm.dk/nyheder/2023/bred-aftale-om-fremtidens-post> [accessed 24 October 2023]).



the conditions of the license have not been changed, i.e. the license conditions of the 2016 license still apply. From 2024 on, there will be no more designation of Post Danmark to provide the universal service, a new legal basis including also a licensing system is currently being developed.

The license contains details on the scope of the universal service, performance standards and defines how prices are regulated.

### 2.2.1 Scope of the universal service obligation

The scope of the universal service in Denmark is one of the smallest in this selection of countries, and is defined in Post Danmark's license. Only single-piece items are within the USO, for both letters and parcels services (domestic and international). For letters, the universal service is connected to the performance standard which is defined as D+5.<sup>2</sup> In addition, services for delivery of newspapers and periodicals also form a part of the USO. The universal service was reduced to second class letters with D+5 delivery in 2016. As a consequence, a priority letter product with D+1 is still offered but as an express product outside the scope of the universal service.

In 2016, the scope of universal services in Denmark had undergone several changes. Prior to 2016, a priority letter product with overnight delivery was included in the USO but, as volume had already declined strongly at that time, PostNord Denmark was granted further reliefs of performance standards (see section 2.2.2).

The universal parcel service is defined as a service with and without delivery. This is not a new development, as it is a specific characteristic of Northern European countries that parcels are traditionally delivered to a postal access point and not to the door. The licence clarifies that also delivery to an access point is part of the universal service.

From 2024 on, there will no longer an obligation to provide a universal service on PostNord Denmark or any other postal operator.<sup>3</sup> There will be tendering procedures for defined services and areas, to protect vulnerable consumers and postal users in remote areas.

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<sup>2</sup> In Denmark, the USO definition in the postal law does not refer to performance standards. Performance standards are defined in the individual licence which states D+5 as the performance standard for universal service letters since 2016. See Trafikstyrelsens (2016), Individuel tilladelse til Post Danmark A/S, 30 maj 2016 (<https://www.postnord.dk/siteassets/pdf/om-os/individuel-tilladelse.pdf> [accessed 24 October 2023]).

<sup>3</sup> See draft postal law Folketinget (2023), Forslag til lov om ændring af postloven, lovforslag nr. L 22 (Lovforslag nr. L 22, Folketinget 2023-24, Forslag til Lov om ændring af postloven (Rammer for den fremtidige postbefordring) (ft.dk) [accessed 24 October 2023]).

### 2.2.2 Performance standards

The delivery frequency under the license from 2014-2016 was six days per week (Monday to Saturday). In spite of the 6-day delivery requirement, Post Danmark was allowed to use a delivery model without delivery of priority letters on Mondays between 2014 and 2016 (article 2.1 of the license). Instead, priority letters posted on a Saturday or Sunday were delivered on Tuesday. The license clarified in detail that the Post may introduce a service for D+1 delivery of 'Monday letters' together with the delivery of parcels. The service for Monday letters was offered under a different pricing scheme than the priority letter price list, i.e. prices for this service were higher. This specific requirement is no longer part of the 2016 license.

Major changes took place in 2016 by changing performance standards and quality of service targets in Post Danmark's license.<sup>4</sup> The delivery frequency was reduced to five days, without a specification of weekdays.

The 2016 license specifies that domestic standard letters must be delivered within 5 days of posting, a reduction from the previous standard of D+4.<sup>5</sup> Post Danmark is required to deliver 93% of domestic universal service letters on average per year at D+5. If this standard is not met, fines can be imposed depending on the quality of service level actually achieved. Fines start at 250,000 DKK (~56,000 AUD) for an underperformance of 92-92.4% of D+5 delivery per year and go up to 5 mDKK (~1,1 mAUD) for a performance of 90% or less.<sup>6</sup> A similar penalty scheme had been in place before 2016 but it related to priority letters with a performance standard of D+1 as well as to economy letters (D+4).

In addition, there is a performance standard applied to inbound international letters which must be treated as express shipments under the 2016 license. The quality target for these items within the EU is D+3 for 85% and D+5 for 97% of the letters.

For delivery of addressed newspapers, periodicals and addressed mail with uniform content such as catalogues, Post Danmark is allowed to set its own performance standards. For all quality requirements, Post Danmark has to measure performance and report to the Danish Transport and Construction Agency on a monthly basis.

Post Danmark is required to establish a nationwide network for street letter boxes in article 5 of the license. No further density requirements are in place. It is also required to establish a nationwide network of postal service points which shall be placed according to consumer needs. The license distinguishes between service points and full-service outlets where the full scale of universal services is available. The spread of basic service

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<sup>4</sup> See Trafikstyrelsens (2016), Individuel tilladelse til Post Danmark A/S, 30 maj 2016 (<https://www.postnord.dk/siteassets/pdf/om-os/individuel-tilladelse.pdf> [accessed 24 October 2023]).

<sup>5</sup> Trafikstyrelsens (2014), Individuel tilladelse til Post Danmark A/S, 27 february 2014, annex 2.

<sup>6</sup> No fines apply for an underperformance of 0.5 percentage points below the 93% target. Trafikstyrelsens (2016), Individuel tilladelse til Post Danmark A/S, 30 maj 2016, annex 3.

points shall be 'based on an assessment of where customers typically visit, such as supermarkets, grocery stores and other retail stores' (article 6). In addition, full service outlets shall be located according to demand for all universal postal services while a nationwide distribution shall be ensured.<sup>7</sup> There are also requirements on how to provide postal outlets on islands. The larger Danish islands have a fixed bridge connection to the mainland and are basically treated as mainland, but there are different requirements for islands without a bridge. While in the 2014 version of the license a more general requirements has been applied, the 2016 license clarifies that islands which are independent municipalities as well as five other named islands must have a full-service point. This requirement is under reserve and applies 'unless it becomes impossible to maintain the point of service due to a manifestly unreasonable low number of mail items, or unless it is no longer possible to find a suitable business partner on the island' (article 6 of the license).

### 2.2.3 Price regulation

Details for price regulation are defined in Post Danmark's license. The license sets tariff principles as well as the scope and approach for price regulation.<sup>8</sup>

As a general rule, all tariffs within the universal service obligation need to respect the principles of cost-orientation, transparency and non-discrimination. All special tariffs, i.e. discounted tariffs for business senders, need to be transparent and non-discriminatory. However, an ex ante control takes place only for a very small part of the universal service obligation, as price regulation in Denmark is limited to a single product: domestic, stamped universal service letters up to 50g. This product is the basic letter service with a performance standard of D+5 (the priority letter is an express product and not subject to price regulation). Even before 2016, the priority letter service was not price regulated, although it was included in the scope of universal services at that time.<sup>9</sup> Thus, Post Danmark has substantial flexibility to increase prices for the priority letter services, which is reflected in the actual price development which has more than tripled since 2015 (for price developments of a 20g-letter, see section **Fehler! Verweisquelle konnte nicht gefunden werden.**). The price of the universal service letter product has also increased, though not as strongly as the express letter. The regulator is responsible for ex ante approval of proposed price changes on an annual basis, as there is no mechanism for a multi-year control.

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<sup>7</sup> The 2014 license mentioned the number of service points and universal service outlets which Post Danmark aimed at, without making these numbers mandatory. Such a note is not part of the 2016 license anymore.

<sup>8</sup> See section 3 of Trafikstyrelsens (2016), Individuel tilladelse til Post Danmark A/S, 30 maj 2016 (<https://www.postnord.dk/siteassets/pdf/om-os/individuel-tilladelse.pdf> [accessed 24 October 2023]).

<sup>9</sup> See section 3 of Trafikstyrelsens (2014), Individuel tilladelse til Post Danmark A/S, 27 february 2014.

From 2024, there will be no more price control of Post Danmark's prices under a new postal law which is currently being discussed by the Danish parliament.<sup>10</sup> The new postal law also will contain a licence system. A key element of the to-be system will be that operators who want to obtain a nationwide license are obliged to offer a basic letter and parcel product at uniform prices. A basic product is understood as a product without extra features such as tracking or signed-for delivery.

#### 2.2.4 USO compensation

To ensure the financial sustainability of the universal service, PostNord Denmark has received State aid: in 2020, the Danish government provided a **USO compensation** amounting to 50 million AUD (30 million Euro) in 2021.<sup>11</sup> Prior to that, the USO has been found to be an unfair burden to the designated provider. In 2021 and 2022, the company received compensations amounting to 42 million AUD (187 million DKK) in 2022 and 57 million AUD (252 mDKK) in 2021.<sup>12</sup>

The obligation to provide a universal service on PostNord Denmark will be terminated at the end of 2023. Danish politicians expect ending the USO will also end the need for State subsidies.<sup>13</sup>

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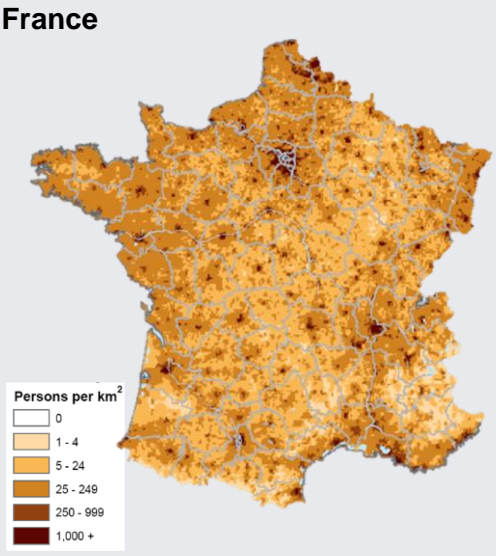
<sup>10</sup> As of October 2023, the new Postal Act has not been passed yet. However, the text of the draft law proposes an end to price regulation of universal services. See Folketinget (2023), Forslag til lov om ændring af postloven, lovforslag nr. L 22 ([Lovforslag nr. L 22, Folketinget 2023-24, Forslag til Lov om ændring af postloven \(Rammer for den fremtidige postbefordring\) \(ft.dk\)](#) [accessed 24 October 2023]).

<sup>11</sup> See European Commission (2022), State aid: Commission clears financing of Post Danmark's universal service obligation, press release of 10 August 2022 ([https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_4924](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_4924) [accessed 24 October 2023]).

<sup>12</sup> In local currency, the compensation amounts to 187 million DKK in 2022 and 252 million DKK in 2021. See PostNord (2023), Annual and Sustainability report 2022, p. 61.

<sup>13</sup> See Transportministeriet (2023), Bred aftale om fremtidens post, press release of 28 June 2023 (<https://www.trm.dk/nyheder/2023/bred-aftale-om-fremtidens-post> [accessed 24 October 2023]).

### 3 France

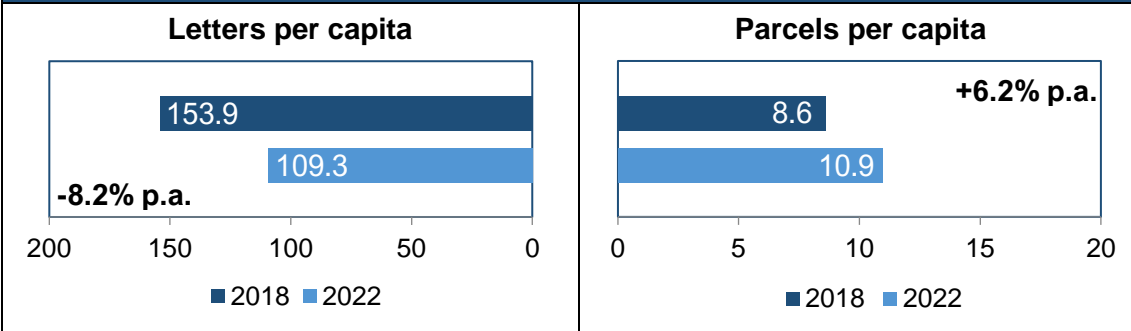
| Country characteristics France (2022)   |   |         |
|---|---|---------|
|  | <b>Country characteristics</b>                          |         |
|   | Country size (in sqkm):                                 | 638,475 |
|   | Population (in Mio.):                                   | 67.9    |
|   | % of rural population                                   | 18.5%   |
|   | Population density:                                     | 106     |
|   | GDP per capita (in Mio. AUD):                           | 59,055  |
|   | <b>Digital access and e-commerce</b>                    |         |
|   | Fixed broadband subscriptions (per 100 people):         | 49      |
|   | Active mobile broadband subscriptions (per 100 people): | 107     |
|   | SMEs selling online (% SMEs)*:                          | 12%     |
|   | % online buyers (last 3 months):                        | 63.8%   |

Notes: \* Data refers to the year 2021.

Sources: NASA Socioeconomic Data and Applications Center (2020) Population Density Map, Eurostat (2022), Worldbank Statistics (2022), Digital Economy and Society Index of the European Commission (2021), and Digital Development Dashboard of the ITU (2022).

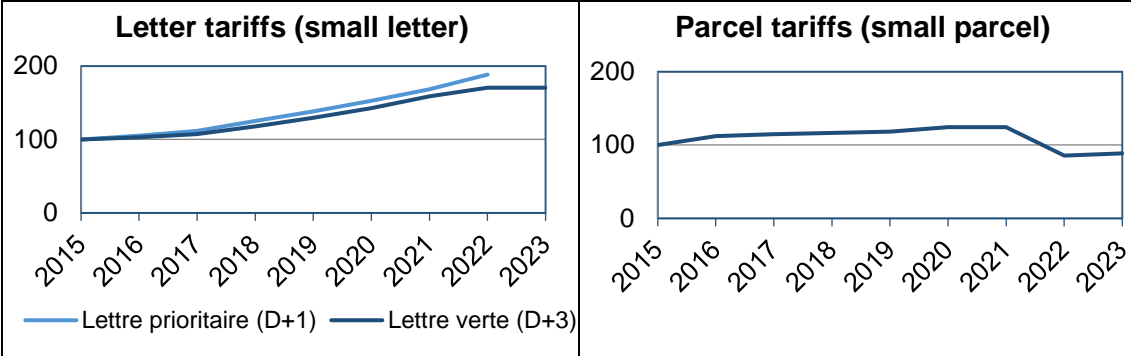
| Characteristics of the national postal operator: La Poste / Le Groupe La Poste (2022) |      |  |        |
|---|------|--|--------|
| <b>Structural information</b>   |      |  |        |
| Legal form: plc (since 2010)  |      | Ownership: 100% public   |        |
|   |      | 34% direct state owned /<br>66% via Caisse de Dépôts Group (CDC) |        |
| <b>Market share (by volume)</b>   |      |  |        |
| Letter market   | >95% | Parcel market  | 45-50% |

**Volume development**

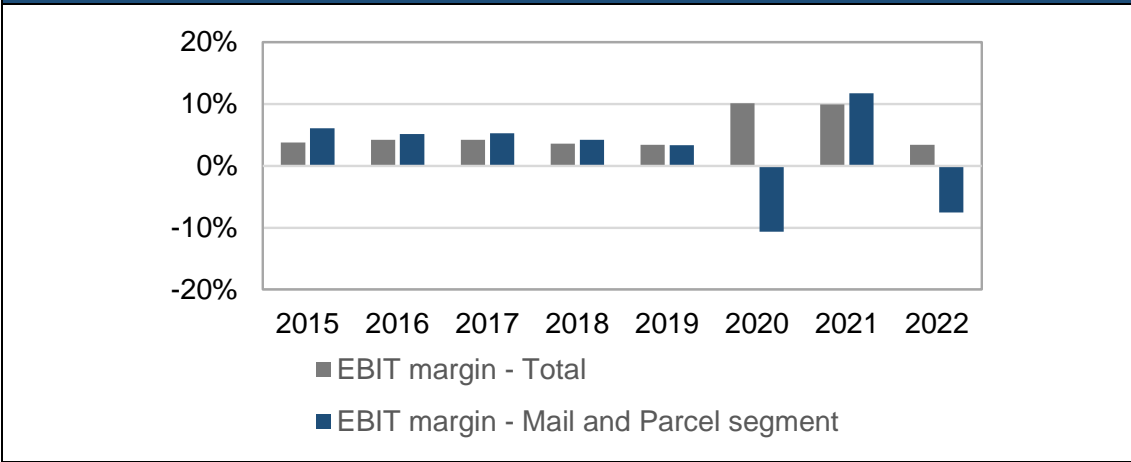


|                                      |            |                               |             |
|--------------------------------------|------------|-------------------------------|-------------|
| Change in volume (2018-2021):        | -9.1% p.a. | Change in volume (2018-2021): | +11.3% p.a. |
| Change in volume (2021-2022):        | -5.3% p.a. | Change in volume (2021-2022): | -7.6% p.a.  |
| Share prio letters in total letters: | 4.7%       | Letters per parcel            | 9.0         |

**Development of consumer tariffs (small letter, 2015 = 100)**



**Profitability (EBIT margin)**



|  |     |   |     |
|--|-----|---|-----|
| Share of postal revenue in total revenue | 29% | Share of mail revenue in postal revenue | 52% |
|--|-----|---|-----|

Sources: Website, Annual Reports and Price Lists of La Poste, Regulatory Reports of the French regulatory authority ARCEP, Pitney Bowes Parcel Shipping Index, and WIK estimation (letter market share).

### 3.1 Summary of changes in the regulatory arrangements to ensure the financial sustainability of the postal universal service

In France, regulatory measures to ensure the financial sustainability of the postal universal service focussed mainly on increasing headroom for price increases and reducing performance standards. Although the State has also granted financial support to La Poste, there is a long-standing tradition in France for tax funding of certain services (see section USO compensation 3.2.4).

The regulator has provided more **pricing flexibility** to La Poste since 2015 in its price cap decisions. The design of the price cap was adapted to take account of volume declines, leading to more room for price increases.

There have been regular small adaptations of the **performance standards** for universal service products during the last ten years but 2023 was marked by a strategic shift in the product portfolio. For the first time, a hybrid letter product was introduced as a universal service. Also other universal letter services of La Poste have undergone major changes in performance standards and product definitions in 2023.

These substantial changes of product definitions were expected to incur demand shifts, with La Poste claiming it was not able to provide estimates for volume, revenue and cost developments as input for the price control. As a consequence, the price cap was halted in 2023 and proposed price increases were controlled as regards cost orientation and affordability. A new price cap period will start in 2024, with a reduced duration of 2 years from 2024 on (formerly 4 years).

La Poste received compensation for the USO amounting to 500-520 million Euro in 2021.

### 3.2 Specific regulatory arrangements

There is no reserved area in France to finance the provision of the universal service.

The universal service in France is governed by regulatory arrangement at different levels. The French postal law defines services categories for the universal service and its basic features such as delivery frequency.<sup>14</sup> In addition, an order issued by the French Ministry for Economics and Finance defines performance standards for universal services.<sup>15</sup> La Poste is free to set performance standards which are not defined in the regulations. A comprehensive list of all universal services offered by La Poste, their performance standards and prices are published annually by the operator.<sup>16</sup>

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<sup>14</sup> Code des postes et des communications électroniques, Article L. 1.

<sup>15</sup> Ministère de l'Économie, des Finances et de la Souveraineté industrielle et numérique

<sup>16</sup> For 2023, see Groupe La Poste (2023), Catalogue des offres commerciales de La Poste relevant du service universel postal, 10 juillet 2023.

The nationwide access network is regulated by law, however only basic requirements are set.<sup>17</sup> More detailed regulations are defined in a contract between the State and La Poste which is negotiated every three years. The contract defines criteria for the distribution of postal service points throughout France.<sup>18</sup>

The approach for regulation of universal postal services is also determined by the French postal law (Art. L. 5-2) which requires a price cap for universal services. The postal regulator, ARCEP (Autorité de régulation des communications électroniques, des postes et de la distribution de la presse), may decide on the design of the cap.

### 3.2.1 Scope of the universal service obligation

The scope of the universal service in France is one of the broadest among the countries selected for this report. It covers in principle domestic and international letter and parcel services. Letter services include single-piece mail for consumers and business customers, bulk mail (also discounted products), direct mail, newspaper and periodicals. The weight threshold is 2kg for letters, while bulk mail products have weight limits below 2kg. Universal service parcels are single-piece parcels with a weight limit of 20kg. In addition to that, the universal service covers also services for the re-direction and storage of mail (‘services mobilité’).

The scope of the USO has remained unchanged as regards service categories since 2015. Yet La Poste has reduced performance standards of many letter products for consumers and business senders in 2023. The amended order on quality of service objectives reflects these changes (see section 3.2.2 for details).<sup>19</sup> One of the most noticeable relates to the priority letter product which was renamed to ‘red letter’ (lettre rouge). It was transformed from a physical service to a hybrid product which can only be sent electronically, is then printed and delivered as a physical letter. This is the first time in France a hybrid service forms part of the universal service.

### 3.2.2 Performance standards

Before 2023, legally defined performance standards related to priority letters, international inbound letters and single-piece parcels only. For all other products, La Poste was allowed to define performance standards for universal service products. Yet the major changes envisaged by La Poste for 2023 led to a shift of this regulatory practice,

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<sup>17</sup> Loi n° 90-568 du 2 juillet 1990 relative à l'organisation du service public de la poste et à France Télécom.

<sup>18</sup> This contract is renewed every three years. The current version is Contrat de Présence postal territorial 2023-2025 entre l'état, l'association des maires de France et des présidents d'intercommunalité (amf) et La Poste (<https://www.entreprises.gouv.fr/files/files/01-nouveau-portal/secteurs-d-activite/services/contrat-de-presence-postale-2023-2025.pdf> [accessed 30 October 2023]).

<sup>19</sup> Arrêté du 7 septembre 2023 relatif aux objectifs de qualité de service fixés à La Poste pour 2023, 2024 et 2025 (available at <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000048104745>, accessed 23 October 2023).



and performance standards for La Poste's services have been defined by Ministerial order for a broad range of universal service products.<sup>20</sup>

In 2023, major changes have been introduced. The priority letter service was turned into a hybrid letter product, i.e. postal users can no longer send physical stamped priority letters but have to use the online solution provided by La Poste (<https://www.laposte.fr/envoi-courrier-en-ligne>). Performance standards for most other letter services have been reduced by one day, i.e. the economy service is delivered D+3 instead of D+2. For the 'Green Letter', the Ministerial order requires a target of 95% of items to be delivered D+3. In addition, there is a reliability target for the share of letters with D+3 target delivered late: less than 1% shall be delivered later than D+5. For the hybrid 'Red Letter', there is no regulatory performance standard but La Poste is obliged to measure and publish performance of delivered items for D+1, D+2, and >D+5.<sup>21</sup>

For some products, La Poste applies different performance standards and prices for consumers and business customers (see Table 1). Price increases for letter services with fast delivery are more pronounced for business customers than for consumers. The new performance standards and price grid set incentives for business customers to use slower letter products.

Table 1 La Poste: Performance standards for consumers and business senders (2022-2023)

|                           | Product name 2022        | Performance standard 2022 | Price 2022 (20g) € | Product name 2023           | Performance standard 2023 | Price 2023 (20g) € |
|---------------------------|--------------------------|---------------------------|--------------------|-----------------------------|---------------------------|--------------------|
| <b>Consumers</b>          | Priority letter          | D+1                       | 1.43               | Red e-Letter                | D+1                       | 1.49               |
|                           | Green Letter             | D+2                       | 1.16               | Green Letter                | D+3                       | 1.16               |
| <b>Business customers</b> | Priority Letter Business | D+1                       | 1.24               | Red e-Letter                | D+1                       | 1.49*              |
|                           |                          |                           |                    | Performance Letter Business | D+2                       | 1.64               |
|                           | Green Letter Business    | D+2                       | 0.93               | Green Letter Business       | D+3                       | 0.97               |

\*: Prices for the Red e-Letter do not depend on weight but on number of printed sheets. The lowest price step is 'S' for 1-3 sheets and goes up in three steps to 'XL' with a maximum number of 30 sheets. The price for an S-sized Red e-Letter are the same for consumers and business senders, but differ for M, L, and XL sizes.

Performance standards for parcel services have been reduced as well, but only slightly compared to the changes for letter services: as of 2023, 92% of single-piece parcels have to be delivered at D+2 (95% before).

<sup>20</sup> See Ministère de l'Économie, des Finances et de la Souveraineté industrielle et numérique (2023), Arrêté du 7 septembre 2023 relatif aux objectifs de qualité de service fixés à La Poste pour 2023, 2024 et 2025.

<sup>21</sup> Ibid., Annex 2.

There have been no changes to the delivery frequency which remains at six days per week.

Regarding the access to universal services via postal contact points, La Poste has to provide at least 17,000 postal outlets.<sup>22</sup> Further access conditions are defined by contract:<sup>23</sup> the distance to a postal outlet must not be longer than 5 km or a travel time of 20 minutes by car for not more than 10% of the population of each district.<sup>24</sup> There are no specific requirements for the distribution of street letter boxes.

### 3.2.3 Price regulation

The scope of price regulation in France relates to the scope of universal services. The postal law determines a multi-annual cap as the approach for price regulation, the postal regulator has the competence to decide on its design and may also decide whether to form sub-baskets or include products into a single basket.<sup>25</sup> The French postal law requires the regulator to take the financial stability of the universal service obligation into account in all its decisions, i.e. including price regulation.<sup>26</sup>

The regulator has decided to control tariffs for all universal services under a price cap with a single basket for consumer and business customer products for letters as well as parcels, direct mail and publications. This allows La Poste to adjust prices within the cap with some flexibility as long as the overall increases comply with the regulated scope for increases. Thus, there is no individual approval for single services, i.e. some prices may increase stronger than others.

In the last years, the regulator has modified the price cap to take account of changing market conditions. Until 2014, price cap periods covered three years each and inflation (CPI) was the major factor to determine the room for price increases. As volume declines accelerated, the regulator stretched the price cap periods to four years from 2015 on, and decided to adapt the formula, based on proposals by La Poste. This was driven by the declining financial situation of La Poste and the legal requirement to balance costs and revenues of the universal service obligation.

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<sup>22</sup> Required by law, article 6 of Loi n° 90-568 du 2 juillet 1990 relative à l'organisation du service public de la poste et à France Télécom.

<sup>23</sup> This contract is renewed every three years. The current version is Contrat de Présence postal territorial 2023-2025 entre l'état, l'association des maires de France et des présidents d'intercommunalité (amf) et La Poste (<https://www.entreprises.gouv.fr/files/files/01-nouveau-portail/secteurs-d-activite/services/contrat-de-presence-postale-2023-2025.pdf> [accessed 30 October 2023]).

<sup>24</sup> See Loi no 2005-516 du 20 mai 2005 relative à la régulation des activités postales, see also: Contrat de présence postal territoriale (2017-2019) entre l'état, l'association des maires de France et des présidents d'intercommunalité (amf) et La Poste.

<sup>25</sup> Code des postes et des communications électroniques du 21 février 2020, article L. 5-2, 3.

<sup>26</sup> Ibid, article L. 5-2, 7.

In contrast to price cap designs before 2015, the price cap formula in its current design includes inflation as a minor factor.<sup>27</sup> Instead, prices may increase in line with the development of an X-factor which is determined by cost elasticity and volume decline:

$$dp/p \leq X$$

The X-factor for the last price cap period (2019-2022) was set at 5% per year, i.e. the average annual price increase of the basket can be up to 5%. The actual price changes are calculated based on observed volumes and prices for the previous year (t-1) as well as planned price increases and volume estimates for the year t.<sup>28</sup>

The X-factor is calculated based on<sup>29</sup>

$$X = (1 - e_{\text{cost}}) * \Delta Q \text{ with}$$

$\Delta Q$  = forecasted volumes of the basket

$e_{\text{cost}}$  = forecasted cost elasticity, calculated as  $e_{\text{cost}} = (\Delta \text{cost} - \text{CPI}) / \Delta Q$

$\Delta \text{cost}$  = forecasted cost change

CPI = consumer price index

The objective of the X-factor is to provide La Poste with a stable room for price increases. Therefore, it includes the forecasted improvements of efficiency, cost elasticity as well as volume declines during the whole price cap period.

In order to determine cost elasticity, La Poste provides forecasts for volumes and costs which are analysed and verified by ARCEP. The regulator also carries out own econometric analyses and plausibility checks with published information in annual reports.<sup>30</sup> Past volume and cost developments are analysed to corroborate the forecasts.

In the price cap decisions, it is stressed that there shall be a distribution of the burden between La Poste and its customers, which implicitly leaves room for the regulator to decide on the headroom for price increases on a case-by-case basis.

In case of substantial deviations of the actual volume developments from forecasts, it is possible to revise the decision upon request of the regulator or the operator. This mechanism limits the impact of differences between forecasts and reality on the price cap, thus takes account of the uncertain nature of forecasts. In the price cap period 2015-

<sup>27</sup> ARCEP (2017), Décision n°2017-1252 de l'Autorité de régulation des communications électroniques et des postes en date du 26 octobre 2017 relative aux caractéristiques d'encadrement pluriannuel des tarifs des prestations du service universel postal sur la période 2019-2022, p. 7.

<sup>28</sup> Ibid.

<sup>29</sup> The formula of the price cap can only be derived indirectly from ARCEP's price decisions. The calculation of the cost elasticity is explained in Lions, Francois (2015), Price regulation in the context of volume decline, presentation at the 15 Königswinter Seminar on Postal Economics, 9-11 february 2015.

<sup>30</sup> Ibid.

2018, a more formal approach had been taken to reflect differences between forecasts and real market developments.<sup>31</sup> ARCEP applied a forecasted inflation rate and volume developments based on official statistics. The conditions for an adjustment were determined exactly: if observed inflation deviated by more than 0.5 percentage points, the difference between expected and realised inflation is divided by 2 and the x-factor is adjusted by this result. If realised volume developments deviate from expected developments, 70% of the difference is used to adjust the x-factor. ARCEP also introduced a formal mid-term review of the decision which resulted in lower room for price increases than foreseen in the initial decision.<sup>32</sup> In the following price cap period (2019-2022), this mechanism was abolished and replaced by an adjustment upon request. Although the reason is not provided, it seems the mechanism may have caused a workload whose benefit was limited, in particular as it became clear that volume declines would rather intensify than weaken.

### Future outlook

The next price cap period covers only two years (2024-2025), as opposed to previous regulatory periods with four years.<sup>33</sup> ARCEP stresses it has analysed the volume development in the letter market, the consequences of the changed performance standards for letters and the impact of inflation on La Poste. One of the objectives of the new price cap is not to increase the existing USO deficit which has been calculated to a total of 790 million Euro in 2020.

For the new regulatory period, the design of the cap is unchanged. The forecasts for inflation are moderate, the decision is based on the assumption that CPI will increase by 2,4% in 2024 and 1,9% in 2025. Due to heavy expected volume declines and cost increases, the scope for price increases is set at 17% for both years, with a yearly limit of 10% increases (nominally). La Poste or ARCEP may request a modification if legal or factual developments during the price cap period differ from forecasts.

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<sup>31</sup> See ARCEP (2014), Décision n° 2014-0841 de l'Autorité de régulation des communications électroniques et des postes en date du 22 juillet 2014 sur les caractéristiques d'encadrement pluriannuel des tarifs des prestations du service universel postal.

<sup>32</sup> The scope for increases was limited from 3.6% to 3.3%. See ARCEP (2016), Avis n° 2016-0981 du 26 juillet 2016.

<sup>33</sup> ARCEP (2023), Décision n° 2023-1298 de l'Autorité de régulation des communications électroniques, des postes et de la distribution de la presse en date du 15 juin 2023 relative aux caractéristiques d'encadrement pluriannuel des tarifs des prestations du service universel postal sur la période 2024-2025.

### 3.2.4 USO compensation

Traditionally, La Poste receives financial support by the State based on a contract to provide additional services in rural France. Every three years, a contract is negotiated detailing the required service levels (number of postal access points and density requirements for their provision) which go beyond the requirements for the universal service. In addition, La Poste provides newspaper delivery and banking services in its access points. As a compensation for these services, La Poste benefits from tax reductions which amounted to 174 million Euros for 2018 and 2019, and 185 million Euros for the years 2020-2022.<sup>34</sup> These tax reductions have been approved by the European Commission to be compatible with the internal market.<sup>35</sup>

In the last years, the letter and parcel segment of La Poste is no longer yielding stable financial results, reflecting letter volume and revenue declines. In 2021, as the financial deficit of the USO became evident, the French government dedicated additional financial support to La Poste totaling 500-520 million Euro per year (about 5% of postal revenues), the exact amount depending on the quality of service performance.<sup>36</sup>

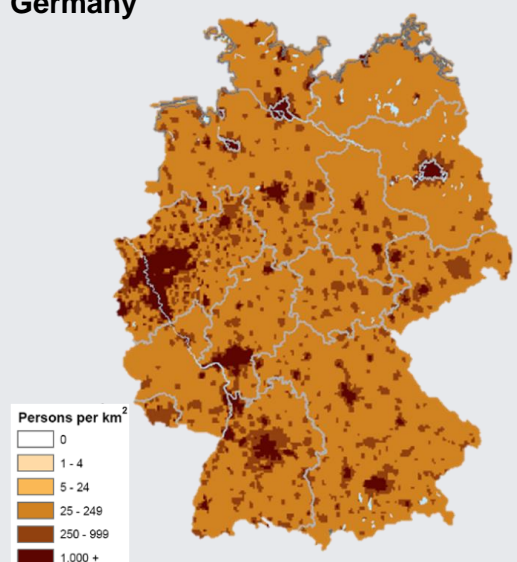
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<sup>34</sup> Commission Européenne (2018), Aide d'Etat SA.49469 (2018/N) – France, Compensation de la mission d'aménagement du territoire en faveur de La Poste pour la période 2018-2022, p. 5.

<sup>35</sup> Ibid, p. 21.

<sup>36</sup> ARCEP (2023), Décision n° 2023-1298 de l'Autorité de régulation des communications électroniques, des postes et de la distribution de la presse en date du 15 juin 2023 relative aux caractéristiques d'encadrement pluriannuel des tarifs des prestations du service universel postal sur la période 2024-2025.

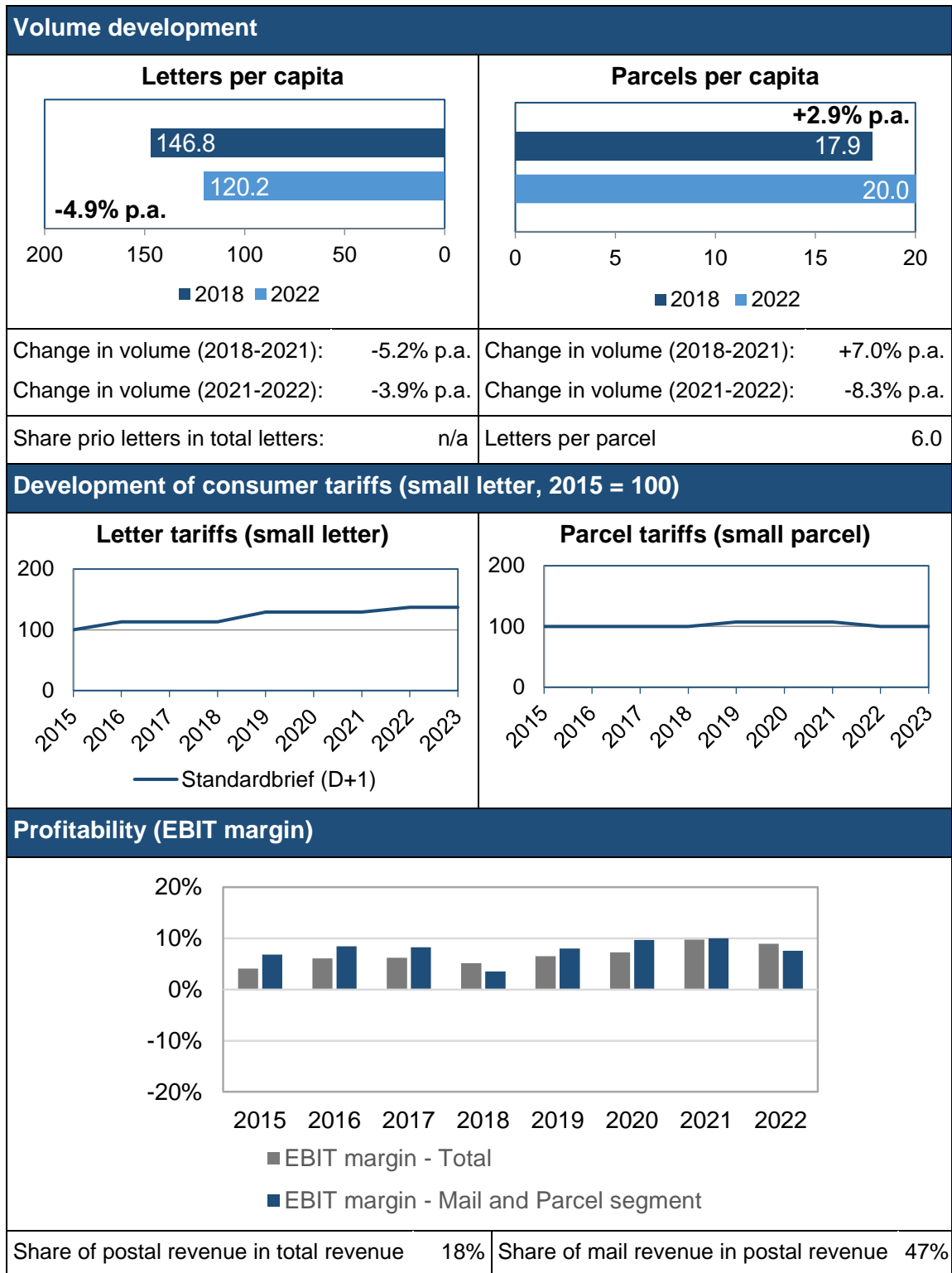
## 4 Germany

| Country characteristics Germany (2022)  |  |
|---|--|
| <b>Germany</b><br> | <b>Country characteristics</b><br>Country size (in sqkm): 357,569<br>Population (in Mio.): 83.2<br>% of rural population: 22.4%<br>Population density: 233<br>GDP per capita (in Mio. AUD): 70,515                                       |
|   | <b>Digital access and e-commerce</b><br>Fixed broadband subscriptions (per 100 people): 45<br>Active mobile broadband subscriptions (per 100 people): 96<br>SMEs selling online (% SMEs)*: 19%<br>% online buyers (last 3 months): 66.2% |

Notes: \* Data refers to the year 2021.

Sources: NASA Socioeconomic Data and Applications Center (2020) Population Density Map, Eurostat (2022), Worldbank Statistics (2022), Digital Economy and Society Index of the European Commission (2021), and Digital Development Dashboard of the ITU (2022).

| Characteristics of the national postal operator: Deutsche Post / DHL Group (2022) |   |
|---|---|
| <b>Structural information</b>   |   |
| Legal form: plc (since 2001)  | Ownership: largely privatised (~80%, listed)<br>20.49% indirect state ownership (via KfW) / 75.11% Free Float / 4.4% Deutsche Post AG |
| <b>Market share (by volume)</b>   |   |
| Letter market   | 86%   |
| Parcel market   | 35-45%  |



Sources: Website, Annual Reports and Price Lists of DHL (formerly: Deutsche Post DHL), and Regulatory Reports of the German regulatory authority BNetzA.

## 4.1 Summary of changes in the regulatory arrangements to ensure the financial sustainability of the postal universal service

There have been few changes of regulatory arrangements in Germany to ensure the financial sustainability of the USO. The performance standards are in place since more than 20 years without changes.

In price regulation, volume declines have been taken into account, resulting in more headroom for price increases, although headroom has been quite limited compared to other European Posts. In 2015, the methodology determining how to calculate the headroom was adapted. For the reasonable rate of return, a change in the regulatory framework (postal rate regulation ordinance) required the regulator to revise a prior decision. The amendment of the ordinance required to apply a different indicator for calculating a reasonable rate of return. Prior to 2015, the relevant indicator was defined as return on capital which was revised to return on sales. The review resulted in a much higher scope for price increases in 2016.<sup>37</sup>

## 4.2 Specific regulatory arrangements

There is no reserved area in Germany to finance the provision of the universal service.

There is no obligation on a postal operator to provide the USO. In Germany, the universal service provision is ensured by all licensed postal operators on the market. This approach is in place since the postal law entered into force.<sup>38</sup> There is a licensing system which requires operators conveying letter post items with a weight up to 1kg to obtain a license (§ 5). License conditions consist of formal requirements as well as requirements related to capacity, reliability, qualification, and working conditions for employees.

While the regulation of prices is related to universal service provision in many other European countries, in Germany it is based on the criterium of market dominance within the licensed area.

The scope of the universal service is defined by the Postal Act, the performance standards for the universal postal service are defined by decree. The postal regulator is responsible for monitoring compliance with performance standards. The German Postal Act is currently under review, a reduction of the scope of USO and of related performance standards is expected.

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<sup>37</sup> Bundesnetzagentur (2015), Entscheidung in dem Verwaltungsverfahren BK5-15-012.

<sup>38</sup> The German Postal Act came into force in 1998. Some minor amendments were made in 2017 and 2021, but the key elements have remained unchanged. See Postgesetz vom 22. Dezember 1997, das zuletzt durch Artikel 1 des Gesetzes vom 9. März 2021 geändert worden ist.



#### 4.2.1 Scope of the universal service obligation

The scope of the universal service is broad, including single-piece as well as bulk letter products and direct mail up to 2kg, delivery of newspapers and single-piece parcels up to 20kg. It relates to domestic as well as international services.

There have not been recent changes to the scope of the universal service, although the German postal law requires it should be adapted according to user needs and technological and societal developments.<sup>39</sup> A new postal law is currently under development and a draft law is expected in the coming months. According to a consultation document on key principles of the future postal law, the universal service shall be adapted to current user needs in an increasingly digital society.<sup>40</sup> Although there is no clear proposal of a future scope of universal services, the focus seems to be on parcel services relevant for everyday goods in urban and rural areas. Regarding letter services, it is expected reliability will become more important than fast delivery.

#### 4.2.2 Performance standards

The delivery frequency is set at six times per week.<sup>41</sup> The performance standards require 80% of domestic single-piece letters have to be delivered at D+1, and 95% at D+2 (§2 (3) PUDLV). Domestic universal service parcels have to be delivered at D+2 for at least 80% of items (§3 PUDLV). These standards have been in place since 1999 and not been adapted. For international letter services, the requirements are D+3 for 85% of inbound letters and D+5 for 97%.

For access to universal services, at least 12,000 access points need to be provided throughout Germany (§2 (1) PUDLV). Additional conditions apply: in communities with at least 2,000 inhabitants and those serving as a regional centre, an access point to universal services needs to be provided. In communities with at least 4,000 inhabitants, service points have to be accessible in less than 2km walking distance. In rural areas, a service point has to be provided per area of 80 square kilometre. There has to be a sufficient number street letter boxes. The distance to the nearest street letter box shall not be more than 1,000m in communities. There have been no changes to access conditions since 1999.

<sup>39</sup> German Postal Act (2021), § 11 (2).

<sup>40</sup> See Bundesministerium für Wirtschaft und Klimaschutz (2023), Eckpunkte des Bundesministeriums für Wirtschaft und Klimaschutz für eine Novelle des Postgesetzes, 26 January 2023.

<sup>41</sup> Performance standards for the universal service are defined in the Postuniversaldienstleistungsverordnung (PUDLV) vom 15. Dezember 1999, die zuletzt durch Artikel 3 Absatz 26 des Gesetzes vom 7. Juli 2005 geändert worden ist.

### 4.2.3 Price regulation

Prices for postal services are regulated under German postal law on the condition of market dominance in the licensed area. Price regulation is applied to letter services up to 1kg if provided by a market-dominant operator.<sup>42</sup> In addition, prices of a dominant operator which are not subject to ex ante control are reviewed ex-post. This applies to bulk mail letter prices. In practice, only prices by Deutsche Post DHL are controlled as the company still is the market-dominant operator.

The scope of ex ante price regulation is limited to domestic single-piece items (stamped and franked) and international outbound letter services. There is a price cap with one basket which has been applied since the German letter market was completely opened to competition in 2008. The duration of the price cap periods has varied. While the first price cap period after liberalisation covered four years, there have been periods with two and five years. Since the period 2016-2018, all price cap periods have covered three years.

If the market dominant operator introduces a new product, this may be approved ex ante outside the price cap. However it is possible to include new services within the cap if they were provided for at least half a year in the relevant time period. In case of changes of the competitive situation of the relevant market for a service, it can be released from the cap if the operator is no longer market-dominant.

The price cap is calculated based on forecasted inflation and the projected increase in productivity (x-factor). Within the basket, Deutsche Post DHL may apply the headroom flexibly to different services, as long as the average weighted price increase is lower or equal than the cap. However, single price increases within the basket must not be abusive. There are additional obligations for Deutsche Post to report on service performance quarter-wise, in particular the number and locations of postal outlets and street letter boxes, transit times, information on delivery routes (number of daily routes, interrupted routes and reasons for interruptions, regional distribution of routes).<sup>43</sup> The objective is to prevent that cost savings are achieved via quality reductions. Deutsche Post is also obliged to report on actual volumes for capped services as well as on postal workers active in mail and/or parcel delivery.

The price cap is calculated by the following formula:<sup>44</sup>

$$\sum_{i=1}^n \frac{q_{i,t-2} * p_{i,t-1}}{\sum_i q_{i,t-2} * p_{i,t-1}} * \frac{p_{i,t} - p_{i,t-1}}{p_{i,t-1}} \leq I_t - X_t$$

<sup>42</sup> Postgesetz (German Postal Law), §19.

<sup>43</sup> See Bundesnetzagentur (2021), Beschluss in dem Verwaltungsverfahren BK5-21/004, p. 3.

<sup>44</sup> Bundesnetzagentur (2002), Decision Bk1b-02-002.

On the left hand side, the formular expresses the increase in average weighted prices of the service basket with  $t$  as year for which tariffs are approved,  $t - 1$  is the period with current tariffs, and  $t - 2$  as the reference year for volumes,  $i$  as index and  $n$  as total number of services in the basket,  $p_{i,t}$  as proposed tariff of service  $i$ , and  $q_{i,t-2}$  as sales volume of service  $i$  in the reference year.

On the right hand side, the allowed increase is determined by forecasted inflation  $I_t$  and the projected increase in productivity (x-factor)  $X_t$ . The German postal rate regulation ordinance specifies that the determination of the expected rate of growth in productivity shall take into account (i) the cost of the efficient provision of services including so-called “neutral expenses”<sup>45</sup>, and (ii) the productivity growth rates of undertakings in comparable competitive markets.<sup>46</sup> Consequently, the x-factor considers

- the gap between the initial rate level and the cost of efficient provision; and
- the expected productivity changes during the years within the price-cap periods by reviewing the cost base and related cost forecasts.

The latter issue considers the potential for improving the productivity by rationalization and optimization of operational procedures but also potential impacts of mail volume decline on productivity and unit cost.

In its 2013 decision, BNetzA concluded that the increase in average costs by expected volume decline is overcompensated by cost savings from efficiency gains. It decided to implement a positive x-factor, i.e. allowing the basket tariffs to increase less than the inflation rate. While the previous price cap had been shortened to two years due to expected volume declines that did not occur as forecasted, the regulator decided to return to a price cap period of five years.<sup>47</sup>

In 2015, a change in the regulatory framework (postal rate regulation ordinance) required the regulator to revise a prior decision. The amendment of the ordinance required to apply a different indicator for calculating a reasonable rate of return.<sup>48</sup> Prior to 2015, the relevant indicator was defined as return on capital which was revised to return on sales. The review resulted in a negative x-factor (-5.8 per cent) which allowed for a much higher scope for price increases in 2016.<sup>49</sup>

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<sup>45</sup> Neutral expenses, as defined in the German Postal Act, are additional expenses for Deutsche Post AG arising from legal obligations, for example the nationwide infrastructure for the provision of universal postal service, social costs and pension fund reserves resulting from the past as state-owned enterprise.

<sup>46</sup> Postentgeltregulierungsverordnung, §3.

<sup>47</sup> However, the regulator left it open to review the decision if declines should be stronger than expected. See Bundesnetzagentur (2013), Decision BK5b-13-001, p. 34-35, p. 43-44.

<sup>48</sup> This requirement was transferred to the postal law in 2021, where it was integrated into § 20 (2) of the Postal Act.

<sup>49</sup> Bundesnetzagentur (2015), Entscheidung in dem Verwaltungsverfahren BK5-15-012.

The headroom for price increases always applies to the whole period (not per year). From 2016-2018, Deutsche Post DHL was allowed to increase prices by 7.5 %, in the period 2019-2021 by 8.86 % and by 4.6% in the period 2022-2024.

In 2023, Deutsche Post DHL requested to adapt the price cap decision of 2021 on the ground that volumes and therefore revenues had declined stronger than expected, while inflation and costs had increased stronger.<sup>50</sup> This request was denied by the regulator for two reasons, for formal reasons as well based on the conclusion that the operator is profitable in providing the scope of universal services.<sup>51</sup>

Discounted letter services (bulk mail products for commercial mailers) provided by a market-dominant operators are outside the price cap but controlled ex post. Since 2021, the regulator has the competence to review tariffs for access products. The objective is to control potentially abusive pricing behaviour by a market-dominant operator to the detriment of competitors using the access option to Deutsche Post's delivery network.<sup>52</sup>

#### 4.2.4 USO compensation

Deutsche Post DHL has never received direct subsidies for the provision of the universal service. The DHL Group as well as the mail and parcel segment are profitable.

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**50** See Bundesnetzagentur (2023), Beschluss in dem Verwaltungsverfahren BK5-23/014. The forecasted and actual volume declines are treated as confidential in the decision.

**51** The regulator took the position that it was not obliged to review the decision and that DPDHL did not provide sufficient data to prove the need for a review. Nevertheless, it analysed the data provided and came to the conclusion that the financial losses are the consequence of developments outside the scope of regulated services. Ibid, p. 8 ff., p. 34.

**52** German Postal Act, § 20 (4).

## 5 United Kingdom

| Country characteristics United Kingdom (2022) |   |  |
|---|---|--|
|   | <b>Country characteristics</b><br>Country size (in sqkm): 244,381<br>Population (in Mio.): 67.5<br>% of rural population: 15.6%<br>Population density: 276<br>GDP per capita (in Mio. AUD): 65,634  |  |
|   | <b>Digital access and e-commerce</b><br>Fixed broadband subscriptions (per 100 people): 41<br>Active mobile broadband subscriptions (per 100 people): 115<br>SMEs selling online (% SMEs): n/a<br>% online buyers (last 3 months)*: 83.1% |  |

Notes: \* Data refers to the year 2020.

Sources: NASA Socioeconomic Data and Applications Center (2020) Population Density Map, Eurostat (2022), Worldbank Statistics (2022), and Digital Development Dashboard of the ITU (2022).

| Characteristics of the national postal operator: Royal Mail / International Distribution Services (2022) |      |   |     |
|--|------|---|-----|
| <b>Structural information</b>  |      |   |     |
| Legal form: plc (since 2001)   |      | Ownership: Fully privatised (listed)<br>venture capital investors 25,29% / other institutional shareholders 55,7% / employees 10% / general public 9% |     |
| <b>Market share (by volume)</b>  |      |   |     |
| Letter market  | 100% | Parcel market   | 25% |

| Volume development   |   |
|--|---|
| <p style="text-align: center;"><b>Letters per capita</b></p> <p style="text-align: center;">■ 2018 ■ 2022</p>                                    | <p style="text-align: center;"><b>Parcels per capita</b></p> <p style="text-align: center;">■ 2018 ■ 2022</p> |
| Change in volume (2018-2021): -9.1% p.a.   | Change in volume (2018-2021): +3.7% p.a.  |
| Change in volume (2021-2022): -9.2% p.a.   | Change in volume (2021-2022): -21.1% p.a.   |
| Share prio letters in total letters: n/a   | Letters per parcel: 6.0   |
| Development of consumer tariffs (2015 = 100)   |   |
| <p style="text-align: center;"><b>Letter tariffs (small letter)</b></p> <p style="text-align: center;">— 1st Class (D+1) — 2nd Class (D+2/3)</p> | <p style="text-align: center;"><b>Parcel tariffs (small parcel)</b></p>                                       |
| Profitability (EBIT margin)  |   |
| <p style="text-align: center;">■ EBIT margin - Total<br/>■ EBIT margin - Mail and Parcel segment</p>   |   |
| Share of postal revenue in total revenue: 62%  | Share of mail revenue in postal revenue: 47%  |

Sources: Website, Annual Reports and Price Lists of Royal Mail, Regulatory Reports of the British regulatory authority Ofcom, and Pitney Bowes Parcel Shipping Index.

UK specifics: Royal Mail is not responsible for the operation of the postal network. The post office network is managed by a separate state-owned company (Post Office Ltd. / POL), independent of Royal Mail.<sup>53</sup>

## 5.1 Summary of changes in the regulatory arrangements to ensure the financial sustainability of the postal universal service

The current price control approach has been introduced in 2012 in light of the poor financial performance of Royal Mail at that time. It intended to provide more commercial flexibility in order to enable Royal Mail to better react to changing market conditions. The new regulatory approach marked a strategic shift. A tight regulatory regime was replaced by a light-hand approach with the objective to increase commercial and pricing flexibility to Royal Mail while ensuring the protection of vulnerable postal users. Only second-class products (letters and small parcels up to 2kg) are price-regulated under a cap to protect vulnerable consumers. It is currently discussed to reduce price regulation to letters up to 750g from 2024 on. Competitive constraint on small parcels are considered sufficient to prevent overly price increases in the future.

The scope of universal services has been reduced in 2012, when bulk letter services fell out of the USO. Today, it includes single-piece letters and parcels while newspaper delivery is not within the scope.

In 2023, Royal Mail requested the government to end Saturday deliveries. This request has been rejected in June 2023, i.e. the delivery frequency remains at six days per week.

There is no State aid to Royal Mail directly. However, Post Office Limited has received network subsidies several times in the past to enable it to modernise the network of postal outlets and ensure nationwide accessibility to offered services.

## 5.2 Specific regulatory arrangements

There is no reserved area in the United Kingdom to finance the provision of the universal service.

The Postal Services Act in the UK defines general principles as regards universal service and price regulation, but does not go into detail.<sup>54</sup> The Act determines OFCOM as the postal regulatory authority and vests it with broad competences. The regulator has the power, among others, to define the scope of universal postal services, decide whether it is necessary to designate a postal operator as universal service provider, and on which

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<sup>53</sup> See Websites of Royal Mail Group Limited (<https://www.royalmail.com/>) and Post Office Limited (<https://www.postoffice.co.uk/>).

<sup>54</sup> See Postal Services Act 2011.

conditions. OFCOM may also decide on performance standards for the universal service and which price regulation approach should be applied.

The actual regulation of performance standards, access to universal services, and price regulation are therefore governed by the Designated Universal Service Provider Conditions (DUSP conditions) 1-3.

### 5.2.1 Scope of the universal service obligation

The scope of universal services in the UK has been limited to single-piece services for letters and parcels in 2012.<sup>55</sup> Before, bulk mail letter services had been included. There is a different delivery frequency for letters and parcels (see section 5.2.2)<sup>56</sup> Services for the delivery of newspaper and periodicals are not defined as a universal service. The scope of the universal service covers domestic and international services, with a weight limit of 2kg for letters and 20kg for parcels, irrespective of performance standards.

### 5.2.2 Performance standards

Performance standards for the universal services are defined by the DUSP condition 1.<sup>57</sup> Royal Mail has to deliver letters every working day, Monday to Saturday. The required delivery frequency of packets is five days per week, Monday to Friday.

The performance standards for the priority service (D+1) are defined on two levels: 1) nationwide (93% of letters and packets) and 2) per postcode area (91.5%). For the non-priority service (2nd Class), the performance standard is 98.5% delivered D+3. For inbound international services, 85% of universal service items shall be delivered D+3, and 97% D+5.

For street letter boxes, it is required that 98% of postal users are situated within half a mile of a letter box location. Royal Mail is obliged to report on the number of street letter boxes as well as on the accessibility for postal users.

For access points that need to be capable to receive the largest relevant postal packets and registered items, an access points needs to be within 5km of the premises of at least 95% of postal users. Regarding postcode areas, access points need to be within 10km of the premises of at least 95% of postal users. These access points do not need to be run by Royal Mail, they can be procured. To fulfil these requirements, Royal Mail relies

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<sup>55</sup> See Ofcom (2012), Securing the Universal Postal Service, Decision on the new regulatory framework, p. 24 ff.

<sup>56</sup> See The Postal Services (Universal Postal Service) Order 2012, 2023 No. 936, article 6.

<sup>57</sup> See OFCOM (2017), DUSP Condition 1 – Services, access points, performance targets, notification and publication and contingency planning as at 1 March 2017 ([https://www.ofcom.org.uk/data/assets/pdf\\_file/0020/105257/dusp-1.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0020/105257/dusp-1.pdf) [accessed 2 November 2023]).



on the provision of services by Post Office Limited on contractual terms. Until 2020, the contractual relation between Post Office and Royal Mail was an exclusive arrangement. However, this was changed in December 2020. Royal Mail still uses Post Office access points but competing postal operators also have the option to offer services at post offices.<sup>58</sup> Density criteria on Royal for access points have not changed since 2015.

In addition to requirements on Royal Mail to ensure access to universal services via a network of access points, there are requirements on Post Office Limited beyond the scope of the DUSP conditions. These criteria are set by the government as the owner of Post Office. The following five access criteria apply:<sup>59</sup>

- 99% of the UK population to be within three miles of their nearest post office outlet
- 90% of the UK population to be within one mile of their nearest post office outlet
- 99% of the total population in deprived urban areas across the UK to be within one mile of their nearest post office outlet
- 95% of the total urban population across the UK to be within one mile of their nearest post office outlet
- 95% of the total rural population across the UK to be within three miles of their nearest post office outlet

### 5.2.3 Price regulation

The scope of ex ante price regulation in the UK is smaller than in the other countries within this selection, with the exception of Denmark. This is due to a focus on second class services as well as applied weight thresholds: letters are price-controlled up to a weight of 750g, while tariff controls for parcels are limited to 2kg instead of 20kg as in other European countries. There is a twofold approach since 2012: 1) a price cap on single-piece services and 2) a margin-squeeze control for access letter services. Before the introduction of the current system, the scope of ex ante price regulation was much broader and covered a substantial part of universal services (which were also broader at that time).

The current regulatory approach to control single-piece tariffs is a price cap called safeguard cap covering second class services only. The price for single-piece first class letters is not subject to ex ante controls, so Royal Mail may set first class tariffs freely. Tariffs under the safeguard cap are single-piece letters up to 750g and single-piece

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**58** In 2021, Post Office started a partnership with DPD to enable postal users to drop off and pick up DPD parcel in Post Office access points. See Post Office Limited (2021), Post Office partners with DPD to roll-out 'Click and Collect' services across the UK, press release of 16 August 2021 (<https://corporate.postoffice.co.uk/en/media-centre/#/pressreleases/post-office-partners-with-dpd-to-roll-out-click-and-collect-services-across-the-uk-3121180> [accessed 2 November 2023]).

**59** See Post Office Limited (2022), Network Report 2022, p. 37.

parcels up to 2kg.<sup>60</sup> The objective of the safeguard cap is to ensure affordable services for vulnerable consumers in the absence of competition for end-to-end letter services.<sup>61</sup> The reason for limiting the cap to letters and light-weight parcels is sufficient competitive pressure on Royal Mail to ensure prices for heavier parcels are reasonable, and enable consumers to choose from a range of other operators and services.

The cap takes the form of a price limit set at 55p in 2012 for standard letters in the lowest weight step of 100g, which increases according to the consumer price index during the regulatory period (seven years).<sup>62</sup> In 2019, Ofcom increased the cap by 5% in real terms, so the effective upper limit was raised from 60p to 65p, also to be increased by CPI each year. Since the introduction of the cap in 2012, the price for a Second Class letter in the lowest weight step has increased by 50% (see also section **Fehler! Verweisquelle konnte nicht gefunden werden.**).<sup>63</sup>

Between 2012 and 2023, a basket cap was in place to control prices for large letters and parcels up to 2kg. The basket contains the volume-weighted average prices for all weight steps up to the weight limit. When the basket cap was introduced in 2012, it provided headroom for a price increase of 53%, to be increased by CPI each year.<sup>64</sup> In the period 2019-2023, headroom of the basket cap was 29.4% plus CPI increases. Within the basket cap, Royal Mail may set its prices freely. The price for a small parcel up to 2kg has remained almost stable (nominal increase by 2% from 2015-2021), while in 2022 and 2023, Royal Mail even reduced the price for a small parcel by 15% compared to 2021.<sup>65</sup>

The price development for small parcels and competitive pressure on Royal Mail in this segment is one of the reasons for Ofcom's proposal to end the basket cap and maintain price regulation on letters only.<sup>66</sup> For the next regulatory period starting in April 2024 to 2029, the authority proposes to create a single basket cap for Second Class standard and large letters up to 750g. This cap may rise with CPI. Ofcom reserves the option to reimpose a cap on small parcels if prices were increased to a level that is unaffordable.

As part of the price cap approach, Ofcom has put in place a monitoring regime to closely observe Royal Mail's development and performance. The regulator monitors financial performance and the development of universal services, as well as Royal Mail's efficiency, pricing, and competitive situation. To ensure the financial stability of the

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<sup>60</sup> Although not defined legally, postal items that exceed the dimensions of the large letter product (25cm x 35.3cm x 2.5cm) or heavier than 750g are considered as parcels. See Royal Mail (2023), Our prices, October 2023, p. 3.

<sup>61</sup> See Ofcom (2012), Securing the Universal Postal Service, Decision on the new regulatory framework, Statement of 27 March 2012, p. 102 ff.

<sup>62</sup> Ofcom (2012), Securing the Universal Postal Service, Decision on the new regulatory framework, Statement of 27 March 2012, p. 131.

<sup>63</sup> The price increased from 50p to 75p in 2023 (GBP).

<sup>64</sup> Ofcom (2012), Securing the Universal Postal Service, Safeguard cap for Large Letters and packets, Statement of 20 July 2012, p. 17.

<sup>65</sup> Royal Mail reduced the price for a small parcel from 5.57 GBP in 2021 to 4.19 GBP in 2023.

<sup>66</sup> On the proposal for the price cap period starting in 2024, see Ofcom (2023), Review of the Second Class safeguard caps 2024, Consultation of 26 June 2023.

universal service, Royal Mail should be allowed to earn a reasonable rate of return.<sup>67</sup> Although a reasonable rate of return is not a part of price regulation, Ofcom monitors the financial performance and takes Royal Mail's rate of return into account in its decision on how to develop the cap regime.<sup>68</sup>

The second element of the regulatory approach is a margin-squeeze test for access products. There is no direct regulation of access prices, yet Ofcom carries out the test on an annual basis and requires quarterly updates of volume, cost and revenue information to monitor compliance with the requirements. The test has the objective to ensure Royal Mail's revenues for access products covers the relevant costs and prevent below-cost pricing that would be detrimental to competition.<sup>69</sup>

#### 5.2.4 USO compensation

There is no State aid to Royal Mail directly. However, Post Office Limited which operates as a separate entity, has received network subsidies in the past to prevent further reductions of post office numbers.<sup>70</sup> The UK government funds Post Office Ltd. with financial support in different forms:<sup>71</sup> first, investment funding is provided to finance transformation towards modern services, technological innovation and commercial sustainability. Second, a network subsidy is paid (50m GBP per year for 2021 and 2022). These payments are aiming to keep open and modernize post offices that are not commercially viable, and to ensure accessibility throughout the country. In addition, the government provides working capital facilities to ensure liquidity.

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<sup>67</sup> Ofcom (2012), Securing the Universal Postal Service, Decision on the new regulatory framework, Statement of 27 March 2012, p. 51 (<http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/statement.pdf> [accessed 24 October 2023]).

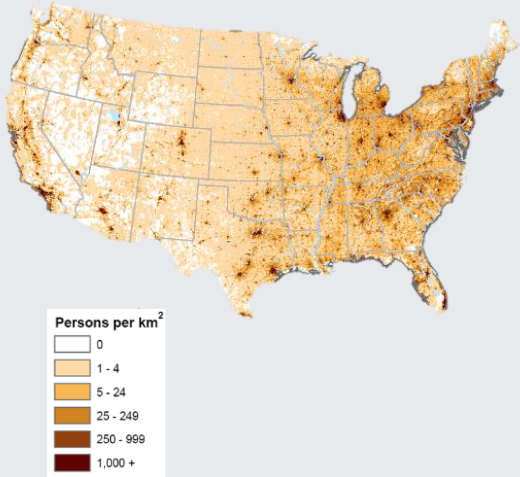
<sup>68</sup> Ofcom considers an EBIT margin of 5-10% as appropriate, however the EBIT margin in the letters and parcels segment (UKPIL) has remained below 5% since 2018 and was negative in 2022.

<sup>69</sup> Ofcom (2012), Securing the Universal Postal Service, Decision on the new regulatory framework, Statement of 27 March 2012, sections 10.87 to 10.155 (<http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/statement.pdf> [accessed 24 October 2023]).

<sup>70</sup> Major reductions of post office numbers have taken place before 2010. In 2015, the total number of post offices in the UK was 11,634 which remained stable since then. See House of Commons (2020), Briefing Paper Number 02585, 4 March 2020, Post office numbers, p. 4 and p. 7, and Post Office Limited (2023), Network Report 2022, p. 5 (<https://corporate.postoffice.co.uk/media/ajhkyueb/final-network-report-2022-final-large-print.pdf> [accessed 2 November 2023]).

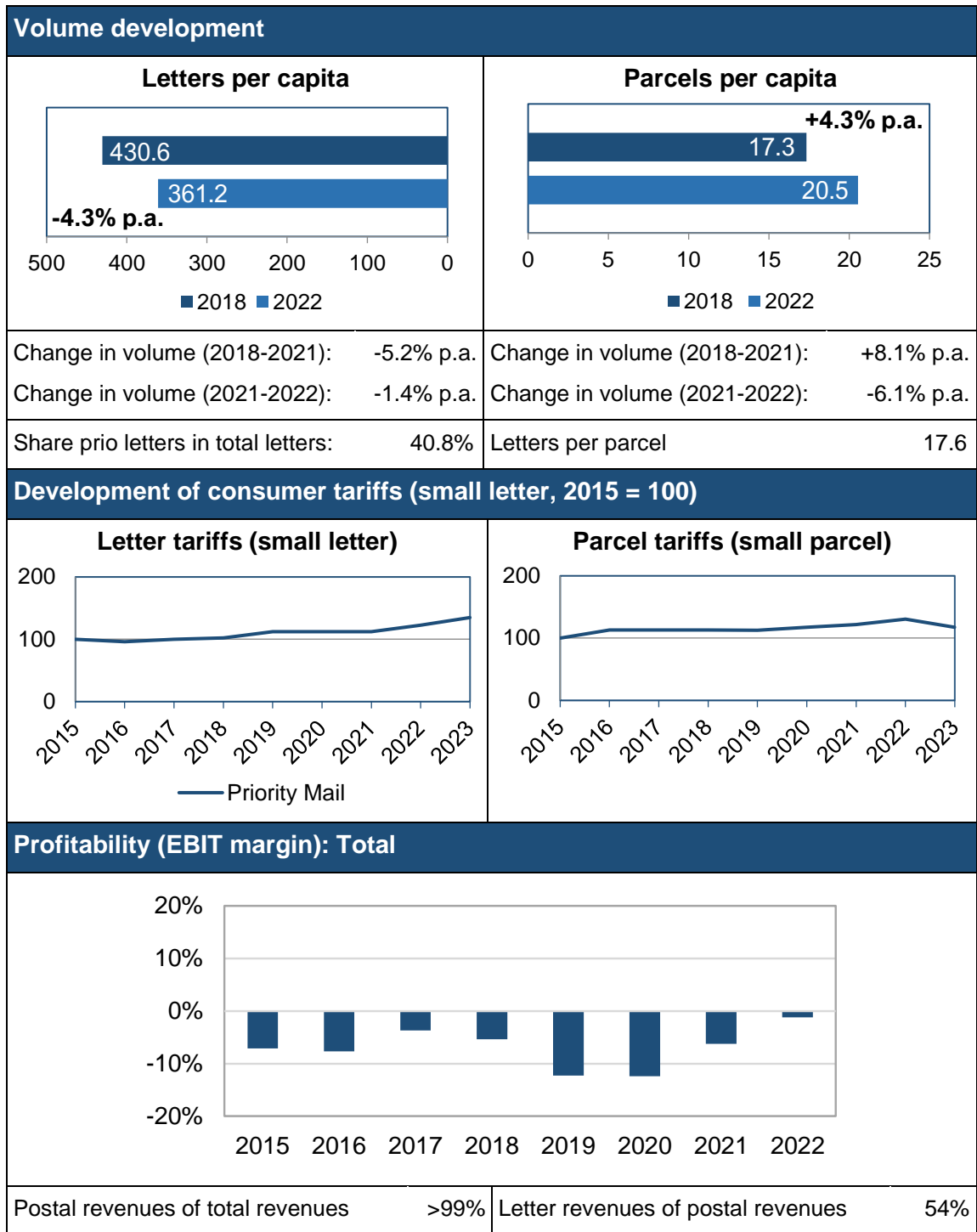
<sup>71</sup> See Post Office Limited (2022), Annual Report & Consolidated Financial Statements 2021/2022.

## 6 United States of America

| Country characteristics United States of America (2022)  |   |  |
|--|---|--|
| <b>United States of America</b><br> | <b>Country characteristics</b><br>Country size (in sqkm):<br>Population (in Mio.):<br>% of rural population<br>Population density:<br>GDP per capita (in Mio. AUD):   | 9,147,420<br>333.3<br>16.9%<br>36<br>110,042 |
|  | <b>Digital access and e-commerce</b><br>Fixed broadband subscriptions (per 100 people):<br>Active mobile broadband subscriptions (per 100 people):<br>SMEs selling online (% SMEs):<br>% online buyers (last 3 months): | 38<br>174<br>n/a<br>80.0%                    |

Sources: NASA Socioeconomic Data and Applications Center (2020) Population Density Map, Worldbank Statistics (2022), and Digital Development Dashboard of the ITU (2022).

| Characteristics of the national postal operator: United States Postal Service (2022)              |      |                        |     |
|---|------|------------------------|-----|
| <b>Structural information</b>   |      |                        |     |
| Legal form:<br>independent agency of the executive branch of the United States federal government |      | Ownership: 100% public |     |
| <b>Market share (by volume)</b>   |      |                        |     |
| Letter market   | 100% | Parcel market          | 32% |



Sources: Website, Annual Reports, Revenue and Cost Analysis, and Price Lists of USPS, Pitney Bowes Parcel Shipping Index, and WIK estimation.

## 6.1 Summary of changes in the regulatory arrangements to ensure the financial sustainability of the postal universal service

As a general principle, the United States Postal Service (USPS) must not be financed by the State and must bear its own costs. This also applies to the different classes of mail. In 2006, a change of the regulatory framework that had the objective to make price controlling mechanisms more efficient affected the USPS' ability to set prices flexibly and obliged it to pre-fund future health benefits for its retirees. The reform limited price increases to inflation, resulting in severe financial losses in a decade characterised by economic downturn, digitisation and volume decline. As a response to the USPS' financial situation, pricing rules were slightly adapted in 2020 with the objective to improve the balance of costs and revenue. The USPS may since then increase prices higher than inflation in three defined circumstances: to reflect the increases in unit costs caused by increases of delivery points and volume declines, to achieve cost-coverage of loss-making services, and to enable it to pre-fund future retiree health benefits.

In order to deal with the problem of unfunded future health benefits for USPS retirees, the Congress decided to cancel past funding requirements amounting to 56,975 million USD (~89 mAUD) in 2022.

There have not been any changes to the legal requirements on the universal postal service.

## 6.2 Specific regulatory arrangements

The USPS is a government entity, not a business. It is established and run according to the rules set by a federal law of the U.S., title 39. It is controlled by the Postal Regulatory Commission (PRC) with the power to monitor and evaluate the organisation, efficiency, financial performance and performance of postal services of the USPS, and also approves rates.

The USPS holds a monopoly on delivery of letters to and collection from the mailboxes of recipients which is called the mailbox monopoly. In addition, there is a reserved area for addressed letter services. The limits of the postal monopoly are codified in 39 U.S.C. 601(b)(1 and 2). Letters are within the monopoly if<sup>72</sup>

- the price is less than six times the rate for the 1<sup>st</sup> ounce of a single-piece first class letter (price limit)
- the weight is up to 12.5 ounces (~354g; weight limit)

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<sup>72</sup> There is also a 'grandfather' exception that was created by the reform in 2006. According to this rule, all items for which carriage by private operators was permitted as of July 1, 2005 are excluded from the reserved area.

In addition, there is a letterbox monopoly, i.e. only the USPS may place items into mailboxes, while private operators (like UPS) are not allowed to.

### 6.2.1 Scope of the universal service obligation

There is no clear definition which postal services are within the scope of universal services. Legally, the USPS is required to “provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities” (Title 39, United States Code, section 101a). Its basic function is to ‘provide services to bind the Nation together through the personal, educational, literary, and business correspondence of the people’ (ibid.).

The USPS has a monopoly on delivery of letters to the letterbox. There are 2 categories of mail: 1) market-dominant products (reserved services) and 2) competitive products. The five market dominant classes belong to the universal service: first-class mail, periodicals, package services, USPS marketing mail, and special services.<sup>73</sup> The competitive products cover domestic mail including priority mail (express and non-express) and a range of international mail and parcel products. There is no legal source which of these are included in the scope of universal services but it seems to be clear that the universal service covers also parcel products which are within the competitive product range.<sup>74</sup>

### 6.2.2 Performance standards

The delivery frequency is six days per week for letters and packets.

Before the postal reform of 2006, the USPS was allowed to define performance standards for mail classes and specific products but there was no regulation determining how such standards should be set. Since then, the USPS still establishes performance standards itself but has to consult the PRC, and is obliged to measure actual performance and report on it.<sup>75</sup> The PRC analyses compliance with the targets and publishes the results in annual reports.<sup>76</sup>

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<sup>73</sup> Postal Regulatory Commission (2023), FY 2022 Annual Report, p. 19 ff.

<sup>74</sup> USPS may, upon request to and approval by the PRC, change the categorisation of products between market-dominant and competitive products. Over time, USPS has re-categorised a majority of its package products to competitive services. As a consequence, the universal service covers market dominant as well as competitive products. See OIG (2020), Reevaluating the Universal Service Obligation, Report Number RISC-WP-20-004, p. 4-5.

<sup>75</sup> Ibid., p. 103.

<sup>76</sup> For performance in fiscal year 2022, see PRC (2023), Analysis of FY 2022 Performance Report and FY 2023 Performance Plan, 28 June 2023.

Table 2 USPS: Performance targets for First-Class Mail letters (in %)

|                               | Mail delivery within | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|-------------------------------|----------------------|---------|---------|---------|---------|
| Single-piece First-Class Mail | 2 days               | 96.5    | 96.5    | 87.81   | 90.25   |
|                               | 3-5 days             | 95.25   | 95.25   | 68.64   | 90.0    |
| Presorted First-Class Mail    | Overnight            | 96.8    | 96.8    | 93.99   | 94.75   |
|                               | 2 days               | 96.5    | 96.5    | 89.2    | 93.0    |
|                               | 3-5 days             | 95.25   | 95.25   | 84.11   | 90.5    |

Source: PRC (2023), Analysis of FY 2022 Performance Report and FY 2023 Performance Plan, 28 June 2023

The table shows performance targets for First-Class Mail letters in fiscal years 2019-2022. Performance targets vary according to inter- or intra-State delivery as well as the point of access for pre-sorted mail.

The performance standards were substantially lowered in 2021 due to the challenges of the COVID-19 pandemic, with the objective to increase them afterwards. For fiscal year 2022, the targets have not been raised to pre-pandemic level though. Overall, the USPS has set itself a strategic long-term goal to achieve a service level of 95% delivery within the respective targets.

Regarding access to postal services, the basic legal requirement is to provide ‘a maximum degree of effective and regular postal services to rural areas, communities and small towns’ (Title 39, United States Code, section 101b). It is further required that small post offices shall not be ‘closed solely for operating at a deficit’. However, there are no specific requirements on the access network like a minimum number of post offices or maximum distance for postal users. Since the reform in 2006, the USPS has to report to Congress on measures of the quality of service, and it also reports on the number of retail facilities.<sup>77</sup>

### 6.2.3 Price regulation

The USPS is a governmental agency and as such cannot act as a private business. All price changes have to be approved by an independent agency, the Postal Regulatory Commission. Prior to 2006, the USPS was required to operate on a break-even basis with the need to generate revenues to cover costs. However, it was not allowed to retain profits. In 2006, the price-setting process was reformed and set new objectives for the USPS: enhance transparency, monitor performance, and reform lengthy and burdensome price-setting processes that also limited the USPS’s ability to react to

<sup>77</sup> See PRC (2023), Annual compliance determination report, Fiscal year 2022, 29 March 2023, p. 175 ff.



changing market conditions.<sup>78</sup> The reform also required the USPS to prefund future retiree health benefits amounting to 5.6 billion USD per year.<sup>79</sup> At that time, the economic environment as well as the financial position of USPS were regarded as stable, which altered quickly with the financial crisis in 2007-2009 and accelerating digitisation.

From 2006-2020, the price increases the USPS could legally require were capped at CPI.<sup>80</sup> This resulted in moderate price increases for small letters of 12% over the period 2015-2020. As volumes declined, the USPS became loss-making over a period of 14 years and has not reached a profit zone yet (see section **Fehler! Verweisquelle konnte nicht gefunden werden.**).<sup>81</sup> Due to the devastating financial situation, a review of the price-making rules for USPS was started and resulted in new pricing rules in 2020, that were applied in 2021 for the first time.<sup>82</sup>

The USPS has to seek ex ante price approval for price changes referring to each of its mail classes. As a general principle also under the 2020 pricing rules, the different mail classes have to cover their costs. This still applies to the USPS as a governmental organisation in general to avoid the need for financial support by the State.

Under the 2020 pricing rules, the USPS is allowed to increase prices above the level of CPI in three defined cases.

- 1) Delivery Density-Related Cost Increases
- 2) Non-compensatory Mail Classes
- 3) Retirement liabilities: objective is to reduce the unfunded retirement obligations

The **delivery density-related increases** grant additional pricing headroom to reflect the growing number of addresses while postal volumes decline. The scope of price increases is based on figures derived from the national statistics and calculated annually. The objective is to take into account 'unavoidable' increases of unit costs that are caused by declining volumes paralleling increasing number of addresses.

The calculation of the density-based rate headroom compares the volume development of market-dominant and total volumes including competitive products. Whichever results in a lower headroom is applied to protect mailers in both categories if either market-

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<sup>78</sup> See PRC (2022), Report on Rate Increases for Market Dominant Products, Report to the House Committee on Appropriations, December 9, 2022, p. 9.

<sup>79</sup> Ibid.

<sup>80</sup> The CPI is defined as the U.S. price index for urban consumers, CPI-U. Ibid., p. 8.

<sup>81</sup> In addition to volume declines, a number of other factors had an impact on the financial situation, in particular the USPS' limited ability to adjust operations and reduce costs, the increase of total costs due to the prefunding of retiree health benefits. See *ibid.*, p. 10.

<sup>82</sup> The new rules are adopted by and described in PRC (2020), Order adopting final rules for the system of regulating rates and classes for market-dominant products, Order No. 5763, November 30, 2020.

dominant or competitive mail volumes decline stronger than the other. The headroom is calculated based on the following formula:

$$-1 * \frac{IC_t}{TC_t} * \Delta D_{(T,T-1)}$$

T= fiscal year t

t-1 = fiscal year prior to t

IC = institutional cost in fiscal year

TC = total cost in fiscal year

$$\Delta D_{(T-1,T)} = \frac{\frac{V_t}{DP_t}}{\frac{V_{t-1}}{DP_{t-1}}} - 1$$

V = volume in fiscal year

DP = delivery points in fiscal year

In the above formula, the ratio of institutional cost and total cost is used as a proxy for the elasticity of unit costs on density changes. As a consequence of the structure of the formula, the price headroom due to delivery density changes is quite small. In its order on proposed price changes of May 2022, the PRC approved a density-related headroom of 0.583 % and for 2023, a density-based headroom of 0.936 % was calculated.<sup>83</sup>

The USPS is required to calculate the delivery density-related pricing headroom by 31 December of each year. The PRC reviews and decides whether and if so, how much pricing headroom is approved.

Prices increases for **non-compensatory Mail Classes** beyond CPI are allowed for mail classes which are not covering their costs. The objective is to reduce the extent to which these classes are subsidised by other mail users. The additional scope is defined at 2 percentage points per class per year for non-compensatory mail classes. For non-compensatory products within a class, USPS is required to propose price increases that are 2 percentage points higher than the average increase for the class. In addition, prices for non-compensatory non-mail products must not be reduced. In practice, periodicals and package services are non-compensatory mail classes.<sup>84</sup>

<sup>83</sup> See PRC (2022), order on price adjustments for first-class mail, USPS marketing mail, periodicals, package services, and special services products and related mail classification changes, Order No. 6188, 27 May 2022, p. 3 and PRC (2023) Available market-dominant rate authority, last update 31 May 2023 (<https://www.prc.gov/sites/default/files/Available%20Rate%20Authority%2005-31-2023.pdf> [accessed 24 October 2023]).

<sup>84</sup> See PRC (2022), order on price adjustments for first-class mail, USPS marketing mail, periodicals, package services, and special services products and related mail classification changes, Order No. 6188, 27 May 2022, p. 4.

The third reason for additional pricing headroom are USPS' **retirement liabilities**. The objective is to reduce the unfunded retirement obligations. The additional pricing headroom amounted to 0.785 % in 2022.<sup>85</sup>

All three additional factors put together allow price increases well above the level of increases prior to the 2020 revision. The last price decision under the old regime in 2020 allowed increases of 1.4-1.8% for the five market-dominant mail classes. In 2021, the increases amounted to 6.8-8.8%, 4.2% in 2022 and 5.3-8.1% in 2023.<sup>86</sup>

There are further restrictions on discounts granted by USPS to bulk mailers that e.g. pre-sort mail (worksharing discounts). If worksharing discounts are below avoided costs, these discounts must not be changed. The PRC also imposes new reporting obligations to be able to monitor development of costs, productivity and quality performance as well as enhance the transparency.

#### 6.2.4 USO compensation

There is generally no financial support by the State to the USPS. In 2021, the USPS received an exceptional one-time non-cash benefit, relieving it of the obligation to pre-fund retiree health benefits amounting to 56.975 mUSD (~89 mAUD).<sup>87</sup> Even though this relief does not constitute a direct public financing to the USPS, the costs of health benefits for its retirees are shifted from the USPS to the Medicare fund which might have to depend on tax money in the future.

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<sup>85</sup> Ibid.

<sup>86</sup> See Federal Register (2020), Vol. 85, No. 2020, 19 October 2020, Federal Register (2021), Vol. 86, No. 106, 4 June 2021, Federal Register (2022), Vol. 87, No. 199, 17 October 2022, and Federal Register (2023), Vol. 88, 14 April 2023.

<sup>87</sup> See USPS (2023), Fiscal year 2022, Annual report to Congress.

## 7 Summary and conclusions

In this report, regulatory changes in the five countries have been analysed, thereof three members of the EU (Germany, Denmark, France), as well as the United Kingdom and the United States of America. For the EU member states, there is a common regulatory framework within the EU law, which also applied to the UK before it left the EU. However, the UK has not changed its regulatory approach since Brexit. Although there is some kind of harmonisation of the basic approaches to ensure the postal universal service, the selected European countries have found very different answers to the challenging market developments. The report covers changes since 2015 but also includes major changes before that date, if relevant.

The five countries analysed are characterised by varying degrees of letter volume declines and parcel volume increases. Denmark has been most affected by decreasing letter volumes and has by far the lowest level of letters per capita. Average volumes declines are more pronounced in France and the UK (>9% p.a.) than in Germany and the US (4-5% p.a.). In terms of parcel developments, Royal Mail is the only national postal operator that has lost volumes, while all others have increased theirs. The financial performance reflects the letter volume developments. Only DHL Group in Germany has remained in the profit zone, while all other operators were loss-making in the mail and parcel segment in one or several years since 2015.

### *Scope of the USO reduced significantly in Denmark, some changes in UK*

The scope of the universal postal service obligation in terms of services included has been reduced most expressed in Denmark, where it was cut to contain a basic minimum service for letters (a second-class letter service without daily delivery). The future regulation of the Danish postal market is currently under revision, including an end to the obligation on PostNord Denmark to provide the universal postal service. In the UK, bulk letter services were excluded from the USO already in 2012. In the other three countries, the scope of the USO has not been changed.

### *Lower performance standards in three countries, ongoing discussions in all countries*

Three out of five countries have altered the relevant performance standards, to varying degrees. Denmark is also one of the countries with the most significant changes, as it abolished a D+1 service and lowered standards for the second-class service to D+5. Similarly, but not as distinct as Denmark, France has transformed the D+1, physical end-to-end letter service to a hybrid solution, and lowered performance standards for other universal services, including business letter services. In the US, performance standards for letters are defined on a yearly basis. They have been lowered significantly during the pandemic and have not reached their pre-pandemic levels yet. In Germany and the UK, there are ongoing discussions about revising performance standards. While the UK government has recently rejected a request by Royal Mail to reduce delivery frequency

from six to five days per week, the German government is working on a revised draft postal law including a reduction of delivery time standards.

*Limited scope of price regulation: pricing flexibility for priority letters in Denmark, UK*

There have been changes to the price regulation in all five countries, regarding scope, approach, or calculation, with the intention to increase headroom for price increases and more pricing flexibility. Denmark removed the priority letter service from price regulation after classifying it as service outside the scope of universal service. This also happened in the UK: in 2012, the postal regulator introduced a safeguard cap for non-priority services, while Royal Mail can set prices for priority letter services freely. There is also more pricing flexibility for Royal Mail to set prices for capped services. The scope of price regulation will be further limited in 2024 when prices for small non-priority parcels are no longer subject to controls.

*Price cap takes account of volume declines in France and Germany*

In France and Germany, the basic approach and scope of price regulation (price cap) was maintained but the calculation was adapted to take volume declines into account in both countries. This resulted in more room for increases, to a greater extent in France than in Germany. Reflecting the major changes in pricing and performance standards in 2023, the price cap has been halted for that year, and a new price cap period will start from 2024 on. The duration of the period has also been reduced in both countries as a reaction to rapidly changing market and overall economic conditions.

*US: reserved area, additional but still limited room for price increases*

In the US, a basic reform of the price setting procedure entered into force in 2020 in order to allow price increases above inflation level. Such increases are now possible in three defined cases, one of it being declines in the delivery density that is caused by parallel volume declines and increases in the number of delivery points. There is a low, if not none at all flexibility for the regulator to enable further price increases. However, the regulator may determine annual performance targets which may bring about a relief in terms of costs. The US is the only country in this selection maintaining a reserved area ('mailbox monopoly') as a financing mechanism for the universal service obligation.

*Some form of direct or indirect financial state support in all countries but Germany*

Four out of five national postal operators have benefitted directly or indirectly from state compensation in the recent past. La Poste (France) is granted tax exemptions to finance services such as a dense network of post offices on a regular basis. In addition, it benefits from a compensation for the provision of the USO. In Denmark, PostNord has received a USO compensation since 2020. In the US and the UK, there have been indirect financial supports to the national postal operators. In the UK, Post Office Limited as a separate corporate entity receives network subsidies regularly. In the US, the Congress has

approved to cancel provisions for funding future retiree health benefits. There has not been a USO compensation or support of the access network in Germany.

#### *Regulators introduce measures where they have competence*

Summing up, national postal operators in the selected five countries are facing the challenge of declining letter volumes and increasing unit costs, although at different levels and varying speed. Still, the developments in each country pose a risk to the financial sustainability of the community or universal postal service, requiring postal policy makers and regulators to prove their ability to adapt regulatory frameworks. It is obvious from the comparison of measures undertaken that regulators enable flexibility to the national postal operators where they have competence to do so. Measures requiring amendments of the legal basis have been introduced at a later stage. For example, in the European countries, price increasing measures have been taken rather early as national regulators have the competence for adapting the approach or at least the calculation of the headroom, in contrast to the US. Changing performance standards required in several countries legal amendments, so these changes have taken longer to implement or are not introduced yet (e.g. in Germany and the UK).

#### *More significant changes in countries with stronger letter volume decline*

As a general principle, countries characterised by stronger volume decline have undertaken more or more radical regulatory measures. In Denmark, where volume declines have been most pronounced, regulatory arrangements have changed to a greater extent than in the other countries. Only slight regulatory adaptations have been made in Germany as a country with lower volume declines, and no USO compensation has been granted.