High quality and competitive postal services for citizens and businesses - State aid control in the postal sector

1. The changing reality of European postal markets

From collecting to transporting, from sorting to delivering letters and parcels to homes and offices, postal operators offer a wide range of services and represent an important part of the economy. In 2011, the European postal sector accounted for an annual turnover of €91 billion, representing 0.72% of the European Union’s GDP. In recent years, postal services have undergone tremendous changes.

Historically, postal services were organised as national monopolies. The main trend in the postal services sector since 1992 has been the liberalisation of the letter market, progressively allowing all postal operators to provide the full range of services that previously could only be provided by the historical postal operator in each country. Examples of such incumbents are bpost in Belgium, Deutsche Post in Germany, and La Poste in France. By contrast, parcel and express delivery services are more competitive than the letter post and have been liberalised for decades (for example, these services are also provided by other postal operators such as DHL, UPS, and TNT).

At the same time, two major economic trends, e-substitution and e-commerce, have a direct impact on the postal sector. First, demand for distribution of letters, newspapers, magazines, advertisements, and other documents is declining due to the rise of advanced electronic communications. Second, demand for parcel delivery services is increasing due to the development of e-commerce, just-in-time manufacturing, and other business trends driven by the new electronic technologies.

Against this background, the Commission’s policy objectives are to ensure a level playing field among providers both for traditional mail and the fast-expanding field of parcel delivery so that former incumbents are neither advantaged by State support nor disadvantaged by their public service obligations or legacy costs vis-à-vis new entrants.

2. State aid is justified to ensure the provision of affordable public services and preserve a level playing field between operators

Postal incumbents are often entrusted with a Universal Service Obligation (USO) and with the delivery of various other public services (so-called Services of General Economic Interest or SGEIs) that entail high costs, and for which the operators are often compensated by the State.

According to the EU Postal Directive, Member States must ensure that users enjoy the right to a universal service involving the permanent provision (at least 5 days per week) of a postal service of specified quality at all points in their territory at affordable prices. The universal service includes at least the following:

In a nutshell
Postal markets in Europe are feeling the impact of regulatory and technological change.

Through State aid control, the Commission seeks to ensure a level playing field between the postal incumbents – which are often supported by the State but also entrusted with costly public service obligations and burdened by legacy costs inherited from the past – and new entrants, which rarely benefit from State support. Ultimately, this allows customers to get the highest quality service for the lowest price, both for traditional letter mail and in the fast-expanding field of parcel delivery.
State aid control in the postal sector | Competition policy brief

- postal items up to 2 kg,
- postal packages up to 10 kg (or 20 kg at the Member State’s discretion),
- registered items,
- insured items.

Besides the USO, Member States often entrust postal operators with the delivery of other SGEIs (see table). Often, these are also provided by the postal incumbents through their extensive logistic and retail networks.

### Examples of public services entrusted to postal operators in Europe

<table>
<thead>
<tr>
<th></th>
<th>La Poste (FR)</th>
<th>bpost (BE)</th>
<th>Poste Italiane (IT)</th>
<th>Royal Mail / Post Office Ltd (UK)</th>
<th>Deutsche Post (DE)</th>
<th>ELTA (EL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USO</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Distribution of newspapers and periodicals</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Territorial presence*</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Basic banking services</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Distribution of electoral material</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Payment of pensions</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

* Territorial presence refers to the maintenance of widespread networks allowing access throughout the country to a range of public (postal and non-postal) services for all.

### Increasing costs of delivering public service obligations

More advanced electronic communications mean that the demand for distribution of letters, newspapers, magazines, advertisements, and other documents is declining.

### Decrease in volume of the letter segment in the European postal sector

![Chart](chart.png)

Source: Based on WIK survey and WIK-Consult / ITA Consulting (2009), Evolution of the European Postal Market since 1997

Notes: 1. Croatia is excluded to ensure comparability (no 2007 figures for Croatia)
2. The evolution in terms of revenue follows a similar trend.

As e-substitution makes the letter segment less and less self-sustainable, the cost of delivering the public service obligation is increasing over time and becoming less attractive for competitors.

### The need for public service compensation

Through the USO and the other SGEIs, Member States ensure continued full coverage and affordability of a wide range of postal and non-postal public services for all citizens. As the cost of delivering them increases, the relevant postal operators are increasingly dependent on State support to be able to provide them under sustainable conditions.

Member States have wide discretion in choosing how and how much to support the USO/public service provider. They often choose to grant compensation in the form of direct subsidies, tax exemptions, preferable loans, or State guarantees.

Such public service compensation is considered as State aid, which is subject to scrutiny by the European Commission to check if the aid is compatible with EU rules.

Given the importance of providing affordable public services to all citizens, the Commission preserves them by allowing significant amounts of State aid in the form of public service compensation, as long as Member States comply with specific rules (see below). The purpose of those rules is to safeguard a level playing field for postal operators, to preserve fair competition among them and to guarantee that high-quality postal services are delivered efficiently.
The main set of rules for State aid control of the postal sector is the 2012 Framework on Services of General Economic Interest (SGEI) (see IP/11/1571). Aid to postal operators must fulfill the conditions set out in this framework. In practice, the key criteria for the Commission’s assessment are:

- The users of postal services must be consulted to identify their needs and to correctly define the obligations entrusted to postal operators;
- A clear agreement (i.e. entrustment act) between the State and the postal operator must set out the exact requirements (e.g. quality) for the public service tasks;
- Postal operators must keep separate accounts to be able to identify the cost and revenue of the public service;
- In some cases, public procurement rules may apply for awarding public service obligations to postal operators;
- The criteria for calculating the compensation amount must be clearly set out in advance (in the entrustment act);
- The compensation cannot exceed what is necessary to cover the postal operator’s cost for providing the service (taking into account the revenues of the service and a reasonable profit);
- The compensation mechanism should also encourage postal operators to become more efficient over time;
- Transparency must be ensured by publishing certain information (such as the compensation amounts).

Legacy costs of postal incumbents can also justify State support

As a legacy of their past as State administrations, postal incumbents can be severely disadvantaged because of higher pension costs for civil servants, which are not incurred by their competitors.

In such circumstances, Member States can provide relief for such legacy pension costs, but only to the extent that this does not put postal incumbents in a better position than their competitors.

The Commission has approved very significant amounts of State aid to offset legacy pension costs (e.g. €3.8 billion for bpost, €1.9 billion for French La Poste) as these measures were restoring the level playing field. In one case, the Commission found the pension relief to be excessive.

Excessive Pension relief for Deutsche Post

In January 2012, the Commission ordered Germany to recover from Deutsche Post incompatible aid estimated to be in a range between €500 million and €1 billion out of €37 billion pension subsidies it had received since 1995 (see IP/12/45). The Commission took this decision because the combination of high regulated prices and a pension relief placed Deutsche Post in a better position than its competitors.

3. State aid control is essential to promote competition in dynamic, profitable markets

Nowadays, other important elements that affect the postal sector significantly are the development of e-commerce, just-in-time manufacturing, and other business trends driven by the new electronic technologies. Between 2004 and 2009, the internet economy has brought about 21% of GDP growth in the G8 countries. This leads to a growing demand for parcel delivery services, which is the most profitable and most competitive area for postal operators.

This is also illustrated by the graph below, which shows that the volume of parcel and express delivery activities in the EU increased by 35% between 2008 and 2011. The Commission wants to further stimulate e-commerce and so attaches great importance to the smooth and effective delivery of goods purchased online.

Increase of the parcel and express segment in the European postal sector in terms of volume

Note: The figures refer to EU-28.
As in all other markets, competition makes everyone better off. As operators are incentivised to become more efficient, taxpayers need to pay for less and less State aid and customers, including SMEs, benefit from lower prices and better services. Indeed, the Commission controls State aid in the emerging parcel delivery market precisely to support competition. The main concern is that historical postal operators could misuse the State compensation they receive to provide the USO or other SGEIs to strengthen their position in the parcel delivery segment. This would result in so-called cross-subsidisation, which could give these operators an undue advantage compared to other parcel delivery companies (who do not receive any State compensation).

Cross-subsidisation might occur if the postal incumbent receives more State compensation than necessary to perform the tasks they are entrusted with (such as the USO or other SGEIs). Indeed, such overcompensation means that the postal operator could use part of the funds it received from the State to compete in the parcel delivery segment, rather than using it for its public service tasks.

This is why the Commission performs a so-called overcompensation test. It does not call into question the scope of the tasks or the required quality levels of the public service tasks – which are for Member States to define – and it also allows postal operators to make a reasonable profit out of them. If it is clear, however, that a postal operator receives State aid which goes beyond the costs of the public service tasks and a reasonable profit, then it will be required to repay this overcompensation to the State. Here is an example of such a situation:

**Overcompensation for bpost**

After several Belgian private press distributors complained that historical Belgian postal operator bpost had been overcompensated for its press distribution task, the Commission investigated the State compensation received by bpost. In January 2012, the Commission took a decision about State compensation granted to bpost between 1992 and 2010 (see IP/12/45). The Commission concluded that some of these measures led to an overcompensation for bpost. As a result, bpost had to repay to the Belgian State substantial amounts of aid.

As an additional measure to prevent cross-subsidisation, the Commission requires that postal operators keep a set of separate accounts for activities that receive State compensation (such as USO or territorial presence) and activities that are subject to competition (such as parcel delivery services). This allows the Commission and Member States to check that State compensation is not being used for the wrong purpose.

To allow for competition between different postal operators, it is also crucial to ensure that Member States do not shut out foreign providers from their national postal markets by misusing the possibility introduced by the Postal Directive to share the financial burden of the USO amongst postal operators (see below).

### A recent issue – Compensation funds

The Postal directive allows Member States to set up so-called compensation funds to finance the USO. Postal operators that are not entrusted with the delivery of the USO can be required to partially contribute to its financing. In a period characterised by scarce financial resources, some Member States have recently expressed a desire to implement such compensation funds for the financing of the USO. The Commission considers that financing through compensation funds is subject to State aid control. Indeed, there is a risk that by requesting disproportionate contributions from other postal operators, the compensation fund could lead to their foreclosure from the market. To prevent this from happening, the Commission will check whether contributions from postal operators are requested under strict conditions of transparency, non-discrimination and proportionality.

One further way to strengthen competition and increase efficiency in the postal market is the use of public procurement procedures. In certain situations, rules on state aid for public services (the 2012 SGEI Framework) require Member States to apply such procedures. This means that all interested postal providers (whether incumbents or new entrants) can bid on contracts for the provision of postal or non postal public services delivered by postal operators (see box below). This approach allows for fair competition among the operators, and helps to ensure the most efficient delivery of high-quality postal services.

### Public procurement for press distribution in Belgium:

In May 2013, the Commission approved State compensation to bpost for the period 2013-2015 (see IP/13/390). As was the case in the past, this compensation is awarded to maintain a territorial presence network and to distribute newspapers and periodicals at preferential tariffs. In line with the 2012 SGEI Framework, the Belgian authorities committed to organise a tendering procedure to award a concession for press distribution from 2016 onwards. This will give other postal operators (including specialised press distribution firms) the opportunity to bid for this contract, and will also lower the risk of future overcompensation.

Finally, by protecting fair competition whilst preserving important public services the Commission’s policies also stimulate better use of public resources. While State compensation is necessary to guarantee that citizens can benefit from affordable public services, this objective should be achieved with no more State compensation than is necessary.
Especially in times when public budgets are under pressure, it is crucial to ensure that taxpayers’ money is spent where it is needed most and that it achieves the desired result.

As explained above, the Commission checks whether there is any overcompensation and, if this is the case, postal operators have to repay this overcompensation to the State. In addition, through the 2012 SGEI Framework, the Commission encourages public service operators to improve the quality of their services while also reducing their costs. This allows Member States to lower their funding to the postal incumbent and save taxpayer money. Post Office Limited UK and Poste Italiane have achieved cost reductions related to the provision of public services in the last years, while maintaining high-quality services. Similarly, in recent years the State compensation for French La Poste’s obligation to distribute press items at preferential tariffs has decreased significantly, while La Poste has greatly reduced the costs of this obligation. In addition, various operators have developed cost-effective ways of establishing territorial presence even in the most remote areas, in the form of postal points, presence in grocery stores, newsagents, etc.

The State aid control carried out by the Commission has helped strengthen the trust of private investors in the functioning of postal markets, as the recent wave of privatisations in the postal sector (bpost, Royal Mail, Portuguese Post) has shown.

Recent Postal decisions:

**Post Office Limited (POL):** On 28 March 2012, the Commission authorised UK plans to grant a €1.2 billion network subsidy to POL, to keep open and modernise non-commercially viable offices e.g. in rural areas. The Commission also endorsed the continuation, under stricter conditions, of a working capital facility of up to €1.2 billion, which will provide POL with sufficient liquidity to carry out its public service obligations (see [IP/12/320]).

**Poste Italiane (PI):** On 21 November 2012, the Commission approved two compensations received by PI for delivering two public services in the period 2009-2011, namely compensation of €1.1 billion for the universal postal service and compensation of €458 million for reduced postal tariffs offered, over the same period, to publishers, not-for-profit organisations and electoral candidates (see [IP/12/1250]).

**French La Poste:** On 25 January 2012, the Commission approved €1.9 billion aid paid by France to La Poste to finance the public service of delivering press items to citizens and the provision of postal services in remote areas for the period 2008-2012, because this aid only partially compensated the net cost of these SGEIs (see [IP/12/45]). On 26 May 2014, the Commission approved further compensation to La Poste for the same missions (€597 million to the press distribution mission for the 2013-2015 period, and €850 million to the territorial presence for the 2013-2017 period, see [IP/14/602]).