

<b>Name of Working Group (WG)</b>	Net cost of USO –VAT as a benefit/burden
<b>Name of Project</b>	Implementation of the Universal Service Obligation in the postal sector in view of the market developments
<b>WG Chair, NRA</b>	PTS (Sweden) and AGCOM (Italy)

**Discussion paper on the implementation of Universal Service in the postal sector and the effects of recent changes in some countries on the scope of the USO.**

## Consultation on the implementation of the Universal Service in the postal sector in view of the market developments

<b>Project name</b>	ERGP Report on the implementation of the Universal Service in the postal sector and analysis of the effects of the market and other developments on the scope and long term sustainability of the USO	
<b>Objective</b>	Consulting the European postal sector stakeholders on the implementation of the Universal Service in the postal sector and the effects of the market and other developments on the scope and long term sustainability of the USO	
<b>Target group</b>	European postal stakeholders: <ul style="list-style-type: none"> <li>- postal services providers, including universal service providers;</li> <li>- consumer associations;</li> <li>- postal industry associations;</li> <li>- labour associations;</li> <li>- e-retailers.</li> </ul>	
<b>Consultation period</b>	<b>18 September 2014 – 14 November 2014</b> A stakeholder workshop will be organized on <b>19 November 2014</b> in Bucharest, Romania.	
<b>Consultation language</b>	English	
<b>How to submit your contribution</b>	Submissions to be sent to ERGP Secretariat: <a href="mailto:markt-ergp@ec.europa.eu">markt-ergp@ec.europa.eu</a> or by mail to the address below.	
<b>How to register for the workshop</b>	Registration can be made online at: <a href="http://www.ancom.org.ro/en/ergp-2014-registration_5287">http://www.ancom.org.ro/en/ergp-2014-registration_5287</a> , can be sent to the ERGP Chair's Office at <a href="mailto:ergp@ancom.org.ro">ergp@ancom.org.ro</a> or by mail to the address below.	
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<b>Reference document</b>	Discussion paper on the implementation of Universal Service in the postal sector and the effects of recent changes in some countries on the scope of the USO.	
<b>Other relevant information</b>	<p>The present document was elaborated by the ERGP – the European Regulators Group for postal services – and it begins a public consultation of stakeholders of the postal Universal Service meant to provide input for the “<i>ERGP Report on the implementation of the Universal Service in the postal sector and analysis of the effects of the market and other developments on the scope and long term sustainability of the USO</i>”. The public consultation focuses on the issue of the Universal Service implementation and not on the content of this document, which serves only as background for the consultation.</p> <p>The public consultation will last from the date of publication of the present document until 14 November 2014, and will be followed by a stakeholder workshop, which is to be held in Bucharest prior to the ERGP Plenary. The workshop will be attended by interested stakeholders, as well as ERGP members.</p> <p>Submission of comments can be made in writing all throughout the consultation period. All comments should be in English. The opinions expressed during the workshop will also be taken into account. All opinions expressed will be included in the ERGP Report and made public, together with the name of the contributors. Contributions which are not intended for publication should be marked “confidential”.</p>	

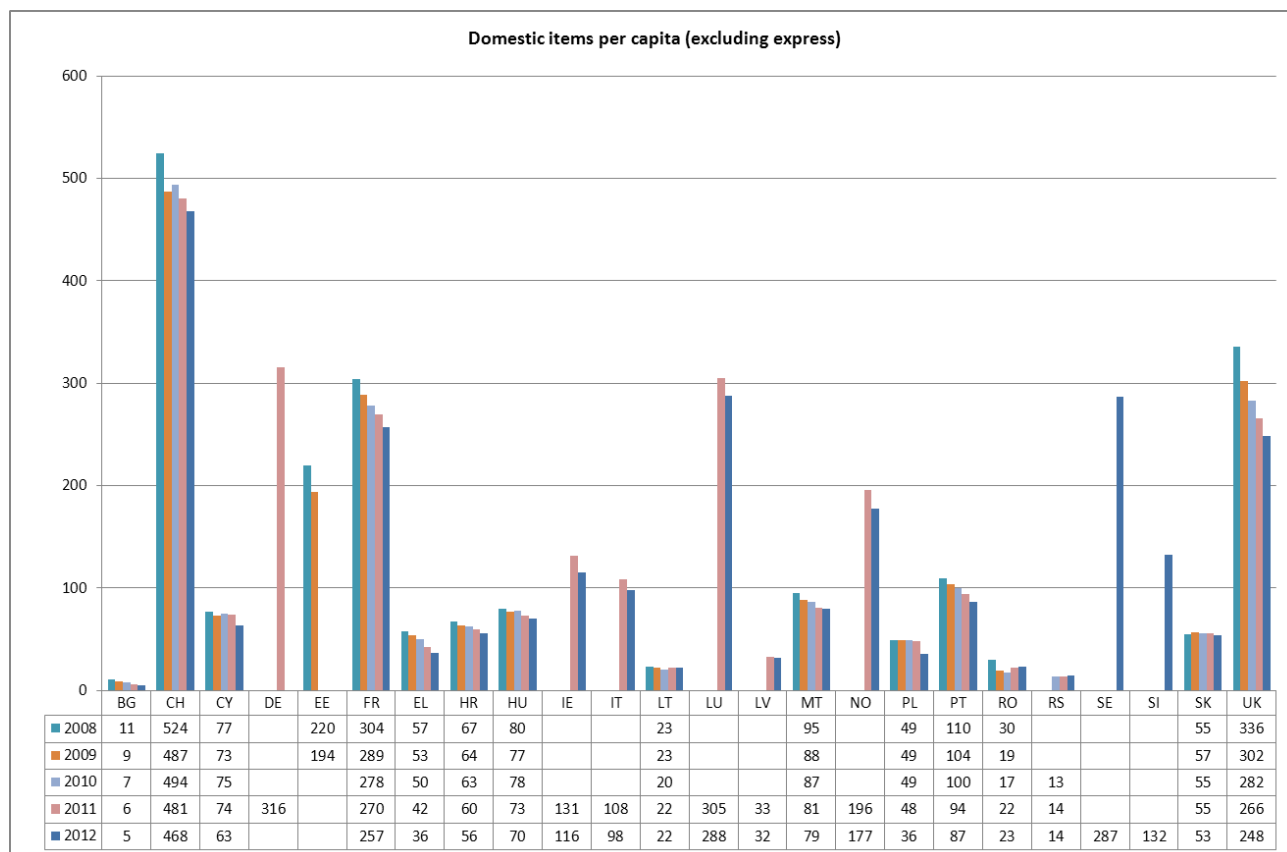
## I. Background

The aim of a universal postal service is the guarantee of a service encompassing a minimum range of services of specified quality to be provided in all Member States at an affordable price for the benefit of all users, irrespective of their geographical location. It has been established by the regulatory framework (launched back by the Green Paper in 1992) to respond to the needs and the communication environment of that time. This has changed.

At the beginning of the 1990s the average annual mail volume trend for EU 12 was plus 6.1% - today the annual volumes are declining at a fairly similar pace. While the pace of decline varies considerably between Member States the volume decline and the changing communication behaviour needs to be addressed. It shall be noted that also outside the EU countries have – such as New Zealand, Canada, USA and Australia – worked on a re-shaping of the universal service obligation (as described below). Therefore, the ERGP embarked on a reflection process. This process is dedicated to determine which steps are taken by Member States to adapt their services obligations in their countries. It will also consider the long term sustainability of the existing requirements of the Postal Service Directive, including possible amendments of the requirements that could increase its effectiveness as a solution to social inclusion issues throughout Europe. As part of this reflection process, the present document was conceived as the basis for a public consultation and for a discussion in a workshop with a wider group of stakeholders.

Furthermore, the workshop will lead to the second step of this work stream, i.e. an analysis and examination of the sustainability of the universal postal service in view of the (forecasted) traffic volume decline but also reflecting on the appropriateness of the current regulatory framework with regard to the universal service. The conclusions of the public consultation, the workshop discussion and an ERGP expert working group analysis will converge in an *ERGP Report on the implementation of the Universal Service in the postal sector and analysis of the effects of the market and other developments on the scope and long term sustainability of the USO*, which shall be published by the end of 2015.

Postal volumes are declining in almost every country in Europe. This is a major shift following years of increase of postal volume along with economic growth. This change is related, among others, to digitalization of the economy. For instance, the ERGP has noted that the range of volume decline registered in European countries for the last period of known data (2008-2012) varies from -4% to a -40% drop, as shown in Figure 1. In the light of this development, it must be examined which postal services remain or become indispensable for users.



**Figure 1: Domestic items per capita (excluding express)**

Based on data provided by “ERGP Report on Indicators on the Postal Market”, May 2014 (available *online* at: [http://ec.europa.eu/internal\\_market/ergp/docs/documentation/2014/ergp-13-33-rev.1-ergp-report-on-market-indicators\\_en.pdf](http://ec.europa.eu/internal_market/ergp/docs/documentation/2014/ergp-13-33-rev.1-ergp-report-on-market-indicators_en.pdf)).

Declining volumes of letter mail requires rationalization in the letter activities of the universal service providers (USPs) within the existing scope of the USO: in this context, some countries have chosen to change or started the reflection in order to modify the scope of the USO. This can be done by changing the scope of the universal service (US) within the flexibility provided for by the Postal Services Directive. Some countries have already begun to make such changes and it is clear that these changes should be closely followed. The ERGP should reflect if and how the said developments could impact on the sustainability of the universal postal service and how any emerging issue may need to be tackled in the future in all countries.

Structural decline in letter volumes is not just a feature of European postal markets; but is also apparent in most postal markets worldwide (with the possible exception of some emerging markets). In some countries, regulators, governments and USPs have taken steps to reform universal postal services to respond to volume decline.

In 2014, Australia Post has stated that it will need to reform to deal with the 30% decline in letter volumes over five years. It has introduced a slower class of service for business customers in addition to its priority service (D+1 within metropolitan areas of capital cities or within the same city or town; D+2 between metropolitan areas of capital cities and country locations and between country locations).

In December 2013, Canada Post has announced plans to move the third of addresses that still receive deliveries to their door to community mailbox delivery within five years. Canada Post says that these changes are necessary to adapt to lower letter volumes. It estimates that the move to community mailboxes will save CAN\$400m to CAN\$500m per year. Two-thirds of addresses in Canada already have mail delivery to a centralized point such as an apartment lobby box, a post office, or to a community mailbox, or to a rural mailbox.

New Zealand Post has negotiated a new postal Universal Service Obligation (USO). From July 2015, the basic postal delivery service will be not less than three days per week in urban centres and not less than five days per week to PO boxes and in rural areas (reflecting the dependent of non-mail services on the rural delivery service). New Zealand Post says that these changes are necessary given the decline in mail volumes from 1.1bn items in 2002 to 771m items in 2013.

In the United States, US Postal Service (USPS) has made losses of \$26bn over the past three years, primarily as a result in declines in volumes. USPS has proposed a reduction in the number of days of delivery to five per week and the introduction of delivery to community mailboxes. The Congressional Budget Office has estimated that over 10 years these changes would save USPS \$10.9bn and \$8,1bn respectively. However, the US Congress has not approved any of these changes.

This discussion paper is taking stock of the current situation of the USO, accounting for the recent market and regulatory developments. Based also on the factual information provided by WIK-Consult Country Reports “*Main Developments in the Postal Sector (2010-2013)*”, five main categories of issues were identified and investigated through specific questions:

- current situation of USO;
- changing of the USO scope over the last 10 years;
- USO and market players;
- net cost and unfair burden over the last 10 years;
- USP designation and financing mechanisms.

On the ground of a survey on what happened in European countries in the last years, the ERGP report will look into the possible options for further adjustment of the US requirements, including reflecting on potential changes of the Directive, taking into account the changing communications patterns, in order to provide the legislators/regulators with enough flexibility to determine a sustainable USO product range. It will assess which postal services may still be indispensable for users in a more and more digitalized world and in times of declining postal letter volumes. At the same time, there will be considered the potential risks of an imposed USO as a barrier to market entry for more efficient operators and the restrictions placed on existing postal operators to deliver services, with the consequential impact on costs to the postal sector and its users.

## **II. Identification of issues**

### *a) Current situation of USO*

Starting from the assumption that the scope of the USO in each country is as described in the WIK-Consult Country Reports “*Main Developments in the Postal Sector (2010-2013)*”, some additional

information were collected from ERGP members about services and features currently included in the USO scope.

All responding NRAs (24) indicated that single piece registered mail is part of the USO, whereas bulk registered mail is included in the USO scope in 13 countries (Belgium, Croatia, France, Greece, Hungary, Italy, Latvia, Malta, Norway, Portugal, Romania, Serbia and Sweden) plus Austria only in the case that mail is handed in a post office (and not when mail is handed in a sorting center).

A minimum number of postal offices<sup>1</sup> is not a legal requirement as a USO in Ireland and Sweden. The latter indicated that the Postal Services Act states: “*The density of the points of contact and of the access points shall take account of the needs of users*”.

A minimum number of post access points (post boxes)<sup>1</sup> is not required in 4 countries (Bulgaria, France, Greece and Sweden). In Norway this feature is not properly specified within the USO scope, by indicating just a “sufficient number” of collection mailboxes.

In Portugal, according to the legal framework, density criteria for both postal offices and post access points have to be defined taking into account the distribution of the population on national territory, distance between access points, urban or rural nature of areas covered and traffic and demand evolution. The process towards this definition is ongoing and in the meantime the USP must maintain at least the density levels that it offered on 31 December 2013.

Almost all the responding NRAs indicated that all services included in the USO scope are VAT exempted, except for Norway and Sweden.

Quality of Service targets (such as percentage of items delivered in the D+1 or D+3 terms) are specified in the USO scope for all responding NRAs (24).

#### b) *Changing of the USO scope over the last 10 years*

Bulgaria, Malta and The Netherlands indicated that they had plans to review the scope of the USO in the near future<sup>2</sup>. In The Netherlands, proposals for a change of the Postal Act are being prepared by which in particular the obligatory number postal establishments and collection boxes will be reduced significantly.

In Norway, the government was initiating a review of the postal regulation in view of implementation of the 3<sup>rd</sup> Postal Services Directive.

However, in some countries there is pressure for changing the USO scope from the USPs and, in one case (UK), from competitors.

In Croatia, Italy, Malta, Romania, Sweden, The Netherlands and one other Member State, USPs are claiming for potential changes in the USO scope. Proposed changes include: removal of services from the scope of the USO (e.g. postcards, business reply service, post office boxes, certificate of posting in Malta); reductions in the number of delivery days per week, postal establishments and collection boxes (in The Netherlands); removal of bulk mail (in one country); changes in quality of

<sup>1</sup> Directly specified by the USO or deriving from territorial distribution criteria within the USO.

<sup>2</sup> Malta intends to review the current scope of the USO within the limitation of the EU Postal Directive.

service targets (reduction of post offices, frequency of delivery and removal of D+1 services in Italy).

In UK, competitors have argued that the scope of the USO should be kept to the minimum necessary to meet users' needs, so as to reduce the potential for competitive distortions created by the VAT exemption.

As for the modifications already made to the national USO, what we can see from the recent history is that there have been changes to the USO in some States. Recent changes have mainly focused on the removal of bulk mail and direct mail, the redefinition of the coverage of the USO scope and the adjustment to the weight categories that are included in the USO, leading to a reduction in the range of items included in the USO, with removal of heavier packages and parcels.

Based on the information provided by NRAs, recent changes of the USO scope and any indications of plans to review it are summarized in the following table:

Country	Recent change to USO	Prospective change
Austria	Reduced parcel limit to 10kg, newspapers included	None
Belgium	None	None
Bulgaria	Removed postal money orders and direct mail	Review planned
Croatia	Changes to scope of existing services and weight limits	None
Czech Rep	Reduced parcel and insured items weight to 10kg	None
Finland	Redefined coverage of the USO scope	None
France	New single piece product in D+2 was added to US - deletion of second class letter for outbound international mail	None
Germany	None	None
Greece	None	None
Hungary	None	None
Ireland	Specified a minimum set of universal postal services that meets the needs of postal service users, while also minimising the regulatory burden on the USP	None
Italy	6 to 5 days of delivery per week; direct mail removed	None
Latvia	Reduced weight to 10kg for domestic parcels	None
Lithuania	Bulk services and direct mail removed	None
Malta	None	Review planned
Norway	Changes made but details not specified	Review planned
Poland	Bulk mail removed	None
Portugal	Reduced weight to 10kg for parcels; direct mail removed	None
Romania	Direct mail excluded; mail for the blind included; new parcel quality provisions	None
Serbia	None	None
Slovenia	Reduced parcel weight to 10 kg	None
Sweden	None	None
The Netherlands	Reduction of 6 to 5 days a week delivery (except for obituary notice-letters and medical mail)	Review planned
UK	Bulk mail removed	None

**Table 1: Recent changes of the USO scope and review plans.**

Based on the collected data, it seems that liberalisation was the trigger for changing the USO scope in 11 countries of 14 (Austria, Bulgaria, Croatia, Czech Republic, Latvia, Lithuania, Italy, Poland, Portugal, Romania and Slovenia). In some cases there were several factors which have led to USO adjustments. In this regard, the changes in the consumers' needs or preferences were considered by



8 countries (France, Ireland, Italy, Latvia, Lithuania, Romania, Slovenia and The Netherlands) as a strong reason to start this process. Also, the need to protect end users contributed to this in some extent in Croatia, France and Latvia as well as the necessity to decrease the potential net cost of the USO in Croatia, Italy and The Netherlands.

Irrespective of the underlying factors setting the scope of the US, a broader or less specific definition of the USO is established through primary legislation in all the analysed countries in order to give enough flexibility to the regulators to accommodate the changes in the postal market into detailed requirements which are reflected in the secondary legislation or as license conditions.

In this respect, any substantial change in the US area is reflected in the Postal Service Law or through a ministry's decision (Greece) or by adjusting both acts (Poland). In most Member States it seems that the ministry responsible for the postal sector transposes the Postal Services Directive and sets rules for regulating the US, with the NRA allowed to further specify the regulation of the US if required (except the NRAs from Austria and Serbia, which have no role in changing the scope of the US). In most cases the proposals to amend the acts come from the NRAs based on the real facts observed in the markets, some of the regulators being involved even in the process of drafting the national framework for postal services.

### c) *USO and market players*

Concerning the USO scope and the market players, all 24 countries considered that the USO framework protects consumers (individuals, as well as small offices or home offices, which are protected in 13 countries). In some cases, as in Portugal, all postal users in general (sending or receiving mail) can benefit from offers by the USO scope, since the USO aims to meet the needs of the population and those of economic and social activities. Some countries indicated that the USO scope protects consolidators (10 countries), infrastructure (end-to-end) competitors (6 countries), firms which need to send bulk mail (6 countries). In UK, any business sending single piece mail is protected by the USO scope.

In general, all services included in the USO scope are considered able to avoid social exclusion of a majority of the population, especially single piece letters and parcels, as well as items for the blind. However, in few countries this feature does not clearly emerge for all services within the USO scope. Italy outlined that some services seem not to be necessary to prevent social exclusion due to the presence of interchangeable services on the postal market (such as single piece parcels and registered mail, bulk letters and bulk registered mail). France and Serbia indicated general bulk mail as a service which does not prevent social exclusion, but, according to the response of the French regulator, it is included within the USO scope due to historical and fiscal reasons.

Five countries declare that there are services currently offered on their postal markets, outside the USO scope, which are able to avoid social exclusion of a majority of the population.

In Norway, the aim of the postal law is that postal services shall be offered in the whole country at affordable prices and there is also regulation regarding the availability of basic postal services for disabled users. In Croatia, direct mail, printed paper (including newspapers) and unaddressed mail are offered at the same prices on the whole territory, even though there is no obligation. In Belgium, the government has also defined some specific postal services as Services of General Economic Interest like early delivery of recognized newspapers. In Finland, there is a general availability of

services, outside the USO scope, able to prevent social exclusion. In Italy services provided out of the USO scope which are able to avoid social exclusion are interchangeable services of single piece parcels and registered mail, bulk letters and bulk registered mail. Moreover, the UK regulator indicated that services outside the USO scope are not subject to regulatory requirements to avoid social exclusion (e.g., packet and parcel operators can surcharge for delivery to rural areas and refuse to deliver to some areas), but many services do not differentiate, for example, there is no significant evidence of differentiation in bulk mail. In Germany, no postal service provider is currently subject to a legal obligation (no USP has been designated).

Almost all responding NRAs indicated that some services included in the USO scope have been provided at a loss over the last 10 years, as shown in the table below.

Service provided at a loss	Country
Single piece domestic letters (including registered mail)	Bulgaria, Greece, Ireland, Italy, Poland, Portugal <sup>3</sup> , one other country
Single piece parcels	Bulgaria, Croatia, Hungary, Ireland, Italy, Poland, Portugal, one other country
Press delivery	Greece, Italy, Latvia, Portugal
Items for the blind	Bulgaria, Czech Republic, Lithuania
Direct mail	Greece, Italy
International parcels	Italy, one other country
International letters	Croatia, Ireland, Italy, one other country
Bulk letters	Italy

**Table 2: Postal services within the USO scope provided at a loss.**

Three NRAs (Germany, Sweden and UK) indicated that services are not provided at a loss. The NRA of Sweden specified that the USP is compensated for free delivery of items for the blind (up to 7 kilograms) and extended services to elderly or disabled person in rural areas. The UK regulator indicated that only one service in the USO scope is currently subject to a regulatory price control and this is not offered at a loss, while the pricing for the remainder of the universal services is determined by the USP, and NRA does not review the individual profitability of all of those services. The information on making loss services is not available for Austria and The Netherlands, whereas it is confidential for Belgium and Malta.

d) *Net cost and unfair burden over the last 10 years*

Only three NRAs indicated that their USPs have applied for compensation of the net cost of the USO over the last ten years and the net cost of the USO has been compensated. In Italy and Norway the calculation of the net cost of the USO over the last ten years has been undertaken by the USPs and assessed by the Ministry. In Italy, the NRA is in charge for the assessment of US net cost as from 2011. The NRA of Bulgaria noted that the net cost of the USO has been assessed after verification by the NRA and expressed an opinion on the treatment of intangible benefits and the consideration of unfair financial burden for 2011 and 2012. The intangible benefits (*“prestige of*

<sup>3</sup> Domestic single piece letters sent by occasional/individual clients.

*trademark, resulting from the universal postal service performance and benefits, proceeding from the special trade rights*”) have been accounted and made quite a significant amount. The following criteria of unfair financial burden, were assessed: “*share of the net costs in the total amount of the UPS performance revenues; value of the financial accounts balance with foreign administrations; changes in the share of the designated operator on the UPS market, changes in the conditions of the reference scenario; the NRA also used auditor’s recommendations*”. In The Netherlands, due to withdrawal of the claim by the USP, there was no need for the NRA to perform the assessment of the USO net cost and the unfair financial burden.

#### e) *USP designation and financing mechanisms*

Analyzing the data provided for by the responding countries it was revealed that in all cases direct appointment is used as a procedure for designating the USP, while in two countries (Malta and Romania) there is an alternative method (public auction) in case of failure of the public procurement procedure<sup>4</sup>.

In Czech Republic and Poland, direct appointment will be replaced by public auction after the expiration of the current designation, and in Belgium direct appointment will be replaced by an open mechanism after the expiration of the current designation. In UK it can be done a procurement determination: however OFCOM is prevented from doing this until October 2021 (unless agreed by the USP).

In Austria every five years the NRA has to undertake an analysis to prove if there are other operators who can provide the USO: if this is the case, the NRA has to arrange a public award procedure. Similarly, in Slovenia the direct appointment is applied if the results of the market analysis show that just one operator can ensure the required quality of US provision, otherwise the USP is designated by public tender.

In Portugal, the current USP was directly designated (concession contract) until the end of 2020<sup>5</sup>. In The Netherlands, the USP may be designated on the basis of a selection procedure proscribed by law (which can be seen as a kind of public auction). However, this procedure has never been applied as the current USP was (by legal exception) been designated by Ministerial Decree and there has been no occasion to withdraw this designation. There is a different scenario in Germany, where no particular service provider has been designated to provide the US. All operators, i.e. the entirety of postal operators, provide the US without any legal obligation. Only if the market fails to provide the US, one or several service providers have to be designated by the NRA, according to a tender procedure, in order to properly provide the required service.

Excepting Malta, Germany, The Netherlands and UK, USPs are designated for a limited period of time (the average of the designation period among the responding countries is around 9 years).

Regarding the financing mechanisms, these are outlined in multiple ways.

<sup>4</sup> In Malta, the alternative method relates to the “public procurement procedure”, i.e. in addition to direct appointment there is an alternative method, which allows for the procurement of US by procuring such services in accordance with the applicable public procurement rules and regulations.

<sup>5</sup> After that date, the US provisioning may be ensured through the following mechanisms (Law 17/2012, art. 17): a) efficient market operation, under an individual license regime; b) designation of one or more postal service providers to provide different elements of the US or to cover different parts of the territory. The designation referred to in point b) shall follow the applicable public procurement rules and regulations.

USO may be financed by public funding/state budget in 12 countries (Belgium, Bulgaria, Croatia, Greece, Hungary, Italy, Lithuania, Malta, Norway, Poland, Romania and Serbia).

There is no compensation fund provided by law in Belgium, Bulgaria and Sweden.

USO net cost may be financed by USP itself and by competitors in 14 countries (Austria<sup>6</sup>, Croatia, Finland, France, Germany, Greece, Ireland, Italy, Malta, Poland, Portugal, Romania, Slovenia and the UK). In Serbia, the net cost may be financed by the USP. In Hungary, to reduce the unfair burden on the USP, the Authority opens a *Universal Postal Service Compensation Account* (hereinafter referred to as “Account”) kept by the Hungarian State Treasury with contributions paid by providers of licensed postal services. If the Account does not cover the unfair burden, the USO net cost is financed by state budget.

In Malta, Romania and UK, the net cost of USO may be also covered by financial contributions of consumers.

In The Netherlands, articles 30 and 31 of the Postal Act currently provide for a system by which the remuneration of net costs incurred by the USP, as awarded by the NRA, is apportioned (according to their turnover) among all postal service providers, including the USP itself (but excepting postal service providers with a turnover of less than 2 million of euro).

In no country, the USP or competitors have claimed for a “pay or play” mechanism.

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<sup>6</sup> In Austria, if the net cost exceeds 2% of the total cost, a compensation fund has to be created by the NRA, and both USP and competitors have to contribute.

### III. Questions for discussion

The information provided in this paper is intended to open a discussion on how the market and regulatory changes described above may have an influence on the USO scope in the near future, and if so, how it could be dealt with.

This discussion is organised through a public consultation running from September 2014 to November 2014, with a stakeholder workshop/hearing to be held in Bucharest on 19 November 2014.

The ERGP identified some possible reasons related to changes in the USO scope, such as:

- changes in consumption patterns;
- reduction in the letter mail volumes;
- sustainability of the net cost of providing the universal service;
- need to prevent social exclusion through USO;
- barriers to market entry.

The results of the answers provided by the NRAs highlighted that several countries adjusted the USO scope in recent years.

The reasons behind the adjustment of the USO scope varied a lot. In some cases, it may be related to a decision that the service was not appropriate for the inclusion in the USO, as it did not relate to the protection of citizens against social exclusion. Additionally, many user categories such as consolidators, end-to-end operators and business customers may not be considered as susceptible to benefit from the US mechanisms, also because the liberalization of the postal sector has allowed new operators to offer services provided under the US mechanisms, even if with different quality standard. Other changes to the USO are less clearly linked to either social exclusion policy or competition options. Reduction of the range of services, postal offices, terms and quality of delivery are likely to be more directly related to the efforts to balance both sustainability of US provision (by reducing the cost of the USO, as a response to the challenges raised by reduced volume) and the needs of users. A further option to explore to maintain the sustainability are incentives for a more efficient provision of the US.

It may be possible that the two typical regulatory measures on prices, such as prices' affordability and VAT exemption, create barriers to market entry and lead to market distortions<sup>7</sup>. Furthermore, some services included in the USO scope may be offered at a loss, and this may place an unjustified financial burden on postal sector and on users. Then price regulation should take account of the competitive situation of markets. With respect to the changes of the postal market being in progress, it should be evaluated in depth whether all services within the USO scope are still relevant. Following that, it should be ensured that any future definition of US and financing mechanism is competitively neutral, i.e. not hindering the market development.

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<sup>7</sup> NRAs, however, recognize that the VAT exemption is an issue for EC and each national legislation framework across European countries.

There is a tendency towards broader and less specific scope of US in order to give enough flexibility for regulators. The US scope differs from country to country (within the limits of the Postal Services Directive). Based on the described results, and also taking into account the changing communications patterns and declining letter mail volumes up to increased e-commerce, some possible issues, related to the adaptation of the USO scope under the flexibility provided by the Postal Service Directive, should be further investigated, such as:

- Does the current scope of the USO lead to excessive costs?
- Could tariff regulation (e.g., affordable prices and VAT exemption) introduce a competitive distortion on postal markets?
- What could the common European minimum scope look like?
- What essential elements should be guaranteed?
- What essential elements need to be regulated?
- How essential is it to have a uniform base level taking the need for country specific solutions into consideration?
- Which user categories should be targeted by the USO? Individuals, individuals in rural areas, disabled in rural areas, small offices and/or home offices? Is it possible to identify changes in this respect in a forward looking perspective?
- Could there be a reason for protecting competition through the USO (i.e. do safeguarding that USPs' prices are cost-oriented, non-discriminatory and transparent protect customers and competitors?)?
- Is it necessary to designate an USP for the provision of USO?
- In the perspective of a changing postal market, what could be a reasonable designation period and a relevant designation process?
- Would changes in the scope of USO affect the possibility to finance US for instance by a compensation fund (and if so in what way and with what consequences)?