Chapter 8

Access Pricing in the Postal Sector

Results from a Model with Bypass and Customer Direct Access

Philippe De Donder[1], Helmuth Cremer[1], and Frank Rodriguez[2]
University of Toulouse, IDEI & GREMAQ[1] and Royal Mail Group[2]

1.

The economics of access pricing to the postal network has attracted a significant amount of research interest, much of it arising from the EU Postal Directive of 2002 (Official Journal, L176/21).[1] The Directive requires that access prices should be on an avoided cost basis and that, in addition to being available to entrants, "any such tariffs shall also be available to private customers who post under similar conditions."[2] In a liberalized environment, some private customers, at least, then effectively have three alternatives with regard to their choice over postal services. Customers, first, can use current end-to-end services of the universal service provider (USP); secondly, customers can make use of alternative services offered by entrants which, in

[1] Recent contributions to this literature include papers by Billette de Villemeur et al (2004), Crew and Kleindorfer (2002, 2004), De Donder et al (2002a, 2004) and Panzar (2002).

[2] Official Journal, L176/21, 2002, Article 12. The full text reads:
"whenever universal service providers apply special tariffs, for example for services for business, bulk mailers or consolidators of mail from different customers, they shall apply the principles of transparency and non-discrimination with regard both to the tariffs and to the associated conditions. The tariffs shall take account of the avoided costs, as compared to the standard service covering the complete range of features offered for the clearance, transport, sorting and delivery of individual postal items and, together with the associated conditions, shall apply equally both as between different third parties and as between third parties and universal service providers supplying equivalent services. Any such tariffs shall also be available to private customers who post under similar conditions".

turn, may be provided either through the networks of entrants (bypass) or by the use, in part, of the USP's network (access); or, thirdly, customers can access the USP's network directly themselves. The latter already occurs in some countries through presortation of mail which attracts workshare discounts off public tariffs. However, the Directive opens explicitly the possibility of access to the delivery network of USPs, or downstream access, where previously access, in those countries where this has been possible, has applied only to upstream activities. The possibility of customer direct access to the delivery network of the USP (CDA) is an important development and extends the possibility of worksharing up to the final stage of delivery.

In an earlier paper (De Donder et al, 2004) we developed a model for deriving optimal rules for access pricing to the delivery network of a USP under conditions where only entrants were allowed access to the USP's network and where entrants could choose whether to use the USP's network or provide a full end-to-end (E2E) service themselves. In addition to access, the USP continued to offer a single retail, E2E service at a uniform tariff which applied across both an urban and a rural area. The paper concluded that optimal access charges follow the efficient component pricing rule (ECPR)[3], modified to take account of two additional factors. The first of these is the extent to which access displaces traffic previously using the USP's E2E service and the second is the extent of the financial loss arising from entry through bypass. The possibility that such entry results in a financial loss for the USP also raises the issue of whether the combined effect of bypass with access to the USP's network raises or lowers economic welfare.

In the current paper we extend that initial work in two significant ways. First, in the earlier model we assumed that an initial break-even price of the USP's retail service was constant and derived optimal rules on that basis. However, it is more satisfactory to derive also an optimal uniform tariff for the USP's retail service so that optimal prices for access and the uniform retail tariff are derived jointly. Secondly, the earlier model did not allow for the possibility of customer direct access to the USP's delivery network (CDA). As noted above, this option is now available to private customers which means that they can bypass both the USP's upstream network and entrants' services by undertaking upstream activity themselves.[4] The current paper considers the impact of CDA on optimal rules for the pricing of both access and the uniform retail tariff of the USP and the accompanying impacts on volumes, the USP's profit and economic welfare.

[3] The term ECPR is used in the narrow sense of the "margin rule" (Armstrong, 2002) equivalent to "avoided cost" as contained in the EU 2002 Postal Directive.

[4] Customers may use third parties for at least part of this work, for example, trucking of presorted mail to inward mail centers for final delivery by the USP.