Chapter 2

Universal Service Obligations in the Postal Sector
*Economic Learnings from Cross-Country Comparisons*

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1. INTRODUCTION

The 2nd European Postal Directive requires an assessment of the scope and sustainability of the universal service obligation (USO) under full market opening. The requirements for each of these, the scope of the USO and the market opening, as well as the incumbent’s sustainability under alternative scenarios may well differ across countries as a number of previous contributions to the postal debate have pointed out. Universal service is a set of measures aiming to grant permanently all users in all points of a territory a sufficient level of service. These obligations take the

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form of constraints, and apply to a range of products or services. They involve quality, in the broad sense, and price controls. The existence of obligations means that, in their absence, the market may not provide a sufficient level of service, or whole scope of products, or at least not at an affordable price level for all users. The loss of degree of freedom created by the existence of constraints creates an opportunity cost.

According to Cremer et al (2000), the cost of the USO is the difference between the profits the universal service provider could obtain if the obligations were not imposed and the actual profit realized under USO. This approach is similar to Panzar’s (2001) loss of potential profits, and Choné et al.’s (2002) competitive neutrality.

Calculating when the incumbent faces a break-even rule, or when the profits are bound, is clearly problematic. This is why in the ‘potential profits’ approach, in a regulated monopoly situation, the question of the (net) cost of universal service is irrelevant.

In a competitive environment, the calculation of the cost of universal service is crucial, for evaluating the competitive handicaps of the incumbent, and for finding the appropriate mechanisms for its financing (e.g., compensation funds or state subsidies.).

As most postal operators in the world enjoy a protected monopoly for financing their USO, cost projection in a liberalized environment may be misleading. The losses due to liberalization must not be confused with the cost of USO.

Nicolas Curien, at the postal conference organized by the Institut D’Economie Industrielle (2001), has drawn a very clear picture (see Figure 1) that summarizes well the different methods proposed to derive the cost of USO.

Figure 1: Cost of USO and Cost of Liberalization.