

SOURCES AND MECHANISMS OF UNIVERSAL POSTAL SERVICE FUNDING

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Summary: Presented paper searches optimal way of universal postal service ensuring in Czech republic. At first it is necessary to define appropriate extent and structure of universal service regarding specifics of particular state (including decision of postal network future form). In second step, there is a necessity to assess exact level of USO net costs by appropriate method and just after that to decide the way of its additional funding if necessary. Generally recommended way of USO additional funding by compensation fund or state budget application is not convenient solution. More appropriate method is special type of mechanism so called “ pay or play “ preventing cherry-picking and based on such principle, that each provider of up to now reserved services, who will want to provide these services in strictly defined the most lucrative state areas, will be obligated to provide these services on the whole state territory. Naturally, he will have possibility to use access to universal service provider network guaranteed by direction 2008/6/EC.

Key words: univerzální poštovní služba, mechanismus financování, pay-or-play.

INTRODUCTION

Range and structure of universal postal service (UPS) in individual states is significantly different, because each state assigns different importance to individual components of UPS, and of course due to traditional principle of subsidiarity respected by directive 2008/6/EC and general character of relevant parts of directive 97/67/EC. On the other hand, minimum requirements for UPS stated in directive 97/67/EC are accepted throughout all member states and they will be valid probably in future in conditions of fully liberalized postal market according to directive 2008/6/EC.

1. COSTS OF UNIVERSAL POSTAL SERVICE OBLIGATION

UPS maintenance will represent for its providers in particular states different costs. Each state in fact has various demographical, geographical and economic factors typical for concrete state and it has different UPS conception (scale and structure). In addition, present UPS conception in individual states should be analysed and adjusted in future to correspond to needs of postal services users (regarding development of alternative communication forms – internet, cell phones). This approach can achieve higher efficiency of UPS provision and lower costs connected with its funding as well.

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Concrete way of USO costs calculation is included in Annex 1 of Directive 2008/6/ES, as follows:” The net cost of universal service obligations is to be calculated, as the difference between the net cost for a designated universal service provider of operating with the universal service obligations and the same postal service provider operating without the universal service obligations. The calculation shall take into account all other relevant elements, including any intangible and market benefits which accrue to a postal service provider designated to provide universal service, the entitlement to a reasonable profit and incentives for cost efficiency.”

In compliance with mentioned Annex 1 of Directive 2008/6/ES real USO costs can be defined as the difference in profit of postal operator providing services in competitive environment with (E_{USO}) and less USO ($E_{lessUSO}$). Profit is calculated as difference between revenues (R) and costs (N):

$$\begin{aligned} Costs_{USO} &= E_{lessUSO} - E_{USO} = (R_{lessUSO} - C_{lessUSO}) - (R_{USO} - C_{USO}) = \\ &= (C_{USO} - C_{lessUSO}) - (R_{USO} - R_{lessUSO}) \end{aligned} \quad (1)$$

where:

($C_{USO} - C_{lessUSO}$) represents incremental costs due to USO maintenance,

($R_{USO} - R_{lessUSO}$) represents incremental revenues following from USO maintenance.

2. MECHANISMS OF UNIVERSAL POSTAL SERVICE FUNDING

UPS is understood as social service generally accessible for all people (at least in minimum level) and that is why it is necessary to preserve its continuity in long-term horizon.

Directive 2008/6/EC offers certain general solutions how to fund UPS in conditions of fully liberalized market, especially by ways as follows.

2.1 Mechanism of UPS net costs compensation from public funds

Within this mechanism, universal service obligation (USO) is funded by direct or indirect transfers from state budget. State subsidies in postal sector are applied for example in Italy (addition of compensational fund), in Sweden (subsidies for postal services provision in rural areas for aged and infirm inhabitants and for blind citizens), or in Great Britain (subsidies for rural post offices provision).

Considering the fact that this mechanism uses public sources for USO funding, it is necessary to judge by assessment of this method respecting of Community regulations related to state support. Limiting regulation is comprised in the Treaty of Amsterdam amending the Treaty on European Union, the Treaties establishing the European communities and related acts (1997) in following expression: “Save as otherwise provided in this Treaty, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between Member States, be incompatible with the common market.”

Next restrictions are regulations following from just realized legal disputes, according to which state support must meet especially four criteria defined in case Altmark, or to gain

ad hoc permission from European commission. On the other hand, considering services provision funding of general economic interest, state support allocated to USP has not to be understood as compatible with common market.

It is case C-280/00 Altmark Trans GmbH and Regierungspräsidium Magdeburg v. Nahverkehrsgesellschaft Altmark GmbH [2003] ECR I-7747, from which four basic requirements of permitted state support have followed:

- receiver of state support must maintain USO, which is clearly defined,
- parameters for calculation of compensation must be defined in advance (ex ante), factually properly and transparently,
- compensation has not to be higher than real necessary requirement to cover total or only partial costs connected with maintenance of public service obligation, considering relevant incomes and adequate profit,
- level of compensation must be set on the basis of analysis of costs necessary to efficient obligation maintenance in case when public service obligation executor was not selected by public tendering.

In this context, the way of universal service provider (USP) selection is very important. State subsidies must be put through detailed investigation by Commission according to the fourth regulation of case Altmark in case, when receiver of state support is not selected by public tendering. It can be stated totally about this mechanism of USO funding that its application will be appropriate in countries with high UPS costs, which could not be covered by sources following from fund financed by individual operators or directly by postal services users. This mechanism can achieve good results in dependence on tax system efficiency of particular country, considering efficiency and justice of system. Costs connected with necessity of operators or directly postal services users (contributing to eventual compensational fund) identification drop out and costs connected with determination of contribution amount to this fund are unfounded as well.

On the other hand, it is necessary to pay attention to right calculation of real USO costs. Over-compensation of USP will bring him additional funds, which could be used to subsidizing of prices of his services on related markets. This approach can deform competition. Problems with transparency of system can arise in case of role of the state as USP owner and regulator simultaneously. These problems may occur especially by instigation of provider to efficient activity, calculation of UPS costs or conflict of interests in case of doubts about this calculation from the side of other postal operators. This funding mechanism can also bring risk of political decisions instability related to USO funding from state budget especially in long-term horizon.

2.2 Mechanism of UPS net costs funding by distribution of these costs among service providers and/or their users with possible application of compensational fund.

Funding of USO real costs by various forms of compensational fund represents one of the most widespread forms of funding applied in several states and sectors of national

economy (telecommunications, energetics and so on). Following forms of compensational fund are applicable for postal sector.

Compensational fund financed by contributions from revenues of individual operators - the most frequent conception of compensational fund is collection of charges from all postal operators in amount corresponding to certain percentage of their revenues. Sources from fund are usually distributed to USP in form of lump sums and fund is administrated by the third subject, usually by NRA. Area liable to payment of contribution to compensational fund is defined here both by broad range (for example telecommunications sector in France) and by narrower range (for example telecommunications sector in USA). Contributions to compensational fund are in majority finally paid by ultimate customers, whether directly or indirectly.

Compensational fund financed by contributions from profit of individual operators - this compensational fund conception has not been applied in practice yet, nevertheless, it is mentioned in range of academic studies as potentially possible. Similarly to previous case, area liable to payment of contribution to compensational fund is defined here both by broad range (contributions are paid from profit of all services, it means within and also beyond USO) and by narrower range (from profit of only certain services, for example only services beyond USO).

Compensational fund financed by contributions from each realized unit – this fund can have form of direct contributions of ultimate customers or contributions of operators transferred subsequently to ultimate customers.

Compensational fund financed by lump sums paid by individual operators - this form of funding comprises two possible conceptions: billing of lump contributions to operators or directly to ultimate customers. Lump contribution is fixed amount ordered to operators, more precisely to ultimate consumers to payment without regard to market share, more precisely volume of consumption.

The most appropriate variant of compensational fund appears compensational fund financed by revenues of postal services providers or financed by contributions from each realized unit. Both variants achieve good efficiency of services provision process. On the other hand, it must not be easy to identify such operators, which should pay contributions to fund. Additionally, it can be difficult to monitor and verify revenues following from services in area liable to payment of contributions, or to investigate exact data of volumes of sent postal items especially in countries, where national regulative authority (NRA) has not sufficiently strong position for gaining of necessary detailed information and where costs of this monitoring are high as well. Considering postal sector, the only one example of really functioning compensational fund was found in Italy, where nevertheless its aim was not fulfilled – sources of fund by far did not cover financial burden of USP.

Except of these two USO funding mechanisms (mentioned in Directive 2008/6/EC), minimally next two variants can be theoretically identified.

2.3 Mechanism “pay-or-play” UPS

Fundamental idea of this mechanism is similar to compensational fund mechanism. Providers delivering only to low costs areas must pay to compensational fund of certain form.

This approach is applied to offering of postal services in high costs areas for affordable and geographically uniform prices. Within this mechanism, more operators can decide to provide services in high costs areas. It differs from standard compensational fund, where usually only one USP operates. The consequence of operator's decision to provide services in high costs areas is reduced obligation of contributing to fund. Thus his resulting payments are lower, because this operator just receives financial subsidies from this fund as well. In other words, operators have possibility of choice between partial providing of services liable to USO or financial contributing to compensation for other operators providing these services.

Mechanism "pay-or-play" belongs to the most sophisticated mechanisms of USO funding, because it combines question how to fund USO with question who should provide UPS.

Attractiveness of this mechanism lies above all in fact, that it offers possibility of competition entrance to high costs areas. Correctly set mechanism achieves good results from viewpoint of efficiency and ensuring of fair competitive conditions on market.

On the other hand, highly sophisticated system brings higher difficulty by practical implementation of this mechanism. Monitoring of all operators providing UPS could be problem. These operators in fact can only pretend interest in provision of services in high costs areas to avoid contribution payment to fund, and simultaneously they can focus their activities really only to low costs areas.

Key and evidently the most problematical task by practical implementation will be setting of right amount of charge (respectively range of values according to scale and form of provided services – higher provided scale will lead to lower charge). Decisions just based on the level of charge will influence not only volume of funds received from operators, but also scale of competition in high costs areas.

2.4 Mechanism of increase in charge for access to USP network

This mechanism of USO funding works on principle of charges billed postal operators for access to USP network to final delivery. This charge has form of surcharge on price paid for mentioned access. Incomes from these charges are then used to reimbursement of USO costs.

Two variants of this mechanism can be theoretically distinguished. They differ in permission of final delivery to other postal operators through their own networks. In case that this delivery is not permitted, other postal operators must hand all postal items to final delivery to USP. Due to this procedure, incomes from received charges are high and can significantly reduce USO financial burden to its provider.

In case of permission, these competitors have possibility to compare price for access and costs of final delivery through their own network. They can assess realization of the whole postal chain (including final delivery) for certain routes or areas, or usage of USP network.

Increase in charge for access to USP network would be relatively simple and transparent mechanism of USO funding, but of course only in such countries, where system of chargeable access to USP network has been already functional.

It is evident as well, that total judgment of this funding mechanism considering assessment criteria is significantly dependent on permission of final delivery by alternative postal operators and on uniform or zoned access charge.

Variant with banned final delivery by alternative postal operators is in essence similar to reserved area for area of final delivery. It is able to ensure sufficient resources for USO funding and it is appropriate especially for countries with limited potential entrance of effective competition to area of final delivery. Unlike reserved area, it enables competition in upstream activities (activities preceding final delivery), dynamic efficiency or ensuring of fair and honest competition. Due to this fact, it achieves better results from viewpoint of productivity of postal services provision process. In this situation, total received incomes by uniform access charge will be probably higher than by zoned charge in case of uniform access charge higher than delivery costs in areas with low delivery costs (where competition is expected) compared to cost adjusted zoned access charge.

Permission of final delivery by alternative postal operators namely will ensure generally better efficiency and competitive environment, but there is big risk of insufficient resources for USO funding in consequence of excessive development of final delivery by alternative postal operators themselves. In addition, too high uniform access charge would make to final delivery realization also less effective competitors than present USP, which would influence the total efficiency of mechanism.

Final decision of used way of funding is up to individual member states. Nevertheless, mentioned methods must be understood as systems of additional UPS funding in case that general arrangements of viable UPS maintenance in condition of liberalized postal market do not bring sufficient reduction of financial burden for USP.

3. PROPOSAL FOR UNIVERSAL POSTAL SERVICES FUNDING IN CZECH REPUBLIC

USO net costs corresponding with minimum requirements defined in Direction 97/67/EC should be covered by specific mechanism “pay-or-play” UPS by the way “if entrants decide to play, they must play entirely“, combining with functional system of alternative postal operators access to USP network. This mechanism makes newly entering postal operators to operate in areas with high costs of provision, if they want to provide services in areas with low costs of provision. This system is similar to such one, which is applied by public bus transport. Concrete conception of this mechanism would be based on approach, that all alternative postal operators, which would like to provide postal services in low cost areas (cities with more than 300 000 inhabitants – Prague, Brno, and Ostrava), they would have to realize these services in the whole territory of the Czech Republic. In addition, they can realize items addressed to high cost areas by their own delivery network or through USP network. The advantage of this mechanism is removal of the biggest complication of practical implementation – it means setting of right level of charges to compensational fund according to scale and form of provided services. This mechanism also eliminates cherry-picking by the most lucrative type of items. Assumed price flexibility of USP by bulk mail makes it simpler and coverage of all USO costs should be ensured by this mechanism. On the

other hand, this combined mechanism of UPS funding requires right setting of access charges to USP network. Too high charges (in relation to costs connected with final delivery) would lead to unfair scale of inefficient final delivery by alternative postal operators (duplicity of fixed costs connected with delivery to areas, in which more postal operators would be active). Too low charges would eliminate development of competition by items delivery. Competition would develop only in upstream activities and USP revenues following from access to his own network would be scanty as well. Effort of alternative operators to avoid their obligation of delivery to high cost areas would be considered as possible risk.

Of course proposed solution is applicable not only in the Czech Republic, but also in other states with similar characteristics of a postal sector.

CONCLUSION

The Czech postal sector has been fully liberalized since 1 January 2013. But nowadays there exist many questions connected with functioning of the Czech postal market within these quite new conditions. The most problematical area is UPS funding in situation, when reserved area already does not exist, which served as compensation to universal service provider for maintenance of universal service obligation. That is why it can be affected by some financial problems and this fact could endanger universal postal service provision as well. This possible situation will be evident at the earliest in one year, when materials for calculation of universal service obligation net costs of its provider will be available. But behaviour of individual participants on the fully liberalized market can be predicted in the present day and it is also possible to analyse assumed impacts on universal postal service funding.

POUŽITÁ LITERATURA

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