



# **Compensation for the Distribution of Publications in France and Italy**

## **Net avoidable cost applied to postal state aid**

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# Operators entrusted with a public service obligation can be compensated for the net cost of discharging it

- EU member states can entrust the provision of services of general economic interest (SGEI) to undertakings in the form of a public service obligation (PSO):
  - Postal operators often have a “universal service obligation”
  - In some countries, additional postal PSOs may exist, e.g. press distribution
- Two pieces of legislation provide guidance on the compensation that can be granted:
  - Third Postal Directive of 2008
  - Framework for Services of General Economic Interest (SGEI) of 2012
- A principle and a method:
  - *“The amount of compensation must not exceed what is necessary to cover the net cost of discharging the public service obligations, including a reasonable profit”*
  - Net avoidable cost (NAC) identified in the Framework as the measure of the maximum compensation that postal operators can receive
- Several state aid decisions on compensation for postal services since 2011, notably two recent decisions in 2018 and 2019 on compensation for press distribution obligations
  - Guidance on how to apply NAC to quantify SGEI compensation



## A number of decisions adopted under the 2012 Framework and using the NAC approach

- Compensation of postal Universal Service Obligations (USO):
  - BPost 2013-15
  - Poczta Polska 2013-15
  - Poste Italiane Spa 2012-19
  - Czech Post 2013-17
  - Post Office Limited 2015-18 and 2018-21
- Compensation of related postal Public Service Obligations (PSO):
  - Poczta Polska services exempted from postage fees 2016-21
  - **Poste Italiane publishers' mission 2017-19**
  - **La Poste press mission 2018-22**
  - La Poste territorial presence 2018-22
- Learning process, both for the Commission and for public authorities and postal operators

## **Case SA.48492 – Publishers’ mission by Poste Italiane**

### **Background of the case**

- PSO:
  - Reduced tariffs for publishers and not-for-profit organizations, below regulated USO postal tariffs, between 2017-19.
- NAC exercise:
  - Identifying net avoidable cost of the PSO by comparing Poste Italiane’s actual profits (losses) with profits (losses) it would have enjoyed (incurred) absent the PSO.
- Factual scenario:
  - Low regulated tariffs applying to distribution services for publishers and not-for-profit organizations
- Counterfactual scenario:
  - Absent this PSO, Poste Italiane would remain under the USO – obligation of distributing publications, as any other postal item, at prices no higher than USO tariffs



## **Case SA.48492 – Publishers’ mission by Poste Italiane Costs, demand and absence of competitive constraints**

- Available cost data from Poste Italiane’s accounts:
  - Indirect production costs and central costs common to USO activities – considered as non-avoidable
  - Italian authorities showed direct costs to be largely avoidable, but discussion on the presence of fixed costs and economies of scale – conservative assumptions on cost function allowing for fixed costs, consistent with the evidence on economies of scale
- Publishers’ demand at higher counterfactual prices:
  - Italian authorities proposed estimating the elasticity of publishers’ demand for distribution services using the change in demand observed for a 5-month period in 2010 during which the PSO was suspended and higher USO tariffs applied to press distribution
  - The Commission considered this proposal to be conservative, given that both USO and PSO tariffs were set below Poste Italiane’s unit variable cost – loss-making counterfactual
- Competitive constraints in the counterfactual:
  - Potential competitors unlikely to enter the market in those circumstances

## **Case SA.48883 – Press mission by La Poste in France**

### **Background of the case**

- Very similar to the Poste Italiane case
- PSO:
  - Distributing press at reduced tariffs, below regulated USO postal tariffs, between 2018-22.
- Factual scenario:
  - Low regulated tariffs for press distribution services
- Counterfactual scenario:
  - Absent this PSO, La Poste would remain under the USO - obligation of distributing the press, as any other postal item, at prices no higher than USO tariffs
- Main distinction: USO tariffs higher in France than in Italy



## **Case SA.48883 – Press mission by La Poste in France**

### **Elasticity of demand and competitive constraints**

- French authorities identified unit variable cost as avoidable, all other costs treated as non-avoidable because common to USO activities
- What would be the demand for press distribution services if La Poste charged higher prices in the counterfactual?
  - French authorities proposed deriving the elasticity of demand for press distribution services by editors from available estimates of the elasticity of the final demand for newspapers by readers (Borsenberger and Muller, 2017)
  - USO tariffs likely binding in the counterfactual, with a reduction in total demand for press distribution services
- What competitive constraints would La Poste face with higher prices for the press?
  - Commission observed that:
    - USO tariffs significantly above La Poste unit variable cost
    - Alternative providers already available, mainly in urban areas (i.e. courier)
  - French authorities submitted estimated diversion ratios from postal services to courier for press distribution and reduced La Poste counterfactual profits accordingly

## **These two cases exemplify some of the challenges faced – costs and competitive constraints in the counterfactual**

- Cost data from accounts not always matching the avoidable/non-avoidable categories
  - Avoidable costs can include fixed and variable costs
  - Variable costs likely to be avoidable, but not always easy to identify – they may be to some extent shared across various activities
  - Costs that are typically seen as fixed may be avoidable in the counterfactual
  - Common costs tend to be non-avoidable, but not always fully the case – non-PSO activities may shrink absent the PSO (economies of scope)
- Distinction between avoidable and non-avoidable costs crucially depends on the counterfactual and requires careful assessment of each cost category
- Counterfactual competitive constraints must be taken into account
  - Otherwise, risk of compensating for unrealistic monopoly profits (capped)
  - Difficult to assess counterfactual competitive constraints that are not observed in the factual scenario

## What can we improve in USO cases?

- Data on costs:
  - Possibly a more detailed assessment of various cost categories in light of the proposed counterfactual – refining the identification of avoidable costs
  - Accounting data as the basis for the assessment, but need adjustments to properly identify common costs
- Pricing in USO counterfactuals:
  - So far, emphasis on optimisation of office network and frequency of delivery
  - May counterfactual prices require more attention?
- Competitive counterfactual:
  - Possible to assess more explicitly the competitive constraints that may emerge in the counterfactual?
  - Price and non-price constraints – e.g. reaction to frequency reduction
- Can the counterfactual analysis inform about the appropriateness of the USO itself?
  - Mid- and long-term trends for USO (letters...) vs non-USO (parcels...) segments