

Compensation of net costs generated by SGEIs. Examples from different european network industries

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AGENDA



Introduction



What is a Services of General Economic Interest (SGEI) and how it is funded



Bpost's SGEI



Local Public Transport in Germany

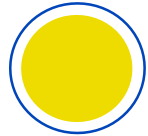


Lesson to be learned



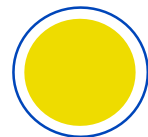
Conclusions

Introduction



The target:

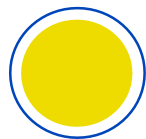
- to interpret correctly Services of General Economic Interest (SGEI)
- to understand how **compensation mechanism** have been applied in different sectors
- ...to **identify lessons to be used** for debate on the European postal regulatory framework



To do so:

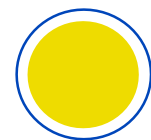
- we will analyze **two case studies** on the compensation mechanisms
- two different network industries with different characteristics (e.g. cost structure) in two different countries, one national (Bpost other than USO) and one local (public transportation in Germany)

What are Services of General Economic Interest (SGEI) and how they are funded (1/2)



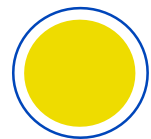
SGEIs are:

- **economic activities** which deliver outcomes in the **overall public good**
- that would **not be supplied by market** without public intervention or would be supplied under different conditions



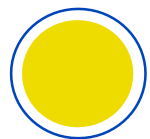
An important principle: “the Commission must ensure that public funding granted for the provision of such services does not unduly distort competition in the Internal Market”.
EC, Press Rel. SGEI, 20/12/2011

What are Services of General Economic Interest (SGEI) and how they are funded (2/2)

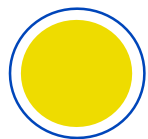


Fair level playing field:

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*” (§21) Communication (2012/C 8/03)




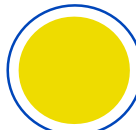
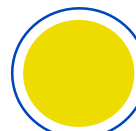
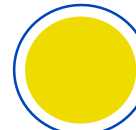
The EC (COM2012/C 8/03) chooses the **net avoided cost methodology** to calculate the **net cost of providing the SGEI** “*as the difference between the net cost for the provider of operating with the public service obligation and the net cost or profit for the same provider of operating without that obligation*”. The calculation has to include “*the benefits, including intangible benefits as far as possible, to the SGEI provider*” (§25)



The **reasonable profit** is set as the “*rate of return on capital that would be required by a typical company considering whether or not to provide*” the SGEI (§33)

Bpost's SGEIs (1/3)



-  **Press Distribution** - is the home distribution in the **early morning of newspapers** and the distribution of periodicals within definite time laps, at reduced and affordable rates
-  **Retail Network** - requires bpost to hold a denser network, the number of **PO available is higher than the network able to satisfy the delivery** of US and is not commercially viable
-  **Day to Day** - include cash at **counter services**, which provide to citizens the availability of affordable cash services and the home delivery pensions, which allows old people and people with a limited mobility to receive pensions at home at no additional charge
-  **Ad hoc SGEIs** - the **social role of the postman**, the delivery of addressed or unaddressed election printed items, the delivery postal items sent by associations, fish permits

Bpost's SGEIs (2/3)

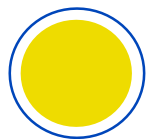


- Retail Network SGEI, Day to Day SGEIs and ad hoc SGEIs are compensated. The compensation has a ceiling so Bpost will receive the full compensation within the maximum compensation set
- The amount of compensation is estimated using the **Net Avoided Cost methodology**
- Bpost receives early payments calculated using the NAC methodology then the **Board of Auditors check ex post the compensation's amount.**
- If the **amount of compensation** is over the early payment and less the cap, BPost receives the difference by the State. **If it is less** than the early payment BPost has to reimburse the difference to the State
- If the **cap is lower than the compensation**, the cap becomes the compensation

Bpost's SGEIs (3/3)



| Compensation cap excluding inflation (mln €) | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------|-------------|-------------|-------------|-------------|
| Retail network - Day to Day SGEIs - Ad hoc SGEIs | 90,1 | 90,5 | 92,8 | 93,2 | 91,8 |



Belgian Authorities have calculated the NAC ex post, which from the years from 2016 until 2020, has exceeded the cap. In this way the cap (which is equal to the ex ante calculation of the compensation) has become the compensation for the years considered

Local Public Transport in Germany (1/2)



- Literature on Local Public Transportation in Germany analyses Net Cost Contract (NCC) and Gross Cost Contract (GCC)
- **NCC model:** costs covered by fare revenue and contractual payment, revenue risk borne by the transport operator, market incentives for operator initiatives (service, quality and lean management). There are high risk premium and high market barriers
- **GCC model:** costs covered by contractual payment, revenue risk borne by the authority which receives the fares but remunerates the operator to cover the cost
- **Our case study:** uses NCC model for compensation of local transportation in Rhineland-Palatinate.
 - **Purpose:** public obligation to ensure open access to education by providing cheap public transport tickets
 - **Beneficiary:** pupils, students and trainees
 - **Measure:** reduction of at least 15% of the standard rate for adults on all bus and tram undertakings in the Land

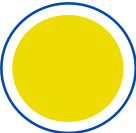
Local Public Transport in Germany (2/2)



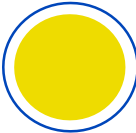
In return for discharging this public service obligation:

- undertakings are entitled to a **compensation corresponding to the difference between reduced and standard rate**
- to avoid overcompensation, this amount **must not exceed the net financial effect of compliance** with the public service obligation
- undertakings' costs structure must be established on guidelines for the determination of prices on the basis of net costs. This provides a cost-based price calculation method considering all relevant cost categories
- calculation must take into account **a reasonable profit. The cap is calculated: cost + reasonable profit - revenues**

Lesson to be learned



It emerges full financing of the net cost + small profit for investment has been applied across sectors. In line with PostEurop's recent paper. State financing should fully cover the net cost of US and funding procedures should be shorter and less burdensome

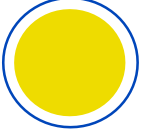


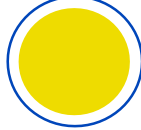
EC application Report PSD “*The provision of US entails a net cost.....The net cost of US provision can be substantial. If the US provider had to bear such costs on its own, it would put that provider in a disadvantaged position vis-à-vis its competitors and The compensation fund is not working*”



To balance service requirements with funding, the framework should allow MS sufficient flexibility to adjust USO scope and service level to national circumstances

Conclusions

-  **The objective** was to understand if the compensation mechanism of SGEI have been applied in different contexts and if there are lesson to be learned for the postal sector

-  **1. SGEI frameworks works and is flexible.** The full financing of the net cost and of a small profit for investment purpose has been applied across the sectors

-  **2. Lesson to be learned for postal sector:**
 - **Services should be financially sustainable especially when they would not be supplied by market or would be supplied under different conditions**
 - **more specifically state financing should fully cover the increasing net cost (dramatically decreasing volumes) of the US**

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