

# CAN THE POSTAL MARKET AFFORD AFFORDABILITY?

and how to assess it

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27th Conference on Postal and Delivery Economics  
24 May 2019

# Why discuss affordability?

Letter volume decline makes **price increases necessary for a sustainable USO**

According to Art. 12 of the EU Postal Directive: letter „**prices shall be affordable**“

**No definition** of affordability  
**No guidelines** on how to assess it

## Research questions

- 1** What is the affordability principle?
- 2** How do regulators and operators assess and ensure the affordability of letter prices?
- 3** Is letter mail affordability still a relevant concern for regulators and policymakers?

**1**

The affordability principle and other regulatory aims

**2**

Methods to ensure affordability

**3**

Will the affordability principle survive?

**4**

Conclusion

# 1 THE AFFORDABILITY PRINCIPLE AND OTHER REGULATORY AIMS



Member States shall take steps to ensure that the tariffs for each of the services forming part of the universal service comply with the following principles:

- **prices shall be affordable** and must be such that all users, independent of geographical location, and, in the light of specific national conditions, have access to the services provided. [...],
- **prices shall be cost-oriented** and give incentives for an efficient universal service provision. [...]
- tariffs shall be **transparent** and **non-discriminatory**.

*Directive 2008/6/EC, Article 12*

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# There is no consensus on how to define affordability



## Exclusion, financial burden

”

A universal postal service product, for example, a First Class stamp, would be **'unaffordable'** if a potential residential customer was entirely excluded from purchasing it or faced **significant hardship** from purchasing it because of the price.”

*Ofcom, 2013, The affordability of universal postal services*

## Access, share of household expenditure

”

[...] the PSD [Postal Service Directive] requires that tariffs are affordable and **should enable all users to have access to the services** provided. [...]. a price for a universal service item could be deemed affordable in that it **comprises a low proportion of household expenditure** [...].”

*Letter from the EC to BIPT on 16 December 2016, BIPT, 2017 decision du conseil de l'ibpt du 21 mars 2017, FN 29-31*

# Various factors influence affordability

Borsenberger (2018): Affordability is a **subjective measure**

Borsenberger et al. (2012): Affordability means that an **essential** good, for which no substitutes exist, is offered at a price such that **everybody can access it**, i.e. pay for a socially desirable consumption level

## Affordability depends on the following factors

- **price level**
- the share of consumers' overall **expenditure** on postal services
- **consumers' dependence on letter mail** (and substitutability)
- *Other factors?*

# Regulatory challenges stemming from letter volume decline

## Trade-off between cost-orientation and affordability principle

- Guarantee the **sustainability of the USO** (*cost-orientation*) while
- **Not imposing a significant burden on consumers** (*affordability*)

## Right combination of price and service level in the USO

- Consumers may accept a slower letter for moderate price increases
- Trade-off recognised in many countries where the level of service in the USO was reduced, e.g., in the Nordic countries



# 2

## METHODS TO ENSURE AFFORDABILITY

# Regulators found no affordability issues based on various assessment methods

- 1 Via explicit assessment**
  - ES, PT, UK
  - Assessment of affordability sporadically or every year
  - Three methods
- 2 When changing price regulation**
  - DK, IR, IT, S, UK
  - No affordability concerns found due to (i) declining mail volumes and (ii) access to slower, cheaper products
- 3 Via ex-ante price approval or price-cap**
  - Most EU regulators
  - Affordability fulfilled when prices follow price regulation
  - Control of *evolution* of postal prices compared to other goods

# Three main approaches of affordability assessments

## A Price benchmarking

- Comparison of prices across countries
- Simple, low-cost method but *affordable* prices may differ



## B Comparison of postal with household expenditure

- Comparison of consumers' letter expenditure vs overall
- Captures changes in consumer habits but not its causes



## C Consumer survey

- Insights into consumers' habits and letter usage (e.g. amount/types of letters sent, expenditure, e-substitution)
- More complex method, also depends on respondents' subjective point of view



**3**

WILL THE AFFORDABILITY PRINCIPLE  
SURVIVE?

# Affordability of letters is less of a concern due to low volumes

**Letter mail volume decline due to digitalisation**

Average **annual decline of 4 %** (2013-2016) in Europe

**Electronic communication with public institutions possible** in majority of countries

99.9 % of EU households have **access to mobile broadband technology** (2017)

The regulators in DK and IE concluded affordability is not an issue due to the low numbers of letters sent.



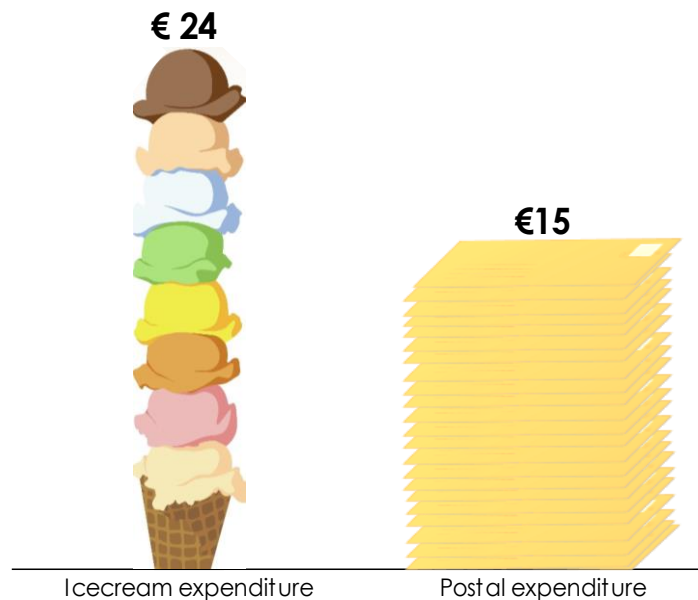
Source; Copenhagen Economics (2018) Main developments in the postal sector 2013-2016, p.35 / IHS Markit & Point Topic (2018)./ ComReg (2014, 2017), CEM Institute – Voxmeter (2014),

# Affordability of letters is less of a concern due low postal expenditure

Consumers' expenditure on sending letters is low

## Comparison of expenditure on ice-cream and post in Europe, per capita

EUR



A study in Sweden found that **consumers' letter expenses are negligible** compared to all other expenses (75 % of Swedes spent under €19.50 per year) and a price increase of € 0.10 (14 %) would increase consumers' yearly expenditure by € 2.90.



Note: Ice-cream expenditure is for 2019. Postal expenditure is for 2017.

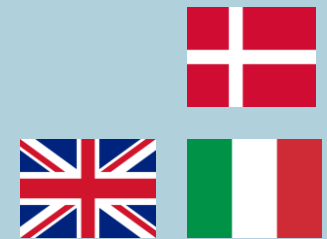
Source: Statista, accessed on 26/03/2019 (for ice-cream expenditure); Eurostat [lfst\_hhntytych], [nama\_10\_co3\_p3], [lfst\_hhntytych], accessed on 07/05/2019 (for postal expenditure) / Proposition 1997/98:127, Section 7.3.2 and SOU 2016:27.

# Affordability of letters is satisfied by slow, basic mail products

**Slower letters are usually sufficient to meet user needs for mail delivery**

Some regulators are satisfied when at least one product, even if it has lower quality, meets the affordability principle

For example in some countries, D+3 or D+4 letters are subject to regulation



# Affordability might still be a concern for vulnerable consumers

## Ofcom defines vulnerable consumers as consumers who

- live in remote areas
- are unemployed
- Are aged over 65 years
- have only limited internet access
- have disabilities, or
- recently immigrated

▶ Letter affordability for the poorest, most vulnerable consumers is likely to be an issue **at current or even lower prices**

▶ Regulators and policymakers can find **alternative solutions** for those consumers: e.g. subsidised stamped envelopes, vouchers or ?



# 4 CONCLUSION

# Affordability is dead - long live affordability?

- Affordability is not defined which creates regulatory uncertainty
- Regulators ensure the affordability of letters in different ways
- Affordability of letter mail may be a shrinking problem due to letter volume decline

Open question: Will the affordability of parcels become a growing debate/concern?

# Will the affordability of parcels become a growing concern?

- Especially in rural areas, does e-commerce ensure consumers' **access to essential goods**?
- Does then consumers' ability to access those essential goods **hinge on the prices of parcel delivery**?



- Does the **high competition** in the parcel delivery market make regulation unnecessary?
- **Who benefits/suffers** from price regulation (e-commerce companies or users)?
- For the affordability assessment of **cross-border parcel delivery**: how vital is the access to goods in foreign markets for consumers vs. domestic on- and offline alternatives?

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