

# EFFECTS OF CHANGING THE USO IN NORWAY

Høringsmøte 5 March 2018

Copenhagen Economics  
5 March 2018

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# 3

Future USO and impact on USO costs and benefits

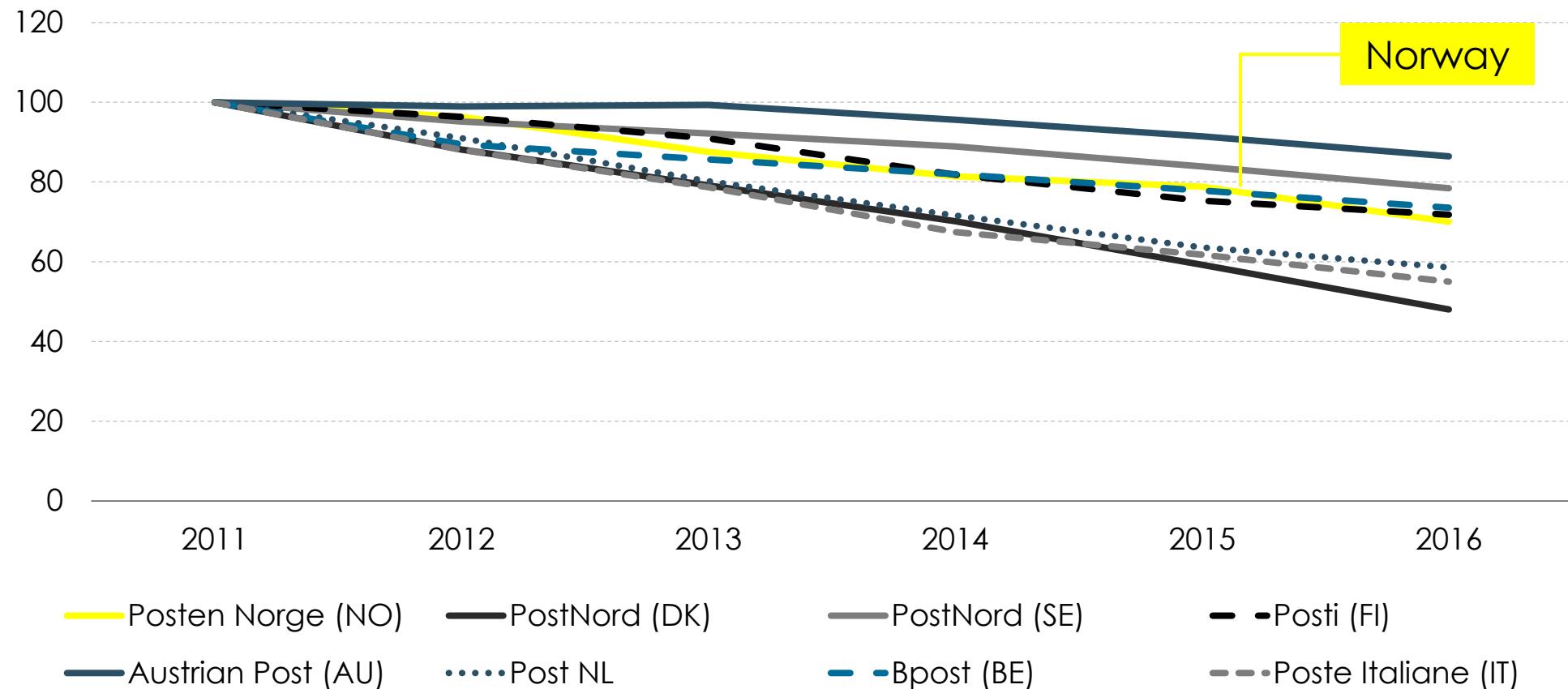
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# 1

# INTRODUCTION

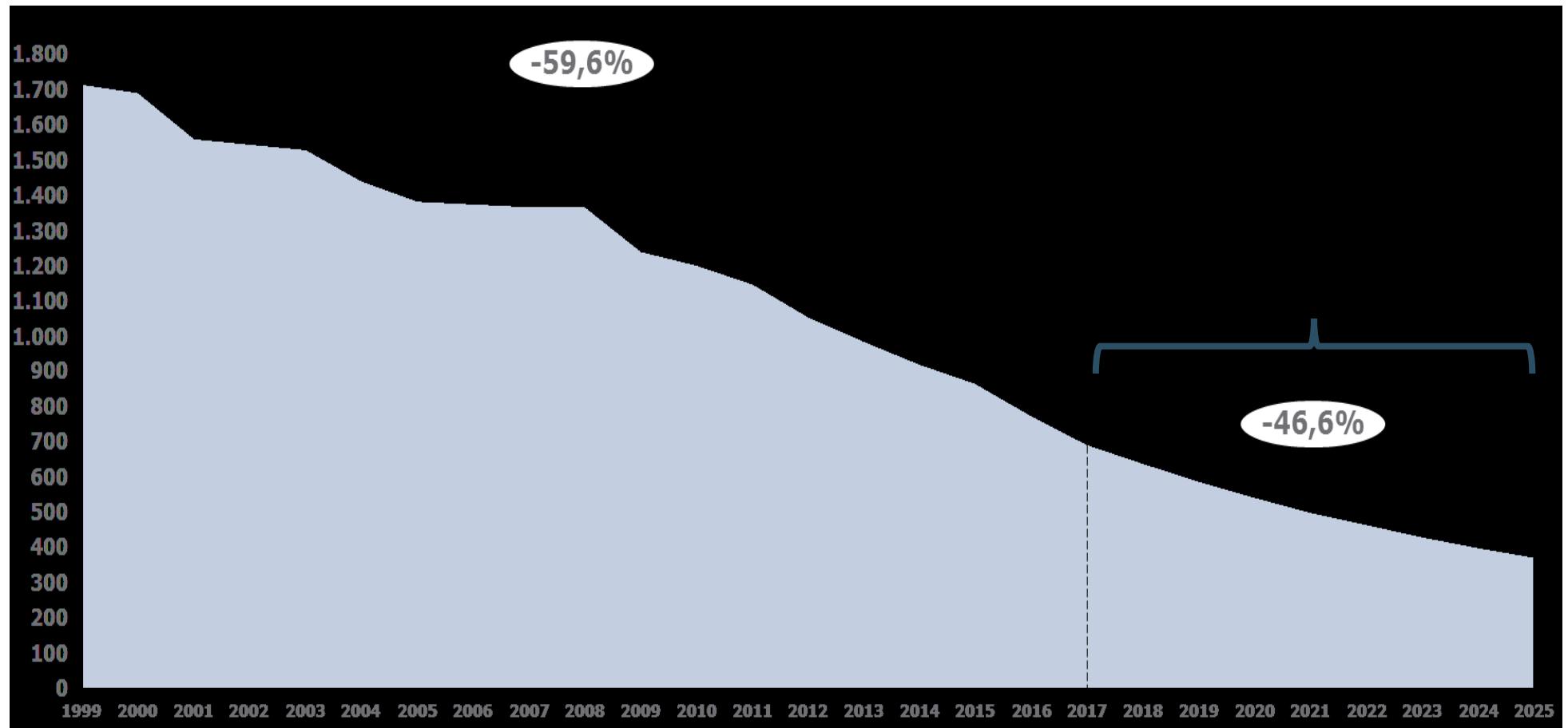
# Letter volumes are declining in Norway and the rest of Europe

## Development in letter mail volume (index) for European postal operators



# The decline is expected to continue

**Addressed letter mail volumes in Norway, 2000-2025 (mn.)**

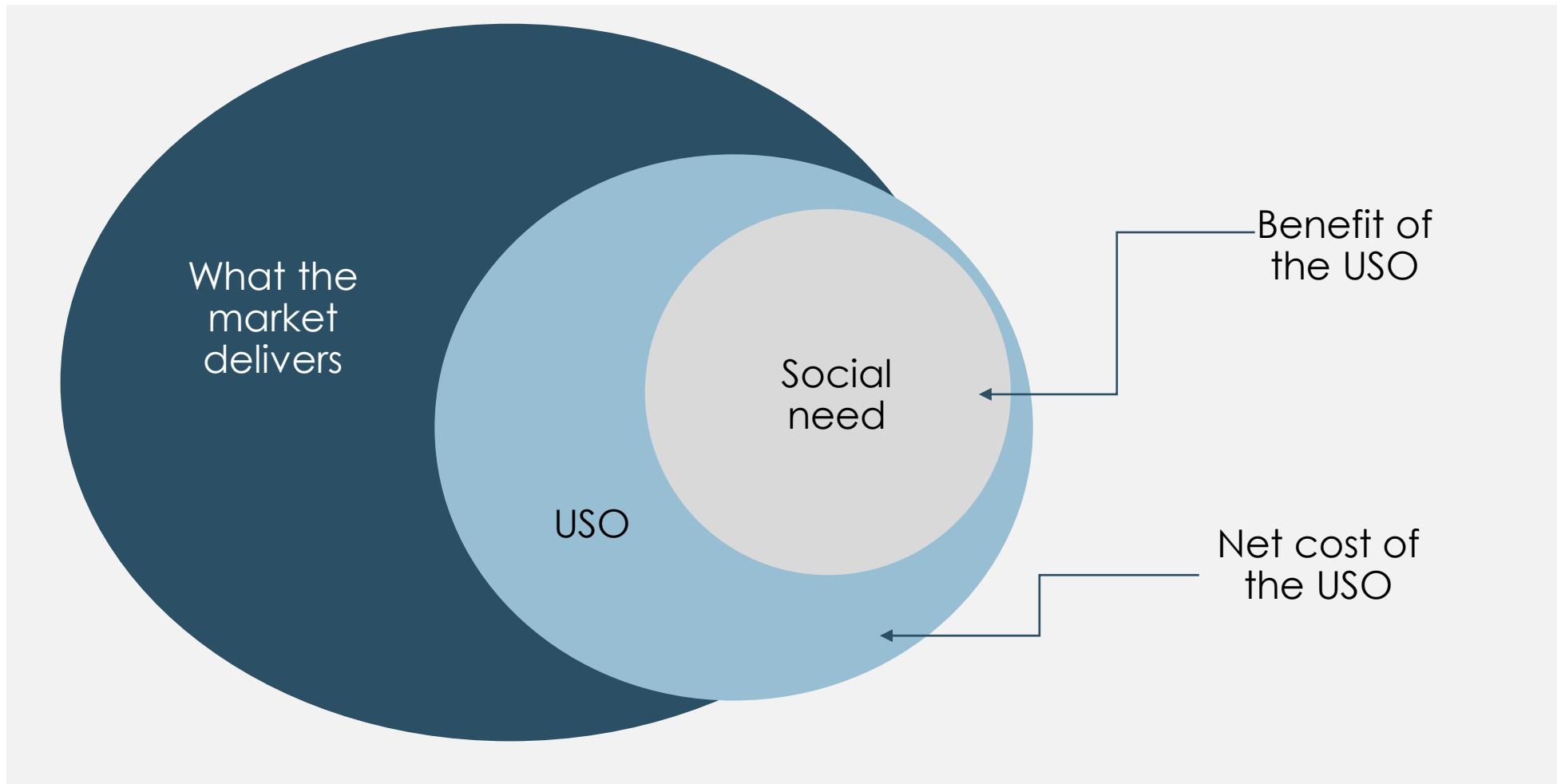


# **Posten has a ‘universal service obligation’**

## **Content of the Norwegian Postal USO**

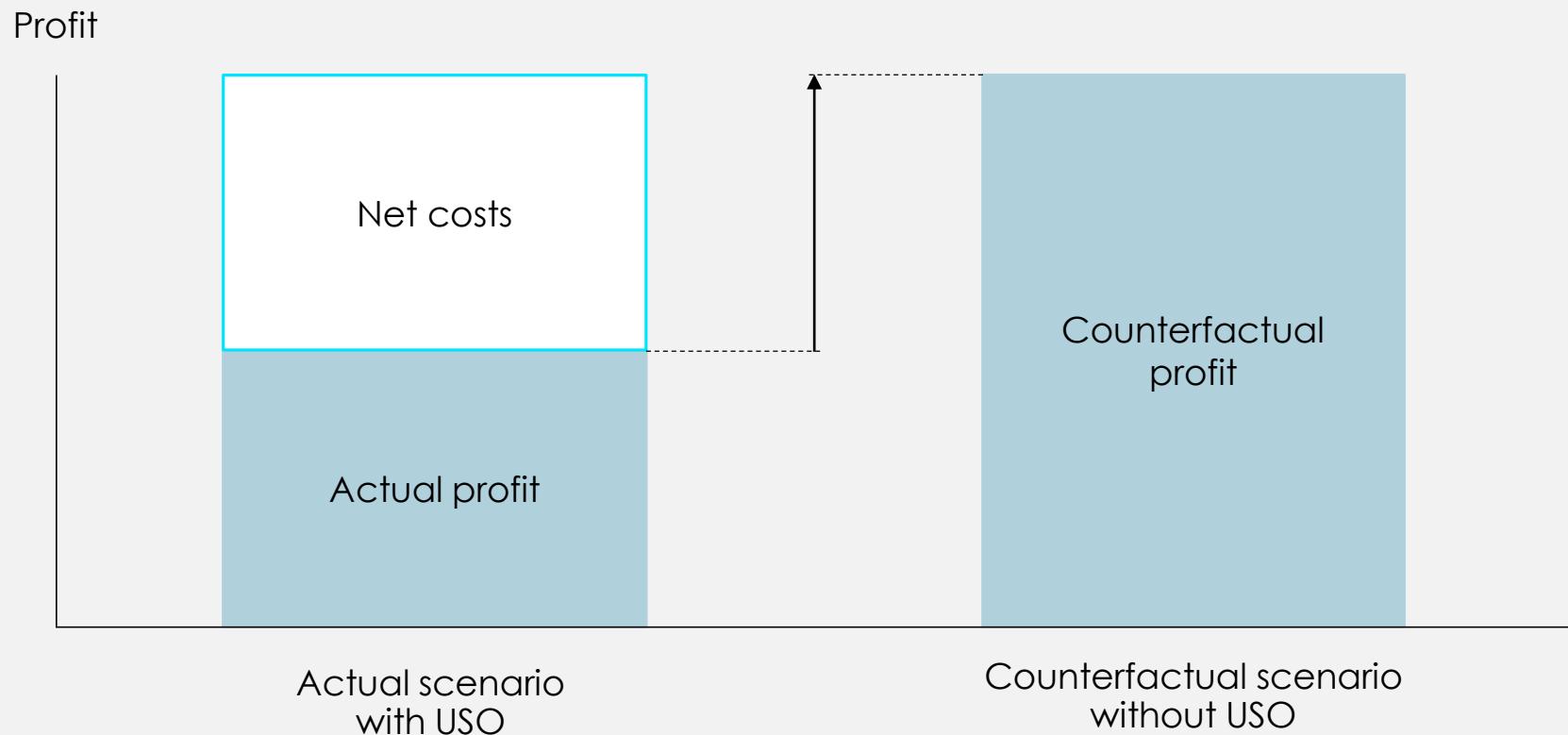
- Distribution of letters, newspapers and periodicals < 2kg, and packages < 20kg
- Collection of mail five days per week
- Delivery of mail five days per week
- Distribution of registered and insured items < 2kg
- Domestic distribution of international mail
- Free delivery to blind and visually impaired citizens
- Forwarding after change of address < 1 year, and storage of postal items < 3 months
- Cash on delivery < 20 kg

# The USO entails both benefits and costs

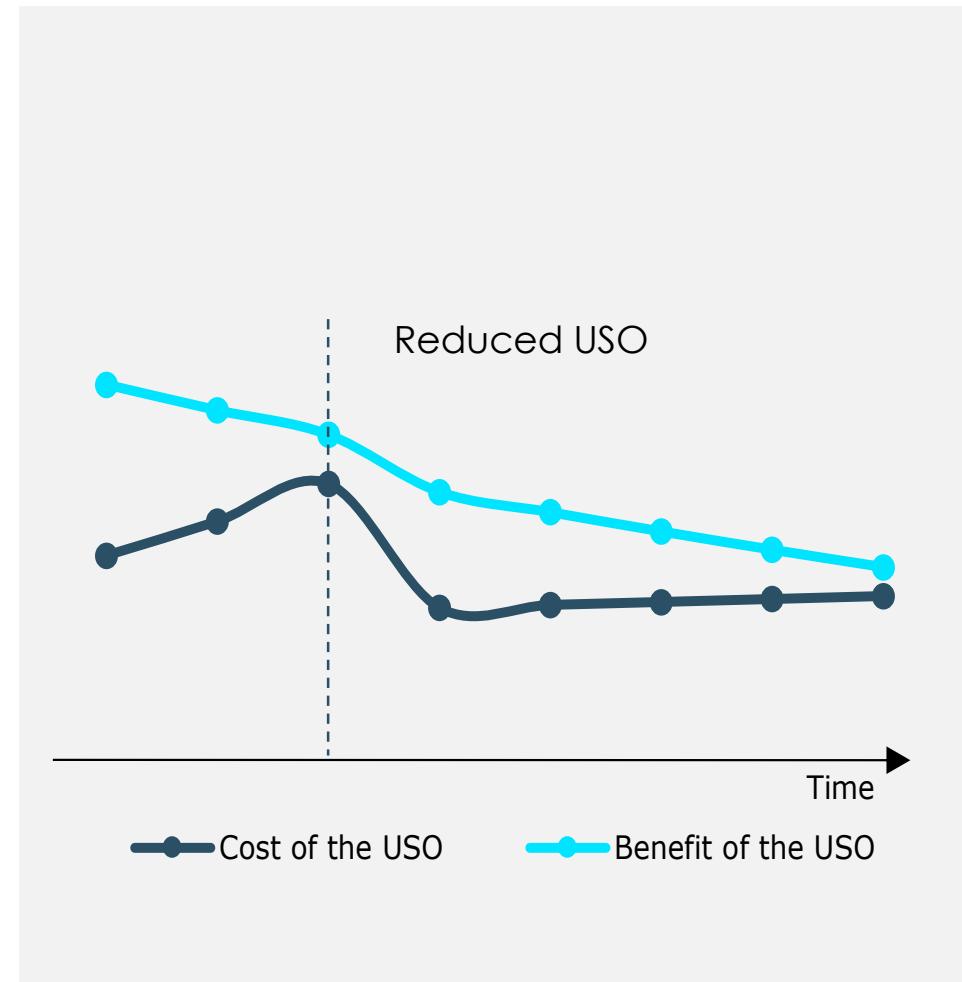
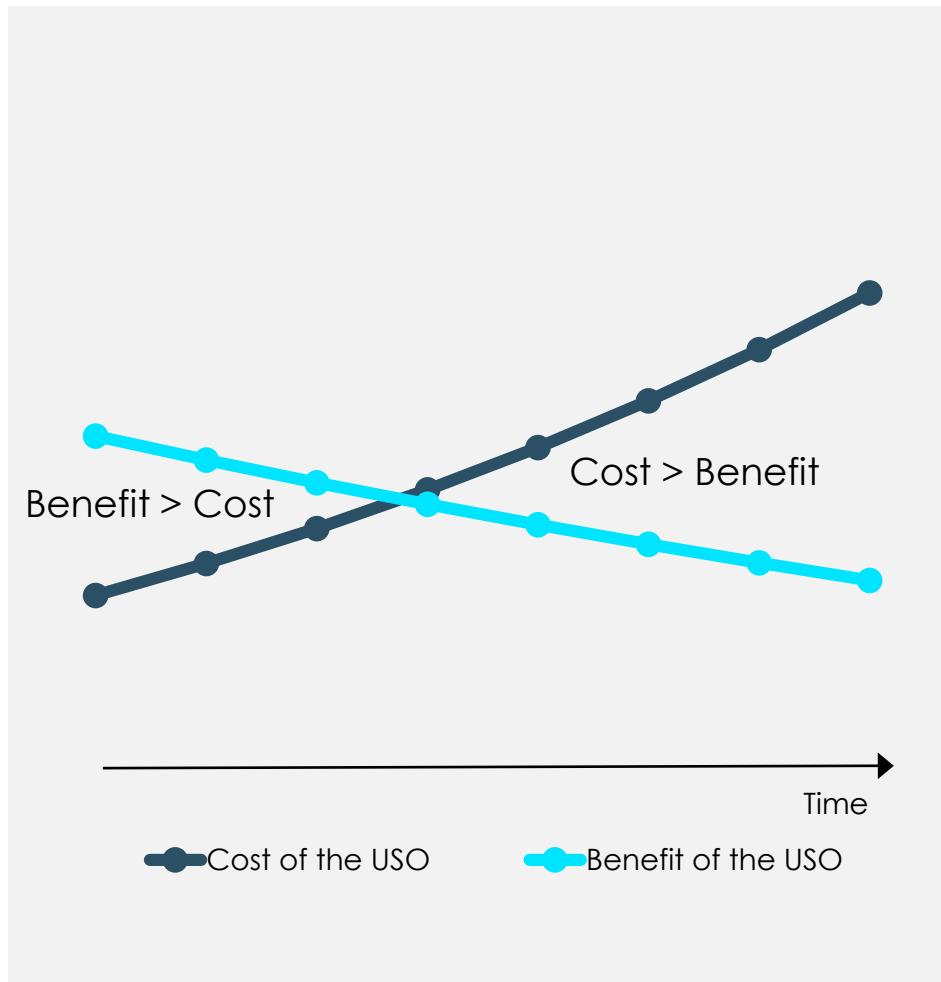


# Posten is compensated for the USO net cost through ‘statlig kjøp’

**USO net cost = difference between Posten’s profit with and without USO**



# Declining mail volumes increase the net cost and may call for revision of the USO

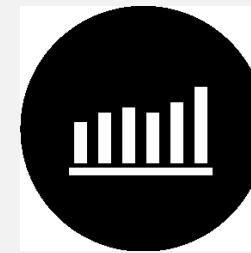


# Our assignment



Are Posten's existing net cost calculations reasonable?

What is the commercially optimal delivery frequency?



What is the effect on public procurement and the socioeconomic impact in 2018-25 of four different options of required delivery frequency?

# 1

## ASSESSMENT OF EXISTING NET COST CALCULATIONS FOR 2018

- 1. ASSESSMENT OF POSTEN'S COUNTERFACTUAL SCENARIO**
- 2. ASSESSMENT OF COST AND REVENUE EFFECTS**

# Introduction

Posten has estimated its net cost of the USO for 2018 using the commercial approach

Basic principle: The USO forces Posten to offer certain services it may otherwise not have offered

The obligation to deliver mail to each household five days per week is the largest component of the net cost estimated by Posten

Copenhagen Economics has assessed Posten's assumptions and calculations

The analysis is based on our experience, international benchmarking, interviews with users of mail, and in-depth analysis of the calculations.

# 1.1

## Assessment of Posten's counterfactual scenario

# Actual and counterfactual scenarios for elements included in the USO net cost

Element	Actual scenario with USO	Counterfactual scenario without USO	Net cost 2018 (MNOK, % of total)
Delivery speed	One mail stream (D+2) from Jan 2018	One mail stream (D+2) from Jan 2016	152 (22%)
Delivery frequency	Delivery to the door 5 dpw	Delivery to the door 2.5 dpw from Jan 2018	490 (70%)
International mail	Delivery of international registered mail at regulated price	Delivery of international registered mail at profitable price	33 (5%)
Delivery to blind people	Free delivery to blind and visually impaired	Delivery to blind and visually impaired at standard prices	16 (<3%)
Basic bank services	Provision of basic bank services on rural delivery routes	No provision of basic bank services on rural delivery routes	14 (<3%)
<b>Total</b>			<b>705</b>

# Assessment of counterfactual scenario

<b>Element</b>	<b>Counterfactual scenario</b>	<b>CE assessment</b>
Delivery speed	One mail stream (D+2) from Jan 2016	<b>Reasonable</b>
Delivery frequency	Delivery to the door 2.5 dpw from Jan 2018	<b>Reasonable</b>
International mail	Delivery of international registered mail at profitable price	<b>Reasonable, and conservative</b>
Delivery to blind people	Delivery to blind and visually impaired at standard prices	<b>Reasonable</b>
Basic bank services	No provision of basic bank services on rural delivery routes	<b>Reasonable</b>

# 4 reasons why the counterfactual is reasonable

1

Components of Posten's counterfactual scenario have been implemented by postal operators in other countries



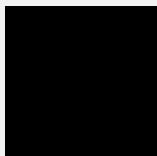
2

Geographical conditions make it more costly to maintain high service level in Norway than in other countries



3

Norway is already to a large degree digitalized, making revenue losses due to lower service level limited



4

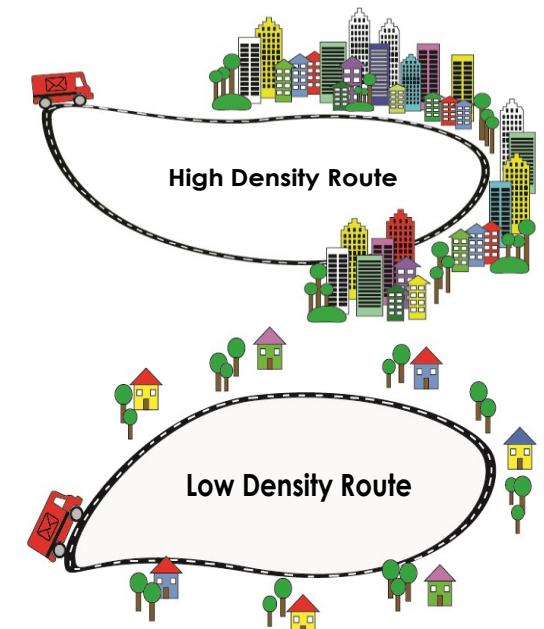
A commercial operator would not price services at loss-making levels



# Low population density makes delivery costly in Norway

## Illustrative example

		<b>High density route</b>	<b>Low density route</b>
A	Fixed route cost	100	100
B	Items per household per week	10	10
C	Households per route	100	10
D	Items per route per week (C x D)	1000	100
<b>E</b>	<b>Delivery days per week</b>	<b>5</b>	<b>5</b>
F	Total route cost per week (A x E)	500	500
<b>G</b>	<b>Cost per item delivered (F / D)</b>	<b>0.5</b>	<b>5</b>
<b>H</b>	<b>Delivery days per week</b>	<b>2.5</b>	<b>2.5</b>
I	Items per route per week	1000	100
J	Total route cost per week (A x H)	250	250
<b>K</b>	<b>Cost per item delivered (J / I)</b>	<b>0.25</b>	<b>2.5</b>
<b>L</b>	<b>Cost reduction of reduced delivery frequency</b>	<b>0.25</b>	<b>2.5</b>



## Population density

Norway	17
Denmark	132
EU 28	117

# Declining mail volumes make delivery costly in Norway

## Illustrative example

		10 items per household	5 items per household
A	Fixed route cost	100	100
B	Items per household per week	10	5
C	Households per route	10	10
D	Items per route per week (C x D)	100	50
<b>E</b>	<b>Delivery days per week</b>	<b>5</b>	<b>5</b>
F	Total route cost per week (A x E)	500	500
<b>G</b>	<b>Cost per item delivered (F / D)</b>	<b>5</b>	<b>10</b>
<b>H</b>	<b>Delivery days per week</b>	<b>2.5</b>	<b>2.5</b>
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<b>K</b>	<b>Cost per item delivered (J / I)</b>	<b>2.5</b>	<b>5</b>
<b>L</b>	<b>Cost reduction of reduced delivery frequency</b>	<b>2.5</b>	<b>5</b>



## Addressed mail decline

1999-2016	- 59.6 %
2017-2025	- 46.6 %

# Reduced service level is not likely to create large revenue losses

Element	Counterfactual scenario	Impact on service offering in 2018	Likely impact on Posten's revenues
Delivery speed	One mail stream (D+2) from Jan 2016	None	None
Delivery frequency	Delivery to the door 2.5 dpw from Jan 2018	Delivery on specific weekdays not guaranteed. 1 day longer delivery time for 50% of mail volumes.	Limited loss
International mail	Delivery of international registered mail at profitable price	Depends on delivery operators' and e-retailers' pricing strategies and e-shoppers' price sensitivities	Positive effect likely to outweigh loss
Delivery to blind people	Delivery to blind and visually impaired at standard prices	Higher prices for blind and visually impaired citizens	Uncertain but small
Basic bank services	No provision of basic bank services on rural delivery routes	Reduced service offering in rural areas	Limited loss

# 1.2

## Assessment of cost and revenue effects

# Assessment of cost and revenue effects

## **Posten's model for calculating net costs is robust**

- Adheres to international guidelines
- More elaborate than in many other countries
- Assumptions are generally conservative
- No detected calculation mistakes

## **We recommend a few changes of assumptions**

- Some changes proposed to the original assumptions
- More documentation needed to validate some assumptions

## **Total effect of our revision: Reduced net cost in 2018 by 7-8 per cent**

# 2

## Future USO and impact on USO costs and benefits

- 1. Development in USO net costs under different policy options**
- 2. Analysis of impact on postal users**
- 3. Balancing USO costs and benefits**

## 2.1

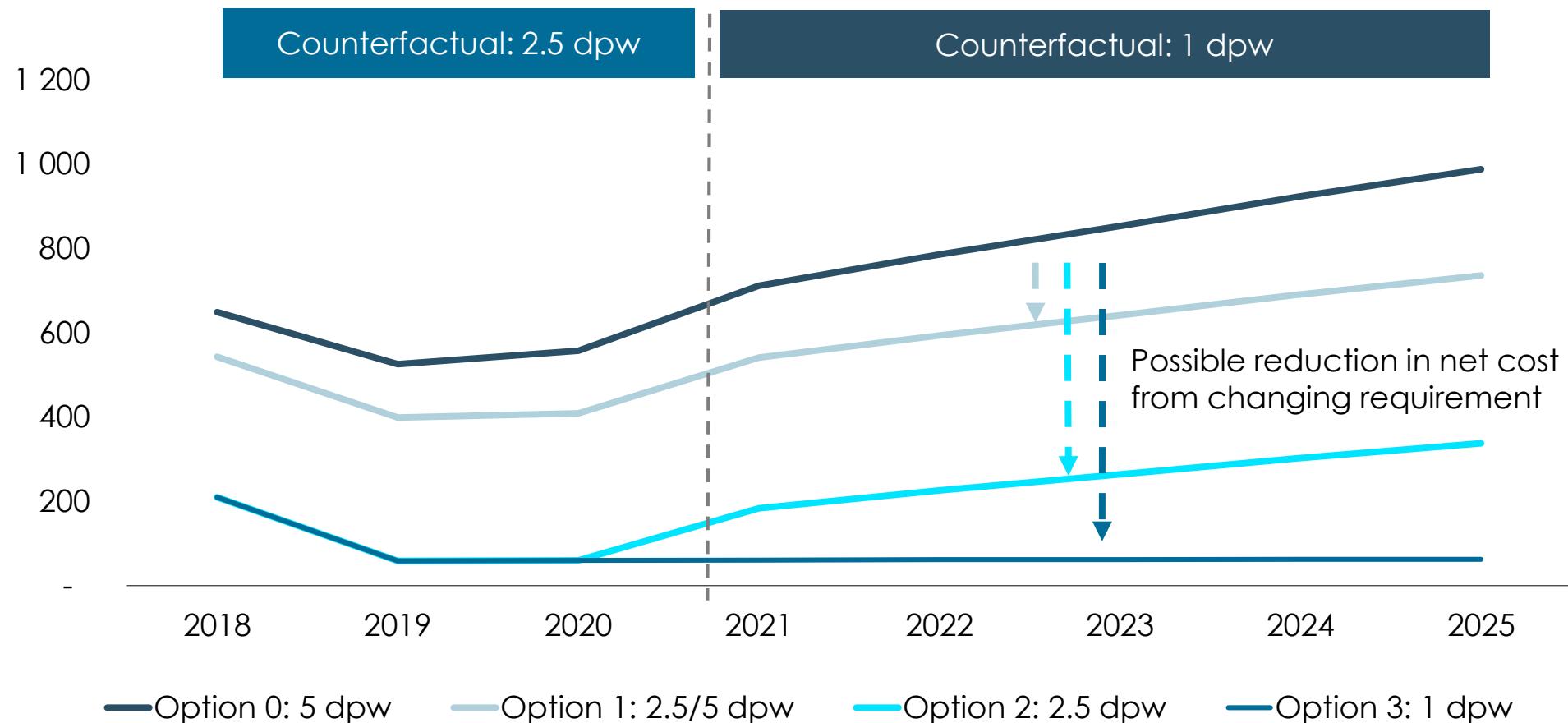
Development in USO net costs under different policy options

## 4 policy options

- 0** Status quo: Delivery 5 days per week to all households in Norway
- 1** Delivery to households in urban areas 2.5 days per week and delivery 5 days per week to households in rural areas
- 2** Delivery 2.5 days per week to all households in Norway
- 3** Delivery 1 day per week to all households in Norway

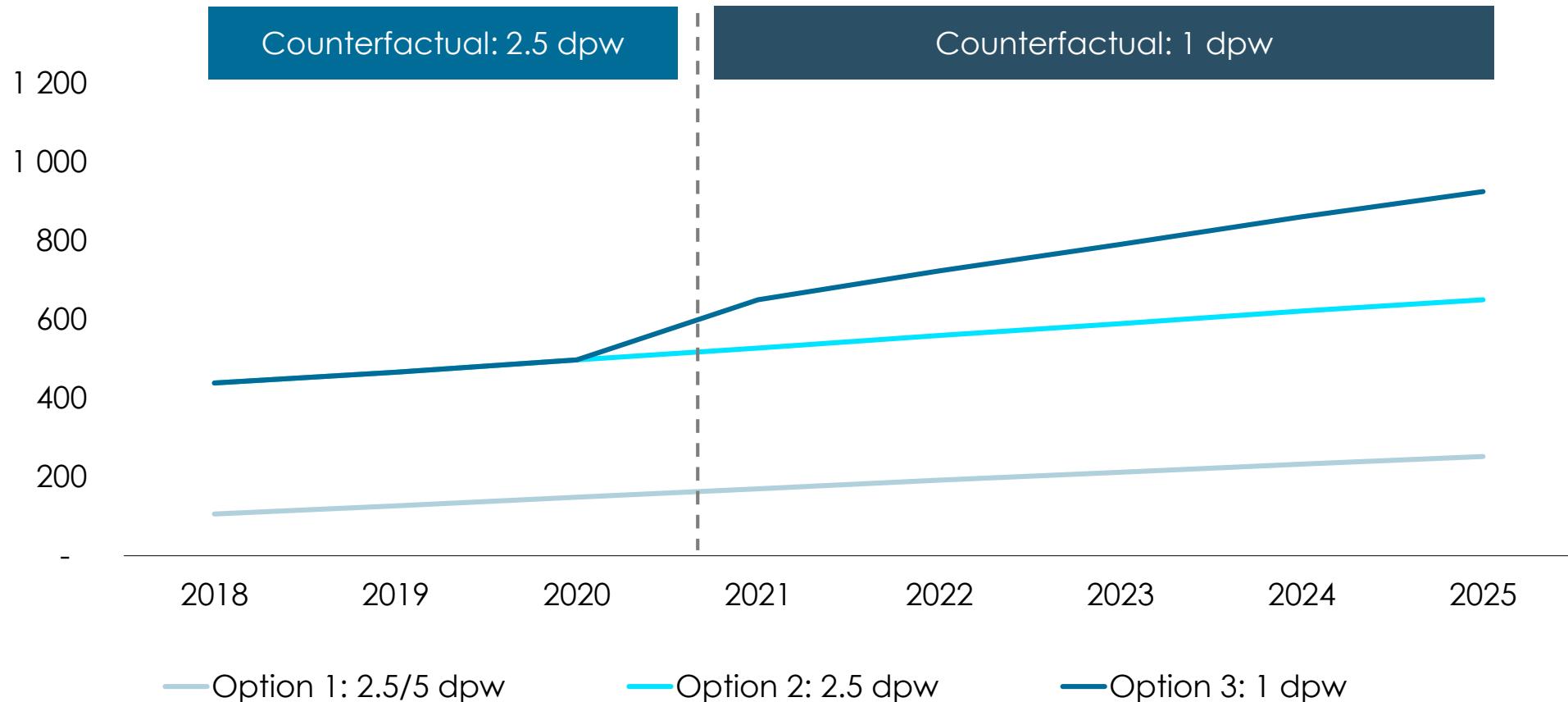
# Development of USO net costs largely depends on the delivery frequency

## USO net costs (MNOK) 2018-2025



# Reduced delivery frequency has potential to reduce net cost by 200-900 MNOK

**Reduction in net cost compared to status quo, 2018-2025**



## 2.2

### Analysis of impact on postal users

# Assessing the impact on users in 3 steps

**Lower net costs implies a lower service level**



**Investigating how users are affected is necessary for policy makers to make informed decisions about which policy option is most attractive.**



## 3-step approach to assess impact on users:

**1**

Identify services, and users, that will be affected by the changes

**2**

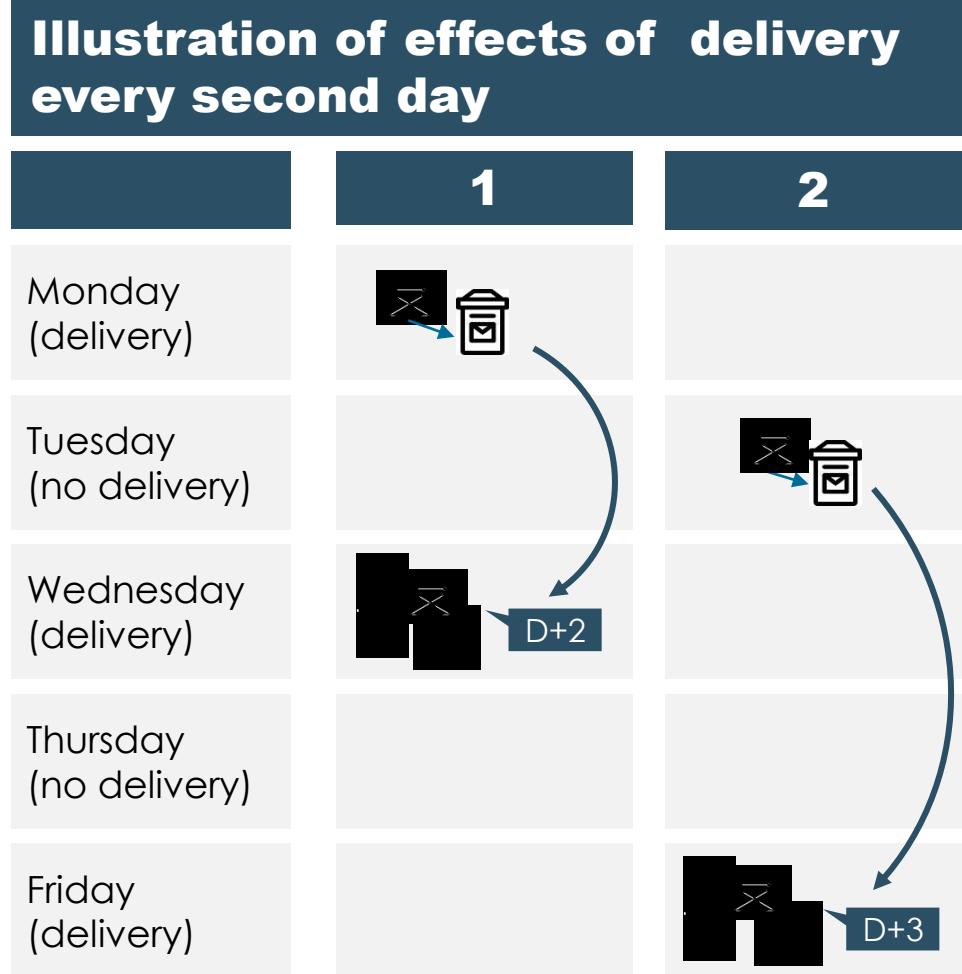
Analyse whether specific user groups, without alternatives to Posten, will be negatively affected

**3**

Investigate whether there are (less costly) targeted measures that can meet the needs of affected user groups

# 1. Which services and users will be affected by the change?

- Clear international pattern regarding users most negatively affected by reduced delivery frequency:
  - Elderly citizens,
  - Citizens in rural areas,
  - SMEs (primarily in rural areas)
  - Other frequent senders of mail.
- Interviews to investigate in detail how different user groups are affected:
  - Pensjonistforbundet
  - Norges Bondelag
  - Virke
  - Blindeforbundet



## 2. Which users are likely to be negatively affected?

Need to distinguish between users who **prefer** a high service level and users who are **truly dependent** on the postal USO and who do not have a valid alternative if the USO is reduced.

<b>Policy option</b>	<b>User group dependent on current service level</b>	<b>Service dependent on current service level</b>
Option 0 (5 dpw in all of Norway)	N/A	None
Option 1 (delivery 2.5 dpw in urban areas and 5 dpw in rural areas)	None (depends on urban/rural classification and existence of alternative infrastructure)	
Option 2 (delivery 2.5 dpw in all of Norway)	Citizens in rural areas who cannot use digital alternatives	Delivery of daily newspapers
	Immobile citizens in rural areas	Delivery of medicine
Option 3 (delivery 1 dpw in all of Norway)	Citizens in rural areas who cannot use digital alternatives	Delivery of daily newspapers
	Immobile citizens in rural areas	Delivery of medicine
	Immobile citizens unable to use mobile phone/digital alternatives	Delivery of urgent notifications (e.g. from hospitals)

### 3: Can targeted measures for vulnerable users serve the needs at a lower cost?

- A (regulated) high service level for all is very costly
- Commercially viable services and targeted measures may serve the needs at much lower costs
  - May be preferred both from social and financial perspective

**Important to design clear eligibility criteria:**

*All users in need, but no others, should be compensated.*

#### Examples of targeted measures

- Measures within the USO
- Monetary compensation
- Using alternative and already existing networks
- Promotion of alternative technologies
- Alternative forms of market stimuli



# Some specific deliveries may be candidates for targeted measures

## Newspapers

- Promotion of alternative technologies (iPad) or use of alternative networks (public transportation)

## Home delivery of medicines

- Monetary compensation (for express delivery) or use of alternative network (home care assistance)

## Urgent hospital notifications or invoices (at delivery 1 dpw)

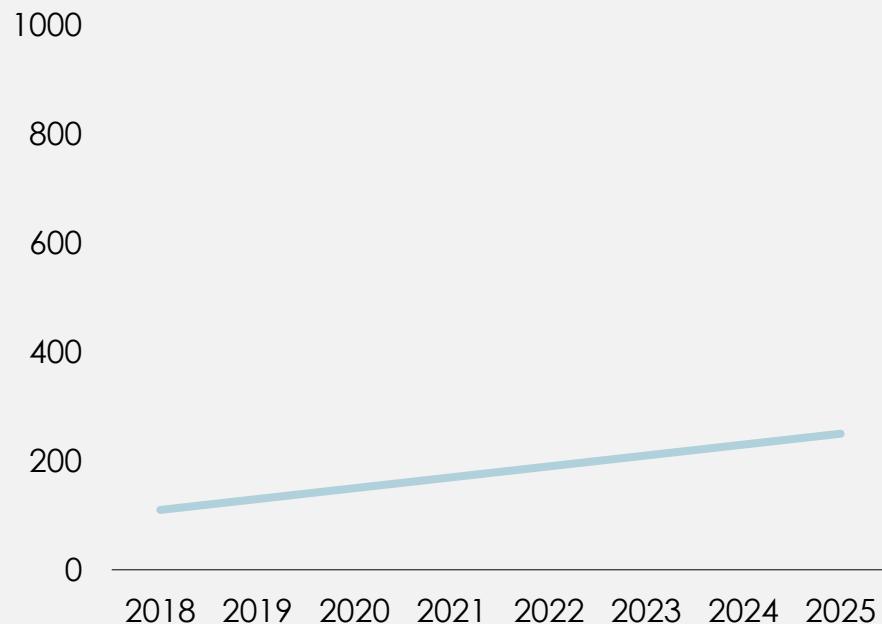
- If items cannot be sent electronically and registered letter service would be considered too expensive - consider (partial) public funding of registered mail

## 2.3

### Balancing USO costs and benefits

# Option 1: Moderate cost savings and no/small effects on vulnerable users

## 110-250 MNOK reduction in net cost relative to status quo

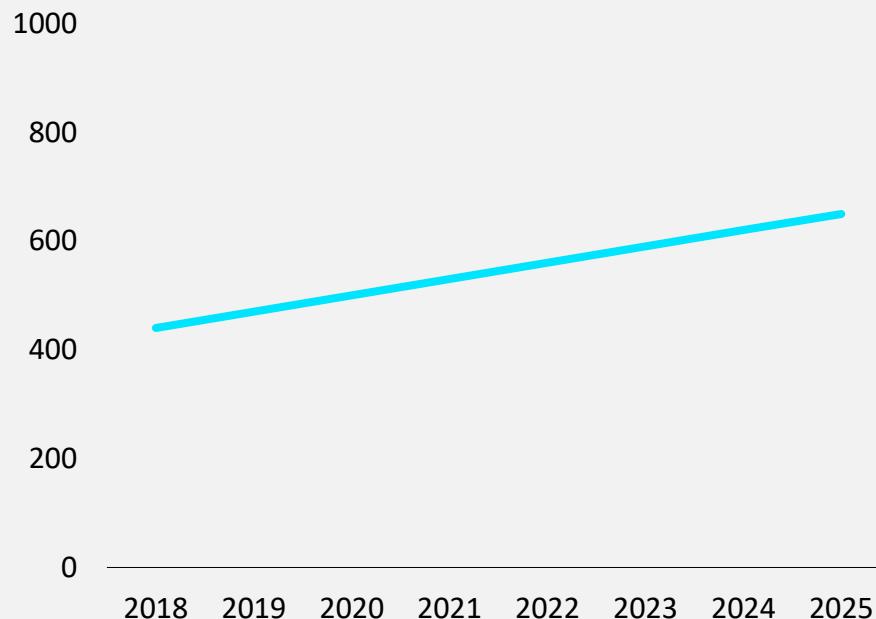


## No or very small negative effect on users

- No expected negative effects on users
- Citizens and businesses in urban areas have access to alternative solutions
- Urban/rural classification not waterproof
  - Some targeted measures used in Option 2 may be relevant

# Option 2: Large cost savings will likely outweigh costs for targeted measures

## 440-650 MNOK reduction in net cost relative to status quo

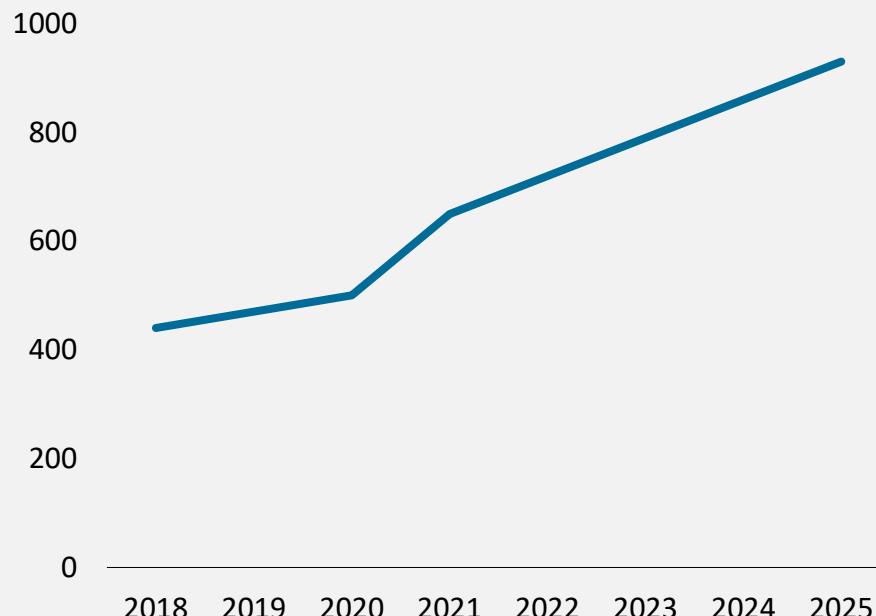


## Negative effect on some users in rural areas

- Negative effect on immobile/elderly citizens in rural areas
  - Difficulties to access existing alternative service offerings
- 2 critical services in rural areas w/o alternative networks
  1. Delivery of newspapers to non-digital citizens
  2. Urgent delivery of medicines to elderly and disabled citizens
- Maximum 30-35.000 citizens affected

# Option 3: Significant cost savings but uncertain impact in users

**440-930 MNOK reduction in net cost relative to status quo**



**Uncertain and potentially large negative effects**

- Greater risk and uncertainty of negative effects
  - Option only relevant in a few years time
  - Alternative solutions may have developed in the meantime
- Same effects as for Option 2 + citizens without mobile phone may not receive urgent notifications in time
- There are (sometimes costly) solutions for critical needs
  - Mobile citizens: Rent post-box
  - Senders: Use registered letter service



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