

**Intangible benefits likely to accrue to
La Poste through its obligation to maintain
a territorial presence**

**Public consultation
from 12 June to 13 July 2012**

Practical aspects

The Electronic Communications and Postal Regulatory Authority (hereafter referred to as “ARCEP”) is launching a public consultation on an analysis of the intangible benefits likely to accrue La Poste through its obligation to maintain a territorial presence.

The views of the parties concerned are being sought on the present document in its entirety. Comments should be submitted to ARCEP by e-mail to avantagesimmateriels-poste@arcep.fr no later than 13 July 2012. Maximum account will be taken of the public comments sent to ARCEP, and the principles described in this document may be revised as necessary in the light of the contributions received.

In the interests of transparency, ARCEP will publish all comments submitted to it, except for the parts covered by commercial confidentiality. To this end, contributors are requested to include any data they regard as coming under commercial confidentiality in a separate annex. They are also invited to keep such passages as brief as possible.

This document can be downloaded from: <http://www.arcep.fr>

Introduction

ARCEP is mandated by law to evaluate the net cost of La Poste's contribution to national planning and development in accordance with the methodology set out in Decree No. 2011-849 of 18 July 2011.

Article 3 of this Decree provides that lost revenue taken into account in the net cost calculation shall be equated with revenue attributable to additional network coverage including, as appropriate, revenue resulting from the duly noted intangible benefits La Poste derives from it, less the revenue which, without this network, would be transferred to the contact points it otherwise maintains. This evaluation is subject to the constraint laid down in Article 4 of the same Decree which provides that ARCEP must ensure the exclusion of any duplication with the calculation of La Poste's other public-service missions.

The first evaluation of the net cost incurred by La Poste in financial year 2010 gave rise to ARCEP Decision No. 2011-1081; for that financial year, ARCEP worked on the hypothesis that demand would be wholly retained if there were no additional network coverage (no lost revenue) and did not take account of the impact of possible intangible benefits because there was not enough data for assessing their value.

However, with the studies available to it, in particular the study commissioned from WIK Consult in 2010, ARCEP has now pinpointed three benefits that could be included in its 2012 evaluation of the net cost incurred by La Poste in 2011 under the head of its obligation to maintain a territorial presence, namely:

- 1) the advantage of having an extensive network;
- 2) brand image;
- 3) advertising infrastructure

ARCEP is launching a public consultation on this analysis.

I. – Context

- 1. La Poste's public-service missions

The Law No. 90-568 of 2 July 1990 as amended charges La Poste with four public-service missions:

- an accessible banking mission, which La Poste fulfils through its La Banque Postale subsidiary;
- a press conveyance and distribution mission set out in multi-year agreements between La Poste, the French Government and the press publishers' associations. The latest of these, the so-called Schwartz Agreements, date from 23 July 2008 and cover the period 2009 to 2015;
- provision of the universal postal service, as specified in the Post and Electronic Communications Code (CPCE). The universal postal service comprises several obligations, namely (i) collection and delivery of postal items every working day, (ii) compliance with a price cap and geographical equality in respect of tariffs for single-piece items, and (iii) contact points that are accessible to the general public;
- and lastly, a mission to contribute to national planning and development which means La Poste has to increase its territorial presence above and beyond its universal service accessibility obligations so as to have 17,000 contact points throughout the national territory.

- 2. La Poste's network

La Poste operates a network with over 17,000 contact points, distributed throughout Metropolitan France and its overseas departments and territories, consisting of its own offices and partner agencies¹.

This network ensures the provision of La Poste products and services to the general public and small businesses, as well as transactions necessitating visits to post-office counters. The latter cover various La Poste activities: letters (postal prepayment, posting and collection of registered letters, etc.), parcels (posting of parcels by private individuals, receipt of parcels which could not be delivered to the addressee's home address), financial services (deposits, withdrawals), and other services (express items, mobile telephony, fund transfers, etc.).

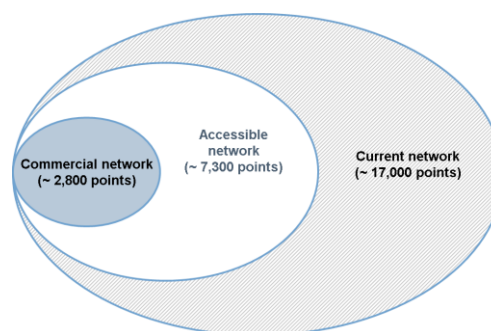
Demand in connection with these contact points can be described as "direct" when it results in a sale at the contact point, and as "indirect" in the case of services where the sale is not made at the actual contact point but triggers a business activity, for instance the collection of items (parcels, registered letters) that could not be delivered to the addressee's home address.

La Poste's network is particularly extensive because of the public-service missions it has to perform. Consequently, the network can be broken down, in theory at least, into three territorial extensions:

- the "commercial network", which corresponds to the network La Poste would operate if it had no public-service missions; according to La Poste, this network would comprise approximately 2,800 contact points, making just under two thirds of its business;

- the wider "accessible" network corresponding to the network La Poste would operate just to meet the obligation of providing an accessible universal postal service, as defined in Article R. 1-1², CPCE. According to La Poste, this network would comprise 4,500 additional points, making slightly under one third of its business;

- the "current network" corresponding to the accessible network plus the additional network coverage provided by La Poste in fulfilment of its national planning and development mission defined in Article 6 of Law No. 90-568 of 2 July 1990³ as amended, in addition to its previous obligation. Under the terms of this Law, this network must comprise at least 17,000 contact points which are indeed currently operated by La Poste. The additional network coverage thus corresponds to some 10,000 contact points (of which roughly one quarter are owned by La Poste and the remainder are partner agencies) representing almost 10% of its business.



¹ Post offices, of which there are over 10,000, are points owned and run by La Poste which provide its full range of services. Partner agencies are points which provide certain La Poste services on commission. These partner agencies consist of local-council run postal agencies (APCs), and sub post offices within shops (RPCs).

² Article R 1-1, CPCE, states that universal postal services shall be permanently provided to all users throughout Metropolitan France, including the Overseas Departments, Mayotte and on Saint-Pierre-et-Miquelon. Universal postal services shall be accessible to users.

In particular, contact points with the public providing access to universal postal services other than bulk items and to information about these services must be permanently available to at least 99 % of the national population or to at least 95 % of the population of each department, i.e. the contact point must be less than 10 kilometres away, and that all communes with more than 10,000 inhabitants must have at least one contact point for every 20,000 inhabitants.

³ The Law provides that this network must comprise at least 17,000 contact points distributed throughout French territory, taking account of its specific conditions, in particular in the Overseas Departments and Territories. Unless there are exceptional circumstances, the rules cannot permit more than 10% of a department's population being more than five kilometres and a twenty-minute drive, under the traffic conditions prevailing in the territory concerned, from the nearest La Poste contact point.

II. – Intangible benefits and additional revenue

- 1. Definition

Intangible or resulting benefits are generally defined as benefits not covered in the operator's accounts. The brand image from which an operator may benefit on the strength of its public-service mission, which translates into a concrete advantage such as the possibility, all other things being equal, of charging higher prices than its competitors, is a classic example of an intangible benefit.

- 2. Texts

The texts about calculating the net cost to determine the specific compensation of an operator with the obligation to perform a public-service mission provide that these net costs must take account of the intangible benefits enjoyed by the operator as a result of this obligation. Thus, in its Communication about European Union regulations on State aid in the form of public-service compensation⁴, the European Commission specifies that the net cost that allows the discharge of public-service obligations is calculated 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. Due attention must be given to correctly assessing the costs that the service provider is expected to avoid and the revenues it is expected not to receive, in the absence of the public-service obligation. The net cost calculation should assess the benefits, including intangible benefits as far as possible, to the SGEI (services of general economic interest) provider.

- 3. Taking account of these benefits in the net cost calculation

In practice, account is taken of intangible benefits when assessing the net avoided cost, following a (tangible and intangible) costs and revenue comparison between the existing situation and the situation in which the service provider would have been without the obligation to perform a public-service mission. Thus, a net-cost model takes account of costs and revenue based on accounting data. Essentially, this type of model does not include intangible benefits which require additional evaluation. In these circumstances, the scope of these benefits depends on the refinement and characteristics of the model used and on whether or not account is taken of indirect revenue, to avoid any duplication.

III. – Intangible benefits which could be taken into account in respect of La Poste's obligation to maintain a territorial presence

The intangible benefits which could be taken into account in evaluating the net cost of La Poste's obligation to maintain a territorial presence are those that can be associated with the additional network of some 10,000 contact points operated by La Poste in fulfilment of its obligation.

The studies available to ARCEP, in particular the one commissioned from WIK Consult in 2010 which is based, inter alia, on an inventory of the intangible benefits a public-service operator may enjoy, enabled it to identify three benefits which could be used in its 2012 evaluation of the net cost incurred by La Poste in 2011 under the head of its obligation to maintain a territorial presence: (1) the advantage of an extensive network, (2) brand image, and (3) advertising infrastructure.

- 1. Benefit linked to network size

For all its contact-point services (postal operations, banking transactions and other business), La Poste is able to tap into substantial demand on the strength of its extensive contact-point network. In the context

⁴ European Commission Communication C(2011) 940, paragraph 25.

of its obligation to maintain a territorial presence, the account taken of the corresponding impact should, it seems, be commensurate with the impact attributable to the contact points resulting from this obligation.

This additional demand derives in particular from a better competitive position, because of the shorter distance from a contact point (value of contact-point proximity).

It consists of the additional revenue generated by operating the extended contact-point network in fulfilment of La Poste's national planning and development mission obligations. This revenue comprises both actual revenue recorded at the contact point (direct revenue) and revenue recorded in other La Poste accounts (indirect revenue) in so far as they are affected by changes in network scope (for instance, additional parcel revenue if demand increases because the contact point is closest for the addressee. This also translates into an increase in the contact point's pending-item handover business)⁵.

If increases in demand are correctly modelled, they do not constitute an intangible benefit as such because the corresponding impact is taken into account direct when calculating the net cost.

Its impact must be assessed differently depending on the operations concerned and, in particular, on the keenness of competition. Banking, parcels or express operations, for instance, seem more likely to be affected because competition is greater than on the letters market. An initial comparative analysis of the various operations from the point of view of benefit linked to network size is given in Annex 1.

- 2. Brand image

Because of its extensive presence throughout French territory, La Poste has a better image with the general public and can benefit from this, particularly by tapping into additional demand for products and services. Without this image, this business could have gone to its competitors.

This effect differs from the previous one in that it does not concern customers directly affected by the proximity or non-proximity of a contact point, but customers who give preference to La Poste services on the strength of its image linked to the size of its network. It comes on top of the previous effect and should be dealt with separately.

More nuanced assessment of this benefit is necessary for La Poste operations where genuine competition exists. Moreover, account should be taken only of the effects of additional network coverage and not of La Poste's other public-service missions, in particular its status as the universal service provider. An initial comparative analysis of the various operations in terms of brand-image benefit can be found in Annex 2.

- 3. Advertising infrastructure

Operating contact points as part of its additional service network provides La Poste with space, both outside and inside contact points, which it can rent out for advertising or use to advertise its own products. A distinction must be made between this advertising and any information posters about products which may also be present. This possibility of exploiting advertising space applies only to post offices controlled by La Poste.

- Revenue from, and the corresponding marketing costs of, renting advertising space in or on post offices to third parties should be identifiable in the operator's accounting. As a result, they are not intangible. Moreover, La Poste does not make use of this option. Assuming this is a rational choice on the operator's part, there do not therefore seem to be any intangible benefits on this count;

⁵ In symmetrical terms, in calculating the net cost as defined in Article 3 of Decree No. 2011-849, the additional demand corresponds to revenue that would be lost if the network were to be reduced to the accessible network.

- It does, however, use space inside post offices to advertise certain La Poste services, and this clearly represents an advantage for La Poste – one that is not explicitly identified and which could be valued on the basis of the advertising space used.

In addition, La Poste's contact points feature the corporate logo more or less prominently, depending on whether the contact point is owned by La Poste, is a local-council run postal agency or a sub post office in a shop. This advertising on all points in La Poste's additional network constitutes additional advertising for the business. Without this mission, it could be argued that La Poste would have to increase its advertising expenditure to achieve the same level of public visibility.

Valuing this benefit would have to be based on the space available on post offices, the price commanded by the advertising position and the publicity value of the presence of the La Poste logo in contact points belonging to the additional network.

IV. – Other potential intangible benefits

In 2010, ARCEP commissioned a study⁶ on the “*Definition, typology and methodology for evaluating intangible benefits related to universal postal service*” from WIK Consult. In this report, WIK Consult presents a review of literature on the potential intangible benefits for an incumbent operator and proposes examining the benefits arising from the additional coverage operated by La Poste which translates into additional demand.

Although this study concerns a different mission to that of national planning and development, it provides a useful point of reference given that the geographical extension of the contact-point network is relevant to both these missions.

The WIK study distinguishes the following benefits:

- *Enhancement of brand value and corporate reputation*: the postal operator's universal postal service mission impacts favourably on its image. This can translate into bigger market share for the operator or higher prices than its competitors. This benefit corresponds to that discussed above in III. -2.

- *Corporate advertising*: given the substantial number of buildings, offices, post boxes and vehicles bearing the operator's logo, the advertising space available to it is the equivalent of conventional advertising expenditure and should be assessed. This benefit corresponds to the advantages set out in III. -3.

- *Economies of scale*: according to WIK Consult, the increase in demand generated by the various universal service obligations may translate into economies of scale and scope that impact on unit costs. ARCEP's modelling takes account of economies of scale by establishing cost functions that actually reflect this property. For demand, establishing a demand or loss function, as mentioned in III. - 1., and building it into ARCEP's model would make it possible to take full account of the impact of economies of scale.

- *Privileged access to the philately market*: in WIK Consult's view, the philatelic value of the stamps issued by La Poste would be lower without the universal service – at the same time recalling that preserving France's philatelic heritage is a public mission assigned to La Poste that is separate from its universal service missions – which could possibly result in lower philatelic sales. This benefit (assuming it is one) is not linked to La Poste's network coverage under the head of its national planning and development mission, so it does not seem necessary to take it into account.

- *VAT exemption*: in application of Directive 2006/12/ EC of 28 November 2006 on the common system of value added tax, transposed into French law in Article 261 of the General Tax Code, and in the light of

⁶ http://www.arcep.fr/uploads/tx_gspublication/etude-wik-su-postal-mai2010.pdf

interpretation of postal public services by the Court of Justice of the European Communities, La Poste is exempt from value added tax on postal services coming under the universal service. In the case of private and business clients that do not recover tax, this partial liability may result in a benefit through lower prices inclusive of all tax. This benefit (assuming it is one) is not linked to La Poste's network coverage under the head of its national planning and development mission, so it does not seem necessary to take it into account.

- *Exemption from customs and excise regulations*: the Universal Postal Union (UPU) Convention and Article 66 of the Customs and Excise Code offer the universal service provider simplified customs clearance procedures for items sent abroad. Furthermore, La Poste is relieved of all liability for incorrect declarations by senders using it for their parcels. Though WIK Consult sees this as a considerable benefit, it feels public data are too fragmented for any evaluation to be made. This benefit (assuming it is one) is not linked to La Poste's network coverage under the head of its national planning and development mission, so it does not seem necessary to take it into account.

- *Exemption from transport licence*: La Poste is exempt from the obligation to hold a transport licence, a privilege WIK Consult believes would be removed if La Poste were no longer the universal service provider. Nevertheless, it is worth noting La Poste's remark, in its response to the WIK Consult study, recalling that it outsources most of this part of the value-added chain. This benefit (assuming it is one) is not linked to La Poste's network coverage under the head of its national planning and development mission, so it does not seem necessary to take it into account.

- *Better bargaining position in respect of public players*: this factor resulting from the status of universal service provider, is more of a qualitative benefit.

In conclusion, insofar as they are relevant, all the benefits identified by the WIK Consult study have been taken into account in ARCEP's analysis.

V. – Conclusions

Following this analysis, ARCEP has identified three benefits that could be included in its 2012 evaluation of the cost incurred by La Poste in 2011 under the head of its territorial presence obligation:

(1) Benefit linked to network size: For all services provided at its contact points (postal, banking and other operations), La Poste can capitalise on a demand which is increased by its extensive network coverage. In the context of its obligation to maintain a territorial presence, it seems that the account taken of the corresponding impact should be commensurate with the impact attributable to the contact points arising from this obligation;

(2) Brand image: its extensive presence throughout French territory gives La Poste a better public image that allows it to benefit, in particular from additional demand for its products and services which, without this image, would have been tapped into by its competitors;

(3) Advertising infrastructure: operating contact points as part of its additional service network provides La Poste with space, both outside and inside contact points, which it can rent out to third parties for their advertising or use to advertise its own products. A distinction must be made between this advertising and any information posters about products which may also be present. This possibility of exploiting advertising space only applies to post offices controlled by La Poste. Moreover, La Poste contact points feature its corporate logo more or less prominently, depending on the nature of the contact point (La Poste owned, local-council run postal agency or a sub post office within a shop). This advertising at all points of La Poste's additional network constitutes further advertising for the business. Without this mission, it could be argued that La Poste would have to increase its advertising expenditure to achieve the same level of public visibility.

ARCEP plans to use the following evaluation methods to quantify these benefits:

- an external econometric study to correlate demand for services marketed by La Poste with proximity indicators and with indicators for customer perception of La Poste's obligation to maintain a territorial presence so as to be able to estimate the effects of (1) network size and (2) brand image;
- in-house work on estimating the impact of advertising infrastructure (3); to be based on evaluation of the expenditure on commercial or institutional advertising that was avoided.

ARCEP invites the parties concerned to comment on this analysis and, in particular, to answer the following questions:

Question 1: Do you consider that the intangible benefits identified are relevant?

Question 2: What methods or references would you suggest using to evaluate each of the benefits identified?

Question 3: In your opinion, what other benefits should be taken into account and why?

Annex 1: Situation of La Poste's various services with regard to the size of its contact-point network

Letters

To date, La Poste holds a virtual monopoly for providing letter services. Moreover, while contact points play a significant role in the sale of postage stamps and prepayment labels, this does not apply so much to the mail transmission service proper which would not be affected by a reduction in the number of contact points. This is obviously the case for collection, sorting, transport and delivery which do not depend on the presence of contact points.

Demand for letter services could be affected by poorer accessibility to the postage prepayment services offered at a contact point. Impact could be limited in the case of letters for which there are alternative methods of obtaining stamps from retailers. Similarly, the impact of reducing the number of contact points is limited for particular services (like international letters) or in the specific case of registered letters in view of their indispensable nature, because of a legal obligation or special attention requested by the customer.

Parcels

Estimates may vary depending on whether the focus is on parcels sent by private customers, a market where competition remains very limited, or on the reception of parcels sent in bulk by remote retailers (generated by mail order sales, on-line sales or e-commerce).

- In the case of parcels sent by private customers, the virtual absence of alternatives probably limits loss of demand for La Poste.
- In the case of parcel reception, a decrease in contact-point density can be assessed by taking account of the home-delivery services provided by operators competing with La Poste (mainly "Colis Privé", the new name of the "Adrexo Colis" company), and delivery services to pick-up points ("Kiala", "Relais colis", "A2Pas", etc.) are likely to see an increase in their market share for bulk parcel consignments, depending on how far away addressees are from these pick-up points compared with La Poste's contact points.

La Banque Postale's banking operations

Estimates of any revenue losses must take account of the fact that contact points in La Poste's additional network under the head of its national planning and development mission often provide only a limited range of banking services. The corresponding points controlled by La Poste do not generally have a La Banque Postale financial adviser. Partner agencies do not provide full banking services. And sub post offices within shops provide emergency withdrawal services only.

Identifying the current importance of deploying contact points to maintain customer relations is a prerequisite for accurate assessment of this effect. The role of contact points could be affected by the development of alternative transaction methods, for instance over the phone or on line.

Annex 2: Situation of La Poste's various services with regard to the effect of brand image

Letters

In view of La Poste's virtual monopoly on letter services, it is unlikely that a brand-image effect can be identified for this service category.

Parcels

La Poste's positive image thanks to its national planning and development mission would enable it to charge higher prices than its competitors. The benefit could be assessed differently depending on whether it concerns items sent by private individuals or bulk items, a segment where competition is keener.

Assessment could be based on the higher price charged by La Poste compared with the price charged by its competitors.

La Banque Postale's financial operations

The intangible benefit would derive from the wish of certain customers to have their account with La Banque Postale because of La Poste's positive image, on the strength of its national planning and development mission. This better image would thus result in an increased market share for La Banque Postale, above and beyond the effects at local level of its dense network.

A value could be placed on the corresponding benefit using the average profit per customer and the number of customers.

Other activities

La Poste operates on other competitive markets for which its image could be improved by its national planning and development mission, such as its mobile telephony or express courier service sales. On these markets too, its image could conceivably give La Poste leeway for charging higher prices.