

Part 3

The postal sector

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Part

3

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CHAPTER 1

The legal framework

A. European framework

1. The new Postal Directive sets 2011 as the date for total market liberalisation

Recap

The 1997 and 2002 Postal Directives:

- ◆ instituted a universal postal service (daily delivery of letters, parcels and registered items);
- ◆ gradually reduced the scope of the postal monopoly (restricted to letters weighing less than 350 grams in 2000, 100 grams in 2003 and 50 grams in 2006);
- ◆ enacted several basic postal regulation principles, namely regulatory autonomy, the introduction of tariff and accounting obligations for the incumbent operator and the introduction of authorisations for operators competing with the incumbent operator.

The 2002 Directive provided for total liberalisation of the market from 1 January 2009, subject to confirmation of this date by the European authorities, following a prospective study by the Commission.

Consequently, in October 2006, the European Commission proposed a new directive, setting 1 January 2009 as the target date for full market opening. However, this date proved controversial, and the compromise arrived at by the members of the European Parliament finally postponed the deadline until 1 January 2011, leaving some Member States the option of a further two years' grace. Moreover, from 31 December 2010, Member States that have fully opened their markets may refuse to grant authorisations to operators that still hold a monopoly in their country of origin (temporary reciprocity clause).

The French market therefore has an additional period during which to adapt. The directive text also includes an annex on the principles for calculating the net cost of the universal service.

Institutional mechanisms at European level

Ahead of intergovernmental negotiations, the Commission periodically consults the Member States that sit on the Postal Directive Committee, to which the Ministry of Industry assigns ARCEP. For its part, the Commission participates as an observer in the work of the European ministries and regulators meeting under the aegis of the CEPT's European Committee for Postal Regulation (CERP). The CERP's work focuses on the international mail system, the accounting systems used in the various countries, mechanisms for funding the universal service provided for in Member State legislation and on postal statistics. ARCEP heads the Postal Statistics Working Group.

Organisation	Postal authorities	Their role
European Union	The European Union's Council of Ministers , often in its industry, energy and electronic communications configuration	Votes on proposed directives submitted by the Commission, within the framework of joint decision-making with the European Parliament
	Postal Directive Committee	Made up of Union Member States, it gives an opinion on issues submitted to it by the Commission
CEPT (European Conference of Postal and Telecommunications Administrations)	CERP European Committee for Postal Regulation	Made up of European countries (currently 46), this body's main activities are liaison and coordination
CEN (European Committee Standardization)	TC331 The Technical Committee responsible for steering European postal standardization work	Groups European standardisation institutions (AFNOR, in the case of France). It prepares and adopts European standards. About twenty standards have been published or are currently under study for the postal field, in particular concerning quality of service measurement.

2. New European provisions

2.1 On the universal service

The text is couched in general terms as in the previous directives which left it up to each State to define the specific contours of a minimum range of services comprising postal items, parcels, registered and insured items.

The definition of quality of service standards and post-office accessibility rules also remain a national prerogative, while quality standards for intra-European mail are laid down by the European Commission.

The new Postal Directive leaves it to the discretion of States to spread the obligation over one or several operators, and even to subdivide it by region or service component, and does not expressly exclude any universal service funding mechanism.

2.2 On competition

The option of making the provision of postal services subject to declaration or authorisation systems remains, with the clarification that these systems must not represent an obstacle to market entry. In particular, the directive prohibits ex ante restrictions on the number of service providers.

Like the 2005 French Postal Law, the directive sets out the principle that a certain number of installations or information held by the universal service provider must be made accessible to its competitors, namely:

- ◆ P.O. boxes in post offices;
- ◆ private letter boxes;
- ◆ item redirection services;
- ◆ the postcode reference system.

On these points, the directive takes on board the national provisions that already exist in the domestic legislation of several European countries.

2.3 On financing the universal service

Full market liberalisation is based on the findings of a prospective study conducted by the European Commission. This study was based on work by PricewaterhouseCoopers and involved the economist Paul Kleindorfer. It concludes that the basic objective of providing a quality universal service on a long-term basis can be achieved without retaining a reserved area.

The directive permits the use of external funding resources under certain conditions:

- ◆ if universal service provision represents a net cost for the operator responsible for providing it;
- ◆ if this cost represents an unfair financial burden.

Under these conditions, an offset fund may be set up:

- ◆ based on objective, verifiable principles, particularly as regards the calculation of contributions;
- ◆ under the control of the national authority;
- ◆ taking account of the advantages derived from being the universal service provider;
- ◆ taking account of the right to make a reasonable profit;
- ◆ with the aim of encouraging the universal service provider to pursue economic efficiency.

3. The European Union's Court of Justice (ECJ) specified the conditions for market liberalisation

3.1 Extension of the postal monopoly to cross-border mail under certain conditions

1 - ECJ Judgement
No. C-162/06
of 15 November 2007.

In November 2007, the ECJ handed down a decision concerning a case of infringement of the monopoly on outward cross-border mail in Spain¹.

The European Directives specify that the same exceptional arrangements as for direct marketing items apply to cross-border mail when it comes to the possibility of including it in the postal monopoly. The decision clarifies interpretation of these provisions in that it cites the exceptional nature of *the possibility of making outward cross-border mail a reserved service*. It ruled that:

"Article 7... must be interpreted as allowing Member States to reserve cross-border mail to the Universal Service Provider only in so far as they establish:

- ◆ *that, in the absence of such a reservation, achievement of that universal service would be precluded, or;*
- ◆ *that that reservation is necessary to enable that service to be carried out under economically acceptable conditions."*

It transpires from this decision that, unless these facts are established, extension of the monopoly to these services does not comply with the directive and hence that sanctions for contravening any such monopoly may be unfounded. Consequently, the Court's decision prompts Member States to ensure that these conditions are met.

3.2 Mailing houses must be able to benefit from the postal tariffs granted to major customers

2 - ECJ Judgement
Nos. C-287/06
to C-291/06
of 6 March 2008.

In March 2008, the ECJ specified that mailing houses should be able to benefit from the postal tariffs granted to major customers².

Ruling on a petition against Deutsche Post, the ECJ dismissed the latter's case on the grounds that article 12-5 of Directive 67/97/EC precludes the refusal to apply to businesses - which consolidate, on a commercial basis and in their own name, postal items from various senders - the special tariffs which the national universal service provider grants, within the scope of its exclusive licence, to business customers for the deposit of minimum quantities of pre-sorted mail at its sorting offices.

Compared with existing decisions, this judgement adds the clarification that intermediaries which consolidate mail from several senders may deposit it "in their own name".

B. National framework

The scope of regulation covers postal service activities involving the clearance, sorting, transmission and delivery of postal items in the course of regular rounds. It does not cover the delivery of unaddressed advertising, urban courier services and express transport.

La Poste's banking activities and its regional development mission do not come within the purview of postal regulation.

1. Recap of the legislative framework

The Law of 20 May 2005³ modernised the rules applicable to postal activities, making them compatible with the European legal framework. In particular, it addresses:

- ◆ the organisation of the postal operations market;
- ◆ the establishment of regulation of this market with the creation of ARCEP: the legislator entrusted the Authority with the mission of supervising the opening and smooth functioning of the postal market as well as the financing and safeguarding of the universal service;
- ◆ revision of the legal framework of La Poste's financial services with the creation of the *Banque postale* (which is excluded from postal regulation);
- ◆ the regional development mission assigned to the company La Poste and the financing thereof.

3 - Law No. 2005-516 of 20 May 2005 on regulation of postal activities, *Journal Officiel (JO)* of 21 May 2005.

As well as modernising legislation on postal operations, the Law on regulation of postal activities also reorganised the legal and statutory provisions governing the postal sector, dividing them into two main texts:

- ◆ the French postal and electronic communications code, CPCE (*Code des postes et des communications électroniques*) which groups the rules applicable to postal services in general and to the universal postal service in particular. It is this text which lays down the provisions on regulation⁴, particularly the role of ARCEP⁵.
- ◆ the 1990 Law on La Poste⁶ which sets out the operating rules for the company La Poste (and does not therefore have a direct bearing on ARCEP's work).

4 - Chapter II of the CPCE
5 - Cf. CPCE, article L.5-2.

6 - Law No. 90-568 of 2 July 1990 concerning the organisation of the postal public service in France and France Télécom, *Journal Officiel (JO)* of 8 July 1990..

In 2007, this framework was supplemented by a new implementing decree⁷ amending the CPCE⁸ with regard to the characteristics of the universal services and La Poste's rights and obligations in respect of its public mail-service missions.

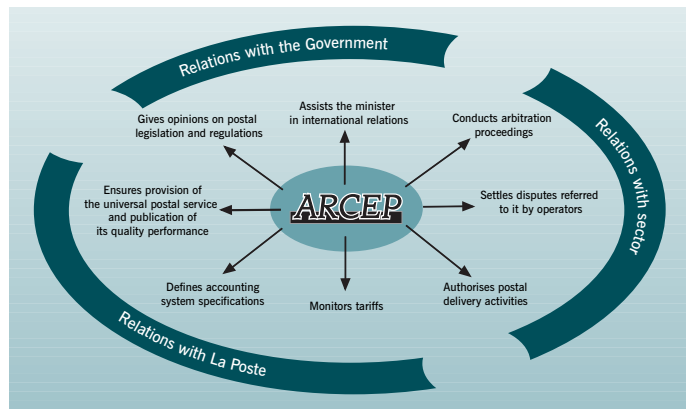
7 - Decree No. 2007-29 of 5 January 2007, *JO* of 7 January 2007.

8 - Cf. CPCE, Part II, Book 1, Title 1, Chapter 1 (articles R.1 to R.1-1-26).

2. Regulator's missions

The Law on regulation of postal activities conferred on ARCEP the mission of supervising the opening and smooth functioning of the postal market:

- ◆ by issuing authorisations to exercise a postal activity;
- ◆ by issuing opinions that are subsequently published about tariffs and universal service quality targets;
- ◆ by approving tariffs for the reserved area.



3. Implementing texts yet to be adopted

Les textes d'application à venir	
Decree on the authorisation of registered services for items of an administrative and judicial nature	Decree provided for in CPCE article L.3-4
Decree on access to private letter boxes	Decree provided for in CPCE article L.5-10
Ministerial orders on the characteristics of the universal service	Order on quality targets Order on the definition of bulk items Order on literature for the blind ⁹

9 - Mail containing documents sent or received by the visually handicapped, or by organisations that assist them, and which therefore benefit from total or partial exemption from charges in the postal systems of many countries.

10 - ARCEP Opinion No. 06-0458 of 21 November 2006.

11 - Cf. Part 1, Chapter 1, E and below.

12 - ARCEP Opinion No. 07-0244 of 29 March 2007.

13 - Cf. Part 1, Chapter 1, E.

14 - Available on www.arcep.fr.

First, article L.3-4 of the CPCE provides for the adoption of a decree on the **authorisation of registered services for items of an administrative and judicial nature**. A draft decree was submitted to ARCEP for an opinion in 2006, which was provided on 21 November 2006¹⁰. However, as yet, this decree has not been adopted.

Second, a draft decree provided for in article L.5-10 of the CPCE, concerning **procedures for access to private letter boxes by postal service providers**¹¹, was also the subject of an ARCEP opinion on 29 March 2007¹². In November 2007¹³, ARCEP organized a public consultation to find possible solutions regarding the access provided for in article L.5-10 of the CPCE, given the growing number of building access-control systems. The summary of this consultation, published on 7 February 2008¹⁴, identifies a short-term solution to the problem. ARCEP also reiterated the importance of adopting an implementing decree.

Lastly, three ministerial orders are needed to clarify the decree of 5 January 2007 on the **characteristics of the universal service**: an order on La Poste's quality targets for provision of the universal service, a draft of which was submitted to ARCEP for an opinion early in 2008, an order on the definition of bulk items and an order on literature for the blind.

4. National case law

In April 2007, the company OFM approached ARCEP with a request for assistance in settling a dispute with La Poste.

In its dispute settlement decision of 19 July 2007, ARCEP recognized the admissibility of OFM's queries and partially accepted its submissions, considering that one of the articles in the annex to the technical (preparation) contract contained terms that were not determined in accordance with "objective" rules and that La Poste should propose an article in accordance with the law to OFM¹⁵. On the other hand, it rejected OFM's remaining submissions.

OFM appealed against this decision, but in its ruling of 26 February 2008¹⁶, the Paris Court of Appeal dismissed OFM's request, upholding ARCEP's decision on all counts and in particular confirming the latter's authority to settle disputes between operators and mailing houses.

15 - CPCE, art. L.2-1,2: "The provider shall set the tariffs and terms of these services in accordance with objective, non-discriminatory rules."

16 - Paris Court of Appeal ruling of 26 February 2008.

CHAPTER 2

Status of preparation of the French market for the 2011 deadline

2007 brought the European Union's agreement to fully open up postal markets in 2011.

With this in mind, it is useful to take a look at how preparation of the French market for this crucial deadline is progressing, both as regards competition and the universal service.

Generally speaking, competition in Europe is developing slowly – and sometimes with difficulty. However, the situation in the French market seems to be more static than that of the main, large European markets.

A. Recap of market liberalisation objectives

1. The choice of opening postal markets to the competition

Economic efficiency has been the bedrock of postal policy since 1993, when the European Commission's "Green Paper" noted that quality and efficiency across Europe varied quite considerably, especially as regards cross-border items.

In the specific case of France, the 1997 report by Senator Larcher entitled "Sauver La Poste" (Save La Poste) reached similar conclusions:

- ◆ poorly defined remits, with intransparent financing;
- ◆ a tariff system which bore no relation to costs, sending out misleading signals to customers and making it a source of economic inefficiency;
- ◆ no pressure to improve efficiency, resulting in delays in modernising production tools and inadequate quality.

To make the European postal service more efficient, the European Commission suggested resolute action on the part of Member States to define quality and availability obligations as well as a gradual opening up of postal markets to competition; this approach described in the “Green Paper” was ratified by the Council with the adoption of the 1997 Postal Directive.

A completely different approach prevails in the United States, where the USPS continues to benefit from a postal monopoly, with tariffs being strictly controlled by the “Postal Regulatory Commission” set up by Congress. USPS business is strictly confined to regulated activities, the outline of which corresponds to a monopoly. However, this model was not adopted in Europe where there are plans to fully open up the market to competition. Moreover, European Posts have become diversified companies where the public-service mission coexists with commercial activities that are the natural extension of their business (express service, conveyance of press items) or even completely different activities, such as banking services.

2. Structuring of a liberalised market with a universal service obligation

The decision to open up European markets is also based on the analysis that provision of a universal postal service can be maintained in a competitive environment. This point was the subject of numerous studies and commentaries during the European negotiations conducted in 2007, especially about the question of geographical adjustment of tariffs. The thought process behind the impact study which underpins the European decisions is as follows:

- ◆ approximately one half of the postal market is a “captive” market. This so-called “single piece” traffic¹ is barely affected by competition because it is costly to collect and process “industrially”. The universal service operator's concern is therefore to obtain tariffs that cover costs for this traffic. What is more, these tariffs can remain evenly distributed because there is little competition on this market. If the universal service operator can balance its tariffs, it can provide the service under economic conditions which are all the more satisfactory in that this single-piece traffic contributes to its economies of scale;
- ◆ in contrast, the competitive part of the market – so-called “industrial” mail – is open to competition. Here, the universal service operator has the option of altering the tariffs for such items if the situation so justifies. This means it can compete with its rivals which are often companies specialising in delivery in densely populated areas.

1 - Single-piece mail is sent by private individuals and small businesses but also by large mailers. It does not undergo any special preparation but is posted in letter boxes located in public places or near sorting centres, or at La Poste contact points.

B. Developments in competition

1. The emergence of competition in Europe

Alternative operators have emerged – or are on the point of emerging – in several markets, and the countries with the biggest markets are even anticipating the European policy deadlines.

Status of total liberalisation of postal markets in the European Union (March 2008)	
Markets already liberalised	Sweden(1993), Finland (1994), United Kingdom (2006), Germany (1 January 2008), Netherlands (2008)*
Liberalisation scheduled by the deadline of 31 December 2010	Austria, Belgium, Denmark, Estonia, France, Ireland, Italy, Portugal, Slovenia , Spain
Liberalisation by the end of 2012	Cyprus, Czech Republic, Greece, Hungary, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania, Slovakia

* Total liberalisation of postal services in the Netherlands was originally scheduled for 1 January 2008 but was postponed following a dispute between TNT, the Netherlands postal operator, and the German government over the minimum wage set for Germany.

However, the development of competition has not been problem-free.

The oldest alternative operator, CityMail in Sweden, became profitable only after many years of losses. Spain and the Netherlands now have sizeable alternative operators, which have reached profitability in the addressed advertising market.

In the German market, where some 1.5 billion items are reportedly processed by alternative operators, the introduction of a minimum branch wage of € 9.80 seems to have frozen the development plans of one competitor (TNT-D) and triggered the withdrawal of another (PIN).

In the United Kingdom, consolidation (mail preparation services and regrouping prior to insertion in the postal chain) is progressing quickly, but use of alternative networks still appears to be limited.

Comparison of development progress among the main alternative operators in Europe

Country	Operator	Geographical coverage	Market share*	Volumes (in millions)	Annual turnover
Sweden	City Mail	45 %	8 %	245	7
Netherlands	Sandd	100 %	5,6 %	320	68
	SelektMail	100 %	Obj. 10 %	300	80
Germany	TNT-D	90 %	Obj. 10 %	70	200
Spain	Unipost	70 %	10 %	500	78

*sur l'ensemble du marché.

2. The French market seems to be fairly static

2.1 Authorised operators

ARCEP issued authorisations to companies which now provide local or national services.

Types of authorisations issued by ARCEP in 2006 and 2007

	Authorisations for the cross-border items segment*	Authorisations for local-area delivery	Authorisations for nationwide delivery**
2006	6	3	1
2007	4	7	0

* Subsidiaries of Posts and one independent company.

** Excluding La Poste and French overseas *départements*.

However, at this stage, observation of the market makes it possible to predict that, if legislation remains as it is, no competitors on the scale of Sweden's CityMail, the Netherlands' Sandd, Germany's TNT-D, or even Spain's Unipost can emerge in France between now and 2011. ADREXO – the main company which had undertaken to set up a dedicated delivery network for addressed items – announced that it was discontinuing this project in February 2008². It will continue its addressed item business through its national printed papers delivery network.

2 - Cf. release about the Spir Group's earnings for 2007, 20 February 2008, available on www.spir.fr.

Compared with the other European countries, the situation in France is characterized by the narrowness of the segment that is open to competition.

In theory, a substantial part of the French market is open to competition, with the legal monopoly corresponding to €6.2 billion in turnover in an overall market estimated at €15 billion in its widest sense (i.e. including domestic express items and delivery of unaddressed printed papers) and at €12 billion in its narrowest sense (letters, parcels intended for the general public, press items and registered items).

However, over and against this legal vision of the monopoly, there is the economic reality of a segment where genuine competition among delivery operators on the correspondence market hardly exceeds one billion items (whereby items of correspondence represent slightly over 16 billion items) because it is confined to letters:

- ◆ sent in bulk;
- ◆ non-urgent;
- ◆ delivered only in densely populated areas;
- ◆ and weigh more than 50 grams (on average, 16% of correspondence-item traffic exceeds this weight).

So an alternative operator needs to obtain a high market share in a (very limited) competitive segment to hope to cover just the costs of operating a delivery network. In contrast, in countries where the open segment is significantly bigger, alternative operators manage to break even with a limited market share (10% for operators in the Netherlands and 8% for CityMail).

The most likely explanation is that alternative operators are not currently finding enough traffic to enable them to achieve the economies of scale needed to compete with La Poste. In countries where total liberalisation has already been effected³ and in Spain, alternative operators have a broader economic scope:

3 - See above.

- ◆ through liberalising advertising items from the first gram in the most innovative European countries;
- ◆ through the concept of “value added services” in the case of Germany (for instance, mail collected after 5 p.m. or same-day collection and delivery);
- ◆ through opening of the local delivery market in the case of Spain.

2.2 Obstacles to market entry

French operators also encountered specific obstacles, such as access to letter boxes because, in France, more and more buildings in urban areas are installing access-control systems.

Recap of the law

The 2005 law on postal regulations provides for a principle of equal access to letter boxes for authorised postal operators and La Poste, the universal service provider. The implementing decree defining procedures for this access has not yet been issued.

This principle of equal access was also included in the *Code de la construction et de l'habitation*, article L.111-6-3 of which reaffirms that: *with respect to application of article L. 5-10 of the Code des postes et des communications électroniques, owners – or in the case of joint ownership – the owners' association represented by the managing agent shall grant the universal postal service provider and the authorised operators mentioned in article L. 3 of the said Code access to private letter boxes, in accordance with the same procedures.*

Non-postal press-item delivery and sales agents registered with the Conseil supérieur des messageries de presse, acting on behalf of a publisher or a subscription delivery service with the authorisation provided for in article L. 3 of the Code des postes et des communications électroniques, are to have access to private letter boxes in accordance with the same procedures as home-delivery staff working for the operators referred to in the previous paragraph.

Since 2004-2005, postal operators have been reporting problems in connection with accessing letter boxes in residential properties that have opted for permanent access-control systems. New market entrants have complained that this system discriminates against them, compared with La Poste which can access all buildings. While an ARCEP authorisation serves as a surety for postal operators in the eyes of managers of jointly owned property and property agents, it does not resolve all the technical and economic problems involved in obtaining access to letter boxes.

4 - Cf. ARCEP's 2006 Annual Report, p. 163.

5 - Public consultation by ARCEP of 30 November 2007 on access to letter boxes installed in buildings equipped with access-control systems. See the box below.

Since November 2006, ARCEP has therefore been organizing meetings between the stakeholders involved in the problems of letter-box access⁴. Besides the delivery operators immediately concerned (authorised postal operators, non-postal delivery channels, parcel delivery services), real-estate professionals also participated in the work.

At the end of 2007, ARCEP launched a public consultation⁵ which produced solutions that gave La Poste's competitors short-term access to properties equipped with the "VIGIK" access control system.

The consultation also raised questions that do not come within ARCEP's purview, such as access to such buildings for emergency services. In the longer term, this consultation should help stakeholders to move the system forward taking account of these constraints.

Lastly, ARCEP repeated the need to adopt the implementing decree for article L.5-10 which should define limits for authorised-operator access to letter boxes for postal delivery purposes.

Vigik – an example of an access-control device

The Vigik system, developed by La Poste (patent registered in 1994), supplements the access-control system (press-button door entry, intercom or other) and enables certain persons from outside the building to enter while preserving resident security. Thus, it is not an access-control system but a device for monitored, selective opening.

In practical terms, it makes it possible to screen admission of third parties (delivery firms or service providers like EDF or France Télécom) to buildings by means of a swipe card. This card is programmed for a limited period (one day) to allow the delivery agent to pass the control system, provided access has been authorised beforehand by the condominium or the property manager.

The "Vigik" system therefore means that the delivery agent:

- ◆ must be known in advance to the building manager so the latter can authorise admission;
- ◆ must be equipped with a device that allows programming of admission to the building.

However, while providers such as La Poste, EDF or France Télécom are clearly identified and are already equipped with the appropriate devices, other operators that have emerged more recently encounter certain problems. Apart from the expense of purchasing appropriate equipment, they also have to take (often time-consuming) action to identify the property manager and brief him on their business in order to gain access. In every case, this process involves expense, and system installation takes a certain amount of time. In addition, the impact on business and the probable complaints have to be handled.

Public consultation by ARCEP

At the end of November 2007, ARCEP organized a public consultation about access to letter boxes in buildings equipped with access-control systems.

It received 23 contributions from both delivery operators and owner representatives (property managers and public housing bodies), as well as from consumer associations and manufacturers and installers of access-control systems.

The summary published by ARCEP brings out the need to reconcile:

- ◆ residents' concerns about security and peace of mind, and their wish to retain control of access to apartment buildings;
- ◆ the rules governing competition between various categories of operators – for instance between postal operators which deliver only postal items, postal operators that also deliver unaddressed advertising and other operators that delivery only unaddressed advertising;
- ◆ the same access to letter boxes for postal operators and non-postal press delivery services, under the conditions provided for by law, the only area in which ARCEP is authorised to intervene.

In respect of Vigik access which *“in practice, causes most access-related problems”*, a short-term solution was found to giving authorised postal operators immediate access. Using the same procedures, i.e. by sharing the same Vigik identification code, it gives them access to letter boxes installed in properties equipped with this system.

Moreover, the consultation highlighted the need to introduce a new Vigik control system based on fair, transparent operating rules to allow the development of permanent solutions.

It also emphasized the need to improve flexibility, more specifically by facilitating the addition or removal of service providers.

Lastly, the consultation made it possible to include access to letter boxes in the wider debate on property accessibility which, however, goes beyond ARCEP's remit.

2.3. Competition on “upstream” mail markets, item collection and integration

This area is particularly interesting for large mailers who entrust the preparation of their items to intermediaries (mailing houses), and for mailers of smaller volumes to whom mailing houses offer consolidation services so as to obtain larger volumes that qualify for tariff discounts.

In France, there are 200 businesses in these markets. It is estimated that mailing houses process 85% of advertising items. However, ARCEP has observed that they have no market clout because the contracts binding them to the operator put them in a situation similar to that of a sub-contractor of the operator or of the mailer. These conditions prevent the emergence of a genuine market alternative for customers.

2.4. Status of preparation for total liberalisation

If the situation remained unchanged, the French market would go straight from being a virtual monopoly to being totally liberalised in 2011. This situation does not allow the market to start adapting, apparently due to problems of establishing competition in the delivery-market.

CHAPTER 3

Postal markets

The Law of 20 May 2005 on regulation of postal activities instructs ARCEP to establish a statistical survey to monitor changes in the postal market in a context of gradual liberalisation of the sector¹.

¹ - CPCE, Article L.135.

In 2005, ARCEP therefore set up a Statistical Observatory on Postal Activities which presented an overview of postal markets in 2004.

In its third publication, which came out at the end of 2007, this Observatory presented figures for the postal market in 2006. For the annual report, this information is supplemented by provisional figures for the 2007 correspondence market.

Postal activities

Article L.1 of the CPCE defines postal services as *“the clearance, sorting, transmission and delivery of postal items in the course of regular rounds”*. A postal item must have an address and may be a letter, catalogue, newspaper, printed papers or a parcel.

Postal activities in the sense of the Observatory are more extensive, and are defined as all clearance, sorting, transport and delivery activities which enable an item to reach its final destination. Thus, postal activities cover all items of correspondence, catalogues, press items and addressed or unaddressed advertising, irrespective of their method of forwarding.

A. Overview of markets in 2006

1. Volumes

Domestic items of correspondence and unaddressed advertising were the two biggest flows. Buoyed by the double-figure growth of e-commerce, the “light” parcels market – i.e. parcels weighing less than 30 kilograms – which accounts for just 2% of item volumes, was one of the fastest-growing postal activities. Almost 700 million parcels were delivered in France in 2006.

The delivery of paid-for press items to subscribers ranked third, with 2.7 billion newspapers and magazines delivered through postal and non-postal channels. This category represented 13.5% of addressed items delivered in France.

Exports accounted for over 2% of addressed items delivered in France, with almost 500 million addressed items being exported in 2006.

Postal activities and related delivery markets - Volumes of items (million)

Addressed items Distribués en France	2005	2006	Change
Items of correspondence	8 470	8 435	-0.4 %
Letters and parcels delivered against signature	1 302	1 382	6.1 %
Parcels	3 464	3 698	-
of which "ordinary" parcels	1 464	1 598	9.1 %
of which express light parcels*	2 000	2 100	-
Delivery of press items to subscribers**	492	484	-1.7 %
Total addressed items delivered in France	13 728	13 999	2.0 %
Delivered for export			
Items of correspondence	500	418	-16.4 %
"Ordinary" parcels	74	85	14.6 %
Press items	31	29	-6.2 %
Total addressed items exported	605	532	-12.1 %
Unaddressed items			
Total unaddressed advertising	630	658	4.5 %

Source: ARCEP, Statistical Observatory on Postal Activities, 2004, 2005 and 2006 annual surveys

Imports are included for items of correspondence, items delivered against signature, parcels, press items and unaddressed advertising.

*Estimates, domestic traffic and imports.

** Including non-postal delivery of press items.

Postal activities and related delivery markets - Revenue (€ million excl. taxes)

Addressed items Delivered in France	2005	2006	Change
Items of correspondence	16 806	16 540	-1.6 %
Letters and parcels delivered against signature	276	279	1.1 %
Parcels	638	665	-
of which "ordinary" parcels	358	365	2.0 %
of which express light parcels*	280	300	-
Postal delivery of press items to subscribers **	2 789	2 710	-2.8 %
Total addressed items delivered in France	20 509	20 194	-1.5 %
Delivered for export			
Items of correspondence	523	480	-8.1 %
"Ordinary" parcels	7	8	18.0 %
Press items	28	27	-2.8 %
Total export	558	516	-7.5 %
Unaddressed items			
Total unaddressed advertising	18 570	18 568	0.0 %

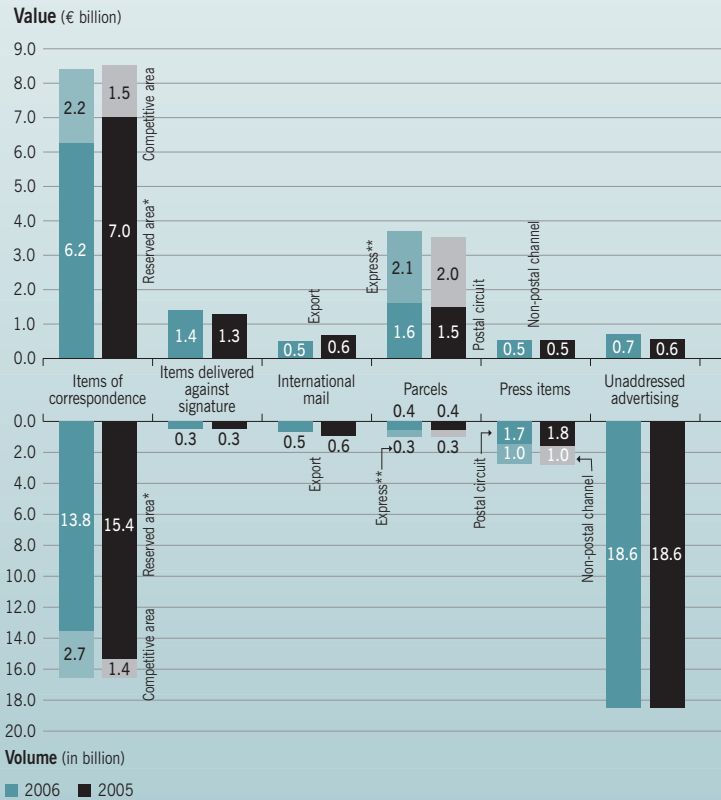
Source: ARCEP, Statistical Observatory on Postal Activities, 2005 and 2006 annual surveys

Imports are included for items of correspondence, items delivered against signature, parcels, press items and unaddressed advertising.

*Estimates, domestic traffic and imports.

** Not including revenue from non-postal delivery of press items.

Total value of the market 2006-2005



Source: ARCEP, Statistical Observatory on Postal Activities, 2005 and 2006 annual surveys.

*In 2006, the postal monopoly covered items of correspondence weighing 50 grams or less whose price was equal to or less than 2.5 times the basic tariff.

**Estimate.

Total market volumes 2006-2005

2. Over € 14.5 billion in revenue in 2006

Operator revenue from delivering addressed items in France and for export exceeded €14.5 billion in 2006. The correspondence-item market generated the highest revenue (€ 8.4 billion), i.e. more than half of all revenue.

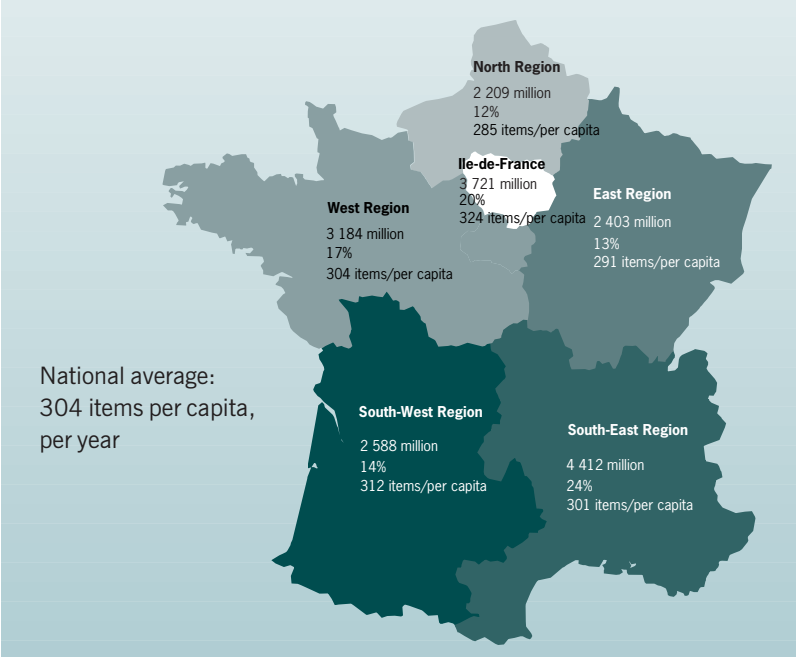
Parcel market revenue ("ordinary" and express parcels combined) accounted for nearly 24% of all revenue for just 2% of volume in 2006, showing the highest annual growth of all products.

While representing nearly half the number of items, unaddressed advertising generates just 4% of overall revenue. Leaflet delivery is a lower added-value service, and as leaflets do not require collection or daily rounds, they do not count as postal items. Revenue from unaddressed advertising was up 4.5% between 2005 and 2006 with volumes remaining stable.

In terms of revenue, exports represented nearly 4% of revenue from the delivery of addressed items.

3. Geographical distribution of delivery flows in 2006

Delivery of items of correspondence, items delivered against signature and press items



In terms of population, the Ile de France is the region where people received the most mail in 2006, averaging 324 items per capita per year, i.e. almost 7% more than the average for Metropolitan France which is around 304 items per capita per year. The South-West region where people received an average of 312 items a year was also above this average.

At 304 items per capita, the West Region is around average, and the number of items in the remaining South-East, East and North regions is below average, at 301, 291 and 285 items per capita respectively.

B. The market in items of correspondence in 2007

1. The French market for delivery of items of correspondence

1.1 Les volumes et les revenus en hausse en 2007

Revenue

€ million excl. tax	2005	2006	2007p	Change 2006-2007
Items of correspondence, excluding addressed advertising	6 732	6 788	6 928	2.1 %
Addressed advertising	1 738	1 647	1 629	-1.1 %
Total items of correspondence	8 470	8 435	8 556	1.4 %

Source: ARCEP, Statistical Observatory on Postal Activities, 2005 and 2006 annual surveys, and advance figures for 2007.

Volumes

Million	2005	2006	2007p	Change 2006-2007
Items of correspondence, excluding addressed advertising	11 950	11 668	11 831	1.4 %
Addressed advertising	4 856	4 871	4 797	-1.5 %
Total items of correspondence	16 806	16 540	16 628	0.5 %

Source : ARCEP, Observatoire des activités postales, Enquêtes annuelles 2005, 2006 et avancée 2007.

Note: According to European Parliament and Council Directive 97/67/EC of 15 December 1997, an item of correspondence is a communication on any kind of physical medium to be conveyed and delivered at the address indicated by the sender on the item itself or on its wrapping. Such an item must not weigh more than two kilograms. Books, catalogues, newspapers and periodicals are not regarded as items of correspondence, while direct marketing items (addressed advertising) are.

In 2007, the value and volume of items of correspondence delivered in France rose by 1.4% and 0.5% respectively, reversing the downward trend noted between 2005 and 2006 (-0.4% for value and -1.6% for volume). In particular, traffic volumes were boosted by items in connection with the presidential and legislative elections.

Revenue from items of correspondence, excluding addressed advertising, was up 2.1% in 2007 compared with a 1.4% increase in volume. This increase is mainly explained by the rise in single-piece tariffs in the reserved area applied by La Poste as of 1 October 2006, when postage for items weighing less than 20 grams rose 1.89% (from € 0.53 to € 0.54).

Revenue from addressed advertising dropped 1.1% and volume 1.5% in 2007, falling less sharply than in 2006 (-5.2%) despite lower volumes, because of price increases approved by ARCEP² for the “Tem’post MD7” (+ 2.43%) and “Postimpact TS3” (+ 2.7%) products as per 1 January 2007².

² - ARCEP Decision
No. 06-0690
of 18 July 2006.

The share of correspondence-item revenue generated by addressed advertising was down 0.5 of a percentage point on 2006, continuing the trend noted since 2004 which is due both to lower revenue from addressed advertising and an increase in correspondence-item revenue, excluding advertising, over the past three years.

In contrast, the percentage change in addressed advertising volumes was reversed between 2006 and 2007. After rising since 2004, its share of items of correspondence delivered in France in 2007 fell 0.6 of a point to 28.9%.

Addressed advertising as a percentage of items of (revenue and volume)



Source: ARCEP, Statistical Observatory on Postal Activities, 2005 and 2006 annual surveys, and advance figures for 2007.

1.2 The reserved area and the competitive area in 2006 and 2005

In 2006, La Poste’s reserved area – i.e. items weighing up to 50 grams – accounted for 83.5% of items of correspondence delivered in France, as compared with 92% of the correspondence-item total in 2005, when the postal monopoly covered items weighing less than 100 grams.

Reserved-area revenue accounted for 73.5% of revenue from items of correspondence delivered in France in 2006, against 83% the previous year.

Distribution of items of correspondence in 2006 (domestic and import)

	Volume		Revenue	
	2005	2006	2005	2006
Reserved area	91.8%	83.5%	82.8%	73.5%
Competitive area	8.2%	16.5%	17.2%	26.5%
TOTAL items of correspondence	100.0%	100.0%	100.0%	100.0%

Source: ARCEP, Statistical Observatory on Postal Activities, 2005 and 2006 annual surveys.

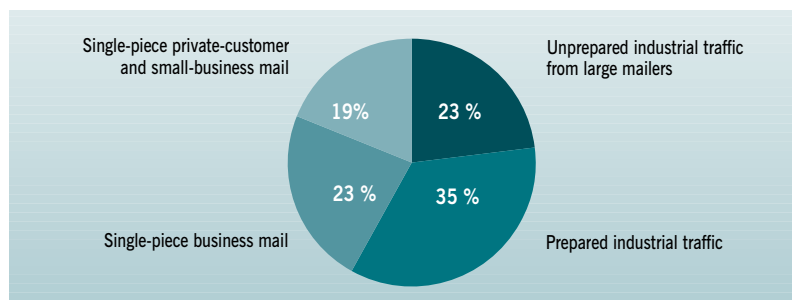
3 - Single-piece mail is sent by private individuals and small businesses but also by large mailers. It does not undergo any special preparation but is posted in letter boxes located in public places or near sorting centres, or at La Poste contact points.

1.3 Industrial traffic and single-piece mail in 2006 and 2005

In 2006, bulk mail – i.e. consignments of over 400 identical items posted by a single sender – accounted for nearly 58% of the items of correspondence delivered in France – originating directly from large mailers or mailing-house sorting centres.

The percentage of industrial mail declined one percentage point compared with 2005, losing ground to single-piece items³.

Items of correspondence broken down by volume (domestic and import)



Source: ARCEP, Statistical Observatory on Postal Activities, 2005 and 2006 annual surveys.

In all, 81% of items of correspondence originated with businesses in 2006, remaining stable at the 2005 level.

Two thirds of mail items are intended for private individuals, and one third for businesses. Items exchanged between private individuals represented just 3% of traffic⁴.

4 - Le Courrier en chiffres
–2006 data,
La Poste Group, p. 4.

2. Items of correspondence for export in 2007

Revenus

€ million excl. tax	2005	2006	2007p	Change 2006-2007
Items of correspondence	500	418	438	4.7 %

Source: ARCEP, Statistical Observatory on Postal Activities, 2005 and 2006 annual surveys.

Volumes

Million	2005	2006	2007p	Change 2006-2007
Items of correspondence	523	462	473	2.4 %

Source: ARCEP, Statistical Observatory on Postal Activities, 2005 and 2006 annual surveys.

Unlike the domestic market, the export market in items of correspondence is totally open to competition. This segment represents just under 3% of total correspondence-item volume and accounts for about 5% of revenue. Following a slump in revenue and volume in 2006 (down 16.3% and 11.6% respectively), the export correspondence market has recovered, with a 4.7% upturn in revenue.

C. Other market segments

1. Parcels

In 2006, the “light” parcels market (parcels weighing less than 30 kilograms) accounted for nearly 700 million parcels delivered in France, generating estimated revenue of approximately € 3.7 billion.

This market comprises two segments: the “ordinary” parcels market and the express light parcels market. The main difference between these two segments

5 - 2006 Annual Report, La Poste, p. 11.

6 - In its 2006 Annual Report, La Poste, which operates in this market through its ColiPoste division, stated that 75% of parcels were tracked and traced in 2006, compared with just 60% in 2005. This service enables senders and addressees to monitor parcel transmission from dispatch to delivery using the Internet. From 1 March 2006, the "Colieco" counter parcel service provided by La Poste was discontinued, leaving the "Colissimo" service which is more expensive but offers time-certain delivery.

7 - Annual figures for 2006 published by the Fédération des Entreprises de Vente à Distance (FEVAD), 2007 edition.

lies in the transmission time, which is more than one day for “ordinary” parcels (D+2 to D+5) and one day or less for express items (D+1). Furthermore, the “ordinary” parcels segment mainly concerns business-to-consumer exchanges or those between private individuals, while the express service caters more for business-to-business requirements. The resources deployed to meet the short transmission times and dedicated logistics translate into higher tariffs for express items.

However, the boundary between these two delivery options is gradually disappearing as the products provided by operators in both markets tend to converge more and more.

1.1 “Ordinary” parcels

In 2006, the “ordinary” parcels market remained the biggest in terms of volume, with 365 million parcels delivered in France, i.e. 2% more than in 2005. Despite a slowdown in 2006 (compared with annual volume growth of 3.8% between 2004 and 2005), ordinary parcels are still one of the fastest-growing postal activities, buoyed by the double-figure growth in e-commerce with, in particular, an 8.2% increase in parcel flows between private individuals⁵.

Parcel delivery revenue rocketed with annual growth of 9.1% between 2005 and 2006, compared with 4.9% between 2004 and 2005. This increase can be explained by senders opting for a higher level of service⁶.

In 2006, the remote-retail industry⁷ – i.e. traditional players such as mail-order companies but also *pure players* (wholly Internet-based trading platforms) – generated 240 million parcels. Thus, remote retailing originated nearly 66% of “ordinary” parcels delivered in France.

Revenue

€ million excl. tax	2004	2005	2006	Change 2005-2006
“Ordinary” parcels	1 396	1 464	1 598	9.1%

Source: ARCEP, Observatory on Postal Activities, 2005 and 2006 annual surveys.

Volume

Million	2004	2005	2006	Change 2005-2006
“Ordinary” parcels	345	358	365	2.0%

Source: ARCEP, Observatory on Postal Activities, 2005 and 2006 annual surveys.

1.2 Express “light” parcels

In 2006, the express delivery service handled about 300 million parcels – 230 million for the domestic market and 70 million for the import market – in France, in a market with an estimated value of over € 2 billion. Taken overall, the express “light” parcels market was estimated at over € 3 billion in 2006.

Taux de croissance de l'express colis légers*

	Revenue		Volume	
	2005	2006	2005	2006
SESP National Express	3.8 %	3.2 %	5.5 %	6.8 %
SESP Import Express	22.2 %	13.4 %	15.2 %	18.9 %
SESP Export Express	-0.5 %	5.6 %	4.8 %	5.3 %

* As annual shifts and raw data

Source: Courier services survey No.313, March 2007, Ministry for Transport, Infrastructure, Tourism and the Sea.

National express "light" parcels – i.e. those sent and delivered in France – are on the increase, more so in terms of the number of items processed (+6.8%) than in terms of turnover (+3.2%), as a result of a 3.6% decrease in the unit price of items (€ 6.96)⁸, according to the Ministry of Transport courier services survey.

International express continued to grow in 2006, with imports more dynamic than exports. Between 2005 and 2006, volume and revenue from foreign-origin express parcels rose 18.9% and 13.4% respectively. Volume grew 3.7 percentage points compared with growth between 2004 and 2005. In contrast, there was an 8.8 point slowdown in revenue growth. The SESP survey attributes these developments to the 8% decrease in the unit price (€ 10.83).

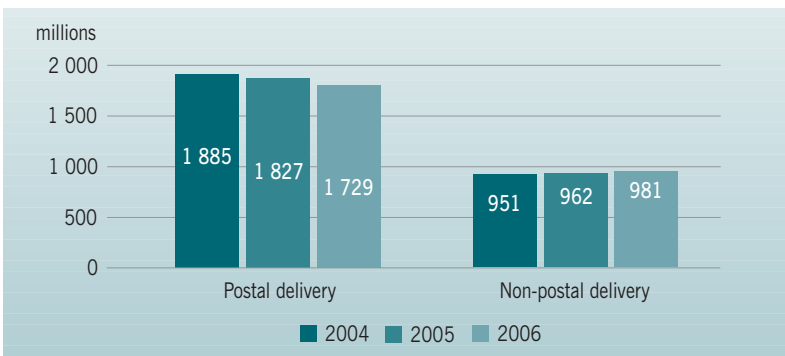
After declining between 2004 and 2005, export turnover made a marked recovery. While volumes increased by just half a percentage point compared with the previous period, the average unit price of items (€ 36.21) rose 1.1%.

2. Delivery of press items to subscribers

The decline in press items delivered to subscribers, through both the postal circuit and non-postal channels⁹, gathered momentum in 2006 with a 2.8%¹⁰ drop in volume (compared with 1.7% in 2005). This reflects the more general context of falling volumes for paid-for press items.

The non-postal segment recorded 981 million items and is gaining ground (+2.0% in a single year). In contrast, delivery through the postal circuit dropped sharply to 1729 million items (down 5.4% compared with -3.1% between 2004 and 2005).

Delivery of press items in terms of volume (excluding news-stand distribution)



Source: ARCEP, Statistical Observatory on Postal Activities, 2005 and 2006 annual surveys.

8 - Courier services survey, No.313, March 2007, Ministry of Transport, Infrastructure, Tourism and the Sea – The SESP survey (Ministry of Transport) is conducted in conjunction with TLF, the Fédération des entreprises de Transport et Logistique de France, and based on data provided by the networks themselves.

9 - In contrast to delivery through the postal circuit when an address is printed on the newspaper which is delivered like addressed mail, non-postal delivery is based on a list of addressees and an unmarked pile of newspapers. Consequently, delivery through non-postal channels is not a postal activity in the sense of Directive 97/67/EC of 15 December 1997 which presupposes the delivery of addressed items.

10 - In its 17th Observatoire de la presse, the Office de Justification de la Diffusion (OJD) stated that delivery of paid-for press items to the general public in France had fallen 2.26%, 0.6 percentage points lower than the Observatory figures. This discrepancy can be explained by the difference between the observation perimeters used by the OJD and La Poste.

11 - When La Poste became an independent operator on 1 January 1991, a memorandum of understanding signed on 25 March 1992 by the operator, the Fédération nationale de la presse française and the Ministry of Posts and Telecommunications provided that the Press would pay 33% of the cost of postal conveyance of its publications with the balance being shared by the Government (37%) and La Poste (30%). Under this agreement, the Government therefore paid La Poste a subsidy set at 950 million French francs in 1991 (€ 145 million), which was raised to 1,930 million francs in 1992 (€ 294 million), then reduced to € 290 million in 1997 and to € 242 million in 2005.

The lower volume of press-item delivery through the post, especially for La Poste, was accompanied by a 1.1% drop in revenue, despite a delivery-charge increase ranging between 1.25% for economy press items (D + 7) and 5% for urgent press items (D and D + 1).

The “Paul” Agreements, multi-year agreements between the Government, the Press and the Post, set the government’s contribution to the cost of postal conveyance of press items at € 242 million¹¹ per year from 2005 to 2008. This contribution corresponds to the contractual remuneration paid by the Government to La Poste to offset the preferential tariffs granted to Press organizations.

Revenue

€ million excl. tax	2004	2005	2006	Change 2005-2006
“Press” turnover	468	492	484	-1.6 %
Government contribution	290	242	242	0.0 %
Total	758	734	726	-1.1 %

Source : ARCEP, Observatoire des activités postales, Enquêtes annuelles 2005 et 2006.

In 2007, according to La Poste, postal delivery turnover should amount to € 470 million.

3. Unaddressed advertising

Revenue

€ million excl. tax	2004	2005	2006	Change 2005-2006
Unaddressed advertising	593	630	658	4.5 %

Source: ARCEP, Statistical Observatory on Postal Activities, 2004, 2005 and 2006 annual surveys.

Volume

Million	2004	2005	2006	Change 2005-2006
Unaddressed advertising	18 590	18 570	18 568	0.0 %

Source: ARCEP, Statistical Observatory on Postal Activities, 2004, 2005 and 2006 annual surveys.

12 - Data based on information provided to ARCEP by La Poste (Médiapost) and Adrexo (Adrexo and Kicible), as well as on estimates (for approximately 10% of market volume and revenue).

In terms of volume, unaddressed advertng (a direct-marketing technique also known as *imprimés sans adresse* (ISA) or unaddressed printed matter) remained stable in 2006. In fact, item volumes have risen only very slightly since 2004. In contrast, 2006 brought strong operator-revenue growth at 4.5%¹².

Operators passed on the increase in ISA delivery costs by raising their prices, partly in response to the introduction of an environment tax with effect from 1 January 2005 and the implementation of a new collective agreement on 1 July 2005.

D. The mail preparation market, upstream of delivery

Mail preparation occurs upstream of delivery and covers all bulk-mail preparation activities prior to hand-over to a postal operator for final delivery. Mailing houses normally carry out three major operations: packaging, sorting and postal prepayment (franking)

This market is shared by a very mixed group of some 200¹³ businesses.

Basically, mailing houses handle direct marketing mail (addressed advertising), transactional and general business mail (invoices, bank statements and other contract-related documents) and press subscriptions. In a more marginal capacity, they handle bulk parcels or unaddressed advertising.

While some mailing houses specialise in processing a single category of mail, they tend to diversify their traffic as part of the quest for new profit centres and to make their business less seasonal.

13 - More than 700 companies feature in the *Sirène* directory but Selced, the *Syndicat des entreprises de logistique et de communication écrite directe*, lists only 200 companies that are active in the mail-preparation sector.

1. A market with over 7 billion items

Over 7 billion items were prepared in France in 2006, including 3.8 billion direct-mail items and 1.9 billion business mail items. These two categories accounted for more than 80% of the bulk-mail preparation market, and numbers rose sharply in 2006 (+9%). In 2006, 1.3 billion press items were prepared by mailing houses which also handled a share of parcels and unaddressed advertising traffic.

In terms of volume, prepared mail represented over 38% of the items of correspondence, “ordinary” parcels and press items delivered in France.

Distribution of prepared items of correspondence between transactional mail and direct marketing

Volume

Million	2005	2006	Change
Total	5 275	5 751	9.0%
of which business mail	1 516	1 926	27.0 %
of which direct marketing mail	3 759	3 825	1.8 %

Source: ARCEP, *Statistical Observatory on Postal Activities*, 2006 annual survey.

2. Mail preparation – Direct marketing

Traffic handled by direct-marketing mailing houses rose by 1.8% in 2006 to 3.8 billion items, an increase slightly higher than that for the addressed advertising market overall (+0.3%). Thus, around 80% of direct marketing mail was prepared.

Forty percent¹⁴ of prepared direct-marketing items came from mail-order companies (via the groups' own or external mailing houses), 14% from press and PR companies, 13% from industry, 10% from services and 8% from banks and insurance companies.

14 - Study on mail preparation activities in France, Basic, 2007. Study commissioned by ARCEP in 2007.

3. Mail preparation – Transactional mail

In 2006, over 1.9 billion transactional mail items were processed by companies providing computerised processing, publishing, printing and enveloping services, 27% more than in 2005. This volume corresponds to roughly one third of general transactional mail, with the remaining two thirds being deposited direct by mailers with postal delivery services. This sharp increase is explained by a massive transfer of transactional mail items to the “*Tem’post Gestion*” tariff which calls for more preparatory work and therefore prompts more customers to use mailing houses.

However, the general trend for transactional mail volumes – both prepared and unprepared – points downward, with the traditional large customers (banks, utilities) cooperating with mailers specialised in new technologies or new electronic communication services to digitize the large flows of information intended for their customers and subscribers.

Revenue from these activities was estimated at around € 270 million in 2006. Most of the turnover came from computerised processing services (81%), i.e. item personalisation.

4. Mail preparation – Press items

The mail preparation market for press items was calculated at roughly 1.3 billion items in 2006, i.e. 76% of paid-for press items distributed through the postal circuit.

Prepared press-item volumes were down on 2005, in line with the general decline in press-item traffic distributed through postal channels.

Note: In the context of the Annual Report, press-item preparation describes the activities of specialised mailing houses that serve publishers. This analysis does not take account of in-house preparation by printers-cum-publishers prior to forwarding newspapers or magazines to the postal delivery operator and their distribution via non-postal channels or via single-issue sales.

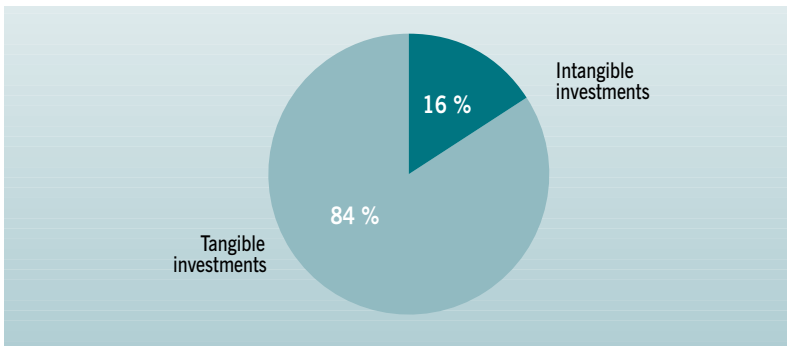
E. Investment and employment

N.B: Information about investments and jobs in this section is confined to authorised postal operators as per 31 December 2006 and to postal activities in the strict sense of the term. Therefore, it does not cover investments and jobs provided by the subsidiaries of express, unaddressed-advertising and mail-preparation operators.

1. Investments by authorised operators

In 2006, operators authorised by ARCEP made tangible investments of nearly € 391 million (84% of their total investments). Most of these went on infrastructure, especially on equipment, sorting machines, etc., while the remaining 16% were intangible investments in services such as computerisation of operator information systems.

Investments linked to authorised operators' postal activities



Source: ARCEP, Statistical Observatory on Postal Activities, 2006 annual survey.

Investments in delivery: La Poste and Adrexo

Investments by the La Poste parent company come under the La Poste Group which published record investments of € 1.1 billion (excluding acquisitions) in 2006.

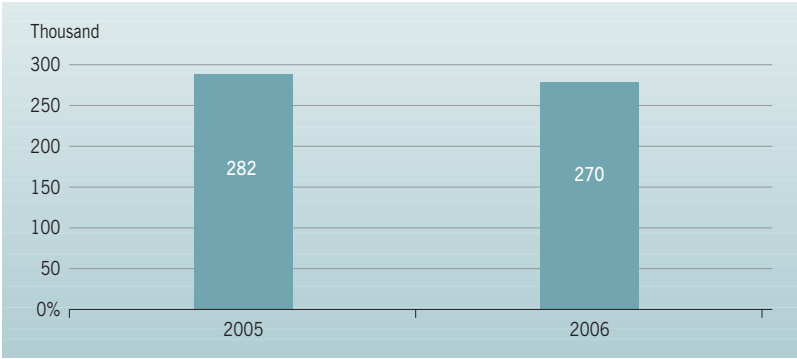
In 2004, the La Poste Group launched a plan to modernize its mail production apparatus entitled Cap Qualité courrier, supported in particular by its Poste Immo subsidiary. This plan provides for investments totalling € 3.4 billion over the period 2004-2012. At the end of 2006, four new-generation industrial hubs for mail were operational, and 20 more are being rolled out.

Investments by alternative operators mainly focus on building up delivery networks and modernising sorting platforms. For instance, in 2006, Adrexo extended its delivery network in Hauts de Seine (92).

2. Employment provided by authorised operators

In 2006, authorised operators were providing 270,000 jobs in connection with their postal activities, 4.1% fewer than in 2005.

Jobs linked to authorised operators' postal activities



Source: ARCEP, Statistical Observatory on Postal Activities, annual surveys.

Note: Field constant for both years: authorised operators at 31 December 2006.

NB. The number of jobs corresponds to the number of individuals employed by authorised operators to perform postal services, excluding subsidiaries. Thus, this field excludes not only employees of the Banque Postale, a La Poste Group subsidiary, but also financial services staff working for the La Poste parent company whose jobs are not linked to postal services proper. In contrast, full account is taken of employees – especially counter staff – whose work at least partly concerns postal services.

CHAPTER 4

The universal postal service

The universal postal service plays an important role in the country's economic and social life, representing more than 19 billion postal items, ranging from letters or parcels sent by private individuals to invoices or advertising sent by businesses to hundreds of thousands of addressees.

Ensuring the quality and sustainability of the universal postal service is of vital concern therefore for the population as a whole.

In France, La Poste was designated by law¹ as the universal postal service provider.

1 - Article L.2 of Law No. 2005-516 of 20 May 2005 on regulation of postal activities.

A. ARCEP guidelines

1. The universal service in France

In France, the universal postal service comprises a set of obligations for La Poste², designed to guarantee the provision for all customers of a certain number of services whose financing is monitored by ARCEP.

2 - Article L.2 of the CPCE : "La Poste est le prestataire du service universel".

The characteristics of the universal postal service were laid down in the eponymous decree of 5 January 2007³. In particular, this service covers the following domestic and cross-border mail services:

3 - Decree No. 2007-29 of 5 January 2007 on the universal postal service and La Poste's rights and obligations, amending the Code des postes et des communications électroniques (CPCE), JO of 7 January 2007.

- ◆ items of correspondence up to a maximum weight of 2 kilograms (single-piece or bulk items and registered items with or without advice of delivery);
- ◆ newspapers and periodicals up to a maximum weight of 2 kilograms;
- ◆ catalogues and other printed papers up to a maximum weight of 2 kilograms;
- ◆ parcels up to a maximum weight of 20 kilograms;
- ◆ insured items up to a certain amount.

La Poste's reserved area ('monopoly') – confined to items of correspondence weighing less than 50 grams whose price is less than two-and-a-half times the basic tariff (i.e. € 1.375 from 1 March 2008) – is therefore part of the universal service.

4 - See below.

5 - See below.

ARCEP ensures that La Poste carries out its universal service missions properly, especially in terms of quality of service⁴, and supervises their financing. In this capacity, it monitors La Poste's universal service tariffs, in particular defining the incumbent operator's multi-annual tariff framework⁵.

2. The concept of universal service quality

In most European countries, universal postal service quality is usually measured by transmission-time indicators. However, user expectations of quality may go further and concern other aspects of postal services.

These expectations of postal services vary according to the services customers use and their intended purpose. For instance, the requirements involved in sending a registered letter in an administrative matter are different from those involved in sending a postcard. Universal service quality therefore has many facets.

Thus, for each universal product, quality of service can be interpreted according to several types of indicators, such as:

- ◆ compliance with the scheduled transmission times;
- ◆ percentage of delayed, lost or damaged items;
- ◆ indicators for monitoring collection and delivery;
- ◆ complaint follow-up, etc.

In this context, monitoring and improving universal service quality are based on:

- ◆ transparency about the standard of quality obtained; this allows users to compare this standard with that of the competition (if there are rival services), to react to fluctuations in this quality and to assess whether it is adequate or inadequate, using objective criteria;
- ◆ monitoring service quality by setting objectives and monitoring their achievement; this should make it possible to indicate when the standard of service provided by La Poste is not satisfactory.

3. ARCEP policy on the universal postal service

As part of its dual mission of monitoring the universal postal service, ARCEP has to:

- ◆ ensure that the services provided under the head of the universal service comply with the regulations governing the principles of this service;
- ◆ see that service quality achieves the objectives set by the minister⁶.

6 - The minister set no objectives for 2007.
For details, see D.

7 - See below.

It also ensures that what the universal service offers⁷ is clearly brought to the attention of users and is accessible to them. To this end, ARCEP:

- ◆ gave an opinion on the list of services that make up the universal postal service;
- ◆ gave a ruling on parcel tariffs, opining that they would not be "affordable" for users unless La Poste implemented a specific service for small articles, at tariffs approximating to the current scale for letters.

It also emphasized the importance of measuring universal service quality and publishing the findings on a regular basis. In this area, ARCEP launched a public consultation to obtain user opinions on the information that should be published about postal service quality⁸.

8 - See below.

Naturally, ARCEP also ensures that postal tariffs develop in line with the path decided in 2006 for the period 2006 to 2008⁹.

9 - Cf. Part 3, Chapter 5..

B. Provision of the universal service

1. “Conformity” of the universal postal service catalogue

The regulations¹⁰ provide that all products and services coming under the universal service are to be listed in a “catalogue” published by La Poste¹¹ and must meet a certain number of obligations, such as:

10 - CPCE, art. R.1.1.10.

11 - Available on La Poste's website: www.laposte.fr.

- ◆ including the range of postal services set out in article R.1 of the CPCE;
- ◆ being available and accessible throughout the national territory;
- ◆ the collection and delivery of universal service postal items every working day, unless there are exceptional circumstances;
- ◆ application of a single rate for single-piece items intended for Metropolitan France and, for the first weight category, for single-piece items from and to the overseas départements, Mayotte and Saint-Pierre-et-Miquelon);
- ◆ universal service products are subject to quality of service objectives. Their quality is evaluated by La Poste which notifies its measurement findings to users and to ARCEP;
- ◆ user complaints are processed free of charge within a period not exceeding two months.

In 2007, ARCEP issued a favourable opinion¹² – pursuant to the Decree dated 5 January 2007¹³ – about the conformity of La Poste's universal postal service catalogue.

12 - ARCEP Opinion No. 07-0377 of 26 April 2007.

13 - Art. 2 of Decree No. 2007-29 of 5 January 2007.

1.1 The universal service catalogue must provide clear, intelligible information

The information in the universal service catalogue is mainly of interest to users – private individuals and small businesses that send single-piece mail. The texts therefore make a clear distinction between the universal service for bulk items and that for single-piece items.

Single-piece item users may spend a substantial share of their budget on postal charges without, however, having all the decision-making information they need. In giving its opinion, ARCEP therefore ensured that the catalogue complied with the provisions on universal postal service obligations.

In particular, it stressed the importance of making La Poste's universal service range intelligible and transparent for single-piece users, pointing out that several items of information were not provided or hard to understand, in particular:

- ◆ the transmission times for literature for the blind, international items and redirected items;
- ◆ the destinations associated with DOMs and COMs¹⁴ ;
- ◆ the conditions under which “bulky”, “unstable” and “tube-shaped” parcels, as well as “unpacked or poorly packaged” ones are subject to surcharges.

14 - Overseas
départements (DOMs)
and overseas collectivities
(COMs).

1.2 Related services using universal service products

The opinion also addressed the (increasingly frequent) situations in which La Poste markets related services using a universal service product complemented by a set of additional services, such as the provision of packaging, built-in insurance and track and trace. “*Colissimo Emballage*”, which uses the “*Colissimo Guichet*” service, is a case in point.

Related services are added to “*priority letter*” (e.g. *Prêt-à-Poster*), “*registered letters*” (e.g. *Prêt-à-Recommander*) or “*Colissimo*” (e.g. “*Colissimo Emballage*”). Such services clearly come under the universal service and as such have to comply with quality of service objectives.

It is therefore very difficult for an uninformed user to distinguish between the related services listed above, which are not included in the universal service catalogue, and the components of the universal service used by such services.

To make matters more transparent for users, ARCEP therefore considered that La Poste should make a clear distinction in this list between:

- ◆ services that are completely independent of the services provided by La Poste under the head of the universal service;
- ◆ commercial products based on a universal postal service product.

Such a distinction would be more easily intelligible for users if the universal service catalogue had a separate section, as used in the previous versions.

Generally speaking, ARCEP believes that when two products provide similar services but one comes under the universal service and the other does not, La Poste should make a clear distinction and ensure that using the same brand name does not lead to confusion.

1.3 The list of products in the universal service catalogue from the viewpoint of CPCE R.1

In its opinion¹⁵, ARCEP stated that all the products and services listed in CPCE, article R.1 were represented in those featured in La Poste's universal service catalogue, with the exception of international registered parcels weighing up to 20 kilograms.

15 - ARCEP Opinion No. 07-0377 of 26 April 2007.

It nevertheless opined that "*Colissimo International*" could replace the international registered parcel service if the "advice of delivery" option which features in the "*Colis – Tarifs au départ de France métropolitaine*" document were added to the universal service catalogue.

1.4 Monitoring developments in the universal service catalogue

In ARCEP's view¹⁶, the "*Colissimo Emballage*" range should come under the universal service.

16 - Ditto.

Given the growing demand for time-certain single-piece parcels from private individuals and small businesses, the question clearly arises of the importance of this service compared with the "*Colissimo Guichet*" service (for which customers have to pack their own items). As a basic product range, the universal service should therefore include such a service, in the interests of users.

ARCEP will see that proposals for changing the universal service catalogue made by La Poste conform to:

- ◆ the legislative principles set out for the universal postal service;
- ◆ user expectations.

2. The specific case of sending small articles at the letter tariff

In 2007, ARCEP received several complaints from users and had the matter referred to it by the European Commission.

Customers had been unable to benefit from the classic "letter" tariff for small articles and were steered towards other services, including a related service on the lines of the "Poste-Livre" service or towards the parcels tariff via the "Colissimo" range.

An item weighing 100 to 250 grams at the letter tariff costs € 1.30 – or even € 0.84 at the "ecopli" (economy letter) tariff – compared with a minimum of € 5.10 for the "Colissimo" product.

This range changeover is partly linked to discontinuation of the "Coliéco" (economy parcel with no track and trace and no signature on delivery) by La Poste in March 2006 and a shift towards the "Colissimo" product in the context of growing parcel traffic.

In October 2007, La Poste introduced a ban on including articles in "letter" tariff items which amounts to *de facto* modification of the terms of use for products that are part of the universal service.

ARCEP therefore reminded it of the applicable legislation in its briefing of September-October 2007 and concluded that: "*if customers feel that the letter service meets their requirements and provided they comply with size, weight and tariff conditions, as well as make-up obligations, La Poste cannot forbid*

them to use its letter tariff. However, if La Poste thinks that an item is likely to disrupt service operations and that this impacts on costs, it must be able to provide explanations and inform customers accordingly.”

By way of comparison, the terms proposed in other European countries seem much more favourable. Small articles such as CDs and DVDs are sent at the “letter” tariff, which is on the whole lower than in France.

Tariff per item by weight category, service and country

		50-100 grams	100-250 grams
“Colissimo” tariff in France		€ 5.30 item track and trace and indemnity	
“Lettre max” in France		€ 3,15	€ 4,15
“Letter” tariff	France	€ 1,33	€ 2,18
	Germany	€ 1,45	
	United Kingdom	€ 0,64	€ 0,93
	Italy	€ 1,50	€ 2

Furthermore, ARCEP ascertained that La Poste has no objection to senders of bulk-mail items inserting flat articles, such as smart bank cards or social security cards, Paris parking cards, key rings, CDs or even DVDs.

What is more, most articles like CDs, DVDs and books weigh more than 50 grams, and the corresponding items are sorted on flat-sorting machines for which the insertion of such articles does not cause problems; the insertion of rigid objects raises problems for small-format sorting machines only in specific cases.

ARCEP therefore adopted a pragmatic stand on La Poste’s commercial product range. It feels that appropriate design of the level and development of universal service parcel tariffs calls for a supplementary service with a tariff equivalent, or close to, the “letter” tariff for standard-format items that can be posted in, and delivered to, letter boxes and which can be used for a wide enough range of articles whose value does not justify using the “Colissimo” service¹⁷.

17 - ARCEP Opinion No. 08-0002 of 5 February 2008 on La Poste’s tariff dossier of 13 December 2007 concerning domestic parcel products that come under the universal service.

C. Quality of the universal postal service

For ARCEP, transparent universal postal service quality is very important. Information about quality of service standards enables users to make an informed choice about the products available to them and also encourages La Poste to provide services that meet their expectations.

Under the terms of the French postal and electronic communications code, CPCE (*Code des postes et communications électroniques*¹⁸), ARCEP makes sure that La Poste – the universal service provider designated by law – conducts periodic quality of service tests and notifies its findings to the regulator and the general public.

18 - CPCE, art. R.1.1.8

1. Information published by La Poste

Prior to 2006, little or no data were available about universal service quality. La Poste published only a few, sporadic figures in documents that did not deal specifically with the universal service.

Since 2006, as a result of its work with ARCEP, the incumbent operator has published a certain amount of information about universal service quality in the form of a list of “universal service performance indicators”¹⁹. This list includes information about the main universal service products for single-piece or bulk items, as well as details of the number of complaints and how they were processed.

19 - This document can be downloaded from La Poste's website: www.laposte.fr.

ARCEP ensures that this information is available, clear and reliable, and that it satisfies user requirements.

Since 2006, ARCEP has been working on checking the reliability of the test results published, particularly for priority-letter transmission times and will continue its system audit in future.

1.1 Transmission times

La Poste started publishing²⁰ information about transmission times in 2006, and the scope of this information has since expanded.

20 - The information is published for year N-1. Thus, the data for 2004 were published in 2005.

Development of scope of transmission-time test findings released to the public

Transmission times	2006	2007	2008
% of single-piece priority letters delivered in D+1	X	X	X
% of single-piece priority letters delivered after D+2	X	X	X
% cross-border mail (import and export) delivered in D+3	X	X	X
% cross-border mail (import and export) delivered in D+5	X	X	X
% of Colissimo Guichet parcels delivered in D+2	X	X	X
% of Colissimo Guichet parcels delivered in D+3	X	X	X
% of Colissimo Guichet parcels delivered in D+4		X	X
% of urgent daily newspaper items delivered in D+1			X
% of urgent magazine items delivered in D+1			X
% of non-urgent press items delivered in D+4			X
% of economy press items delivered in D+7			X
% of Tem'post G 2 industrial mail delivered in D+2			X
% of Tem'post G 4 industrial mail delivered in D+4			X
% of Tem'post MD 4 industrial mail delivered in D+4			X
% of Tem'post MD 7 industrial mail delivered in D+7			X

In 2008, information about latest posting times was added. This element has a direct impact on transmission times. For instance, in the case of D+1 quality of service, the same-day delivery of a letter posted on Tuesday at 5 p.m. will depend on whether collection is scheduled for 4 p.m. or 6 p.m.:

- ◆ in the first case, it will not be collected and processed until the next day (Wednesday) so will be delivered the day after (Thursday). Nevertheless, it will have been delivered one day after its collection (Wednesday) so will still be counted as an item processed in D+1;
- ◆ in the second case, it will be collected the same day (Tuesday) and delivered the day after (Wednesday).

So the quality of information about latest posting times is essential for consumers.

Moreover, quality of service and its development cannot be measured without taking account of the latest posting times in effect.

As it had no benchmark for latest posting times for postal traffic or their development, ARCEP asked La Poste to publish the range of different latest posting times for its “yellow box” letter-box installations (for 2007: before 1 p.m. and before 4 p.m.).

Development of information about the collection of postal items published by La Poste between 2007 and 2008

Convenience of collection of postal items	2007	2008
Population less than 10 km from the nearest point of contact at national level	X	X
Post offices equipped with access for the disabled	X	X
Number of collection points where mail is collected before 1 p.m.		X
Number of collection points where mail is collected before 4 p.m.		X

1.2 Complaints

Publication of the number of complaints and how they have been processed makes it possible to inform consumers about the universal service products that have given cause for complaint and about the effectiveness of the complaint-handling system. Complaints must also enable the universal service provider to identify and remedy certain problems.

Furthermore, a complaints system is used to settle disputes and dissatisfaction, and an indicator of user satisfaction with complaint handling was introduced in 2008, to evaluate the system's ability to meet this objective.

Developments in the types of information taken into account for improving complaint-handling efficiency since 2006

Complaints (information published since)	Letters	Parcels	Registered letters	Post offices
Number of complaints	2006	2006	2007	2006
Complaints as a percentage of total flow	2006	2006		
% of replies within 21 days	2006	2006		
% of replies within 30 days	2006			
% of complaints giving rise to compensation	2006	2006		
% satisfaction with complaint handling			2008	

2. ARCEP's public consultation on universal postal service quality

In order to select the information it would be useful to publish in La Poste's list of "universal service performance indicators", ARCEP launched a public consultation²¹ in June 2007.

It received twelve replies, five from consumer associations and the others from businesses, including La Poste.

2.1 Publication of new indicators

The proposals generated by ARCEP's public consultation helped to identify new indicators for publication, in particular for:

- ◆ transmission times for urgent press items;
- ◆ transmission times for and the reliability of registered items;
- ◆ satisfaction with collection and delivery;
- ◆ dependability of the "Colissimo Guichet" product which is part of the universal service.

On the basis of these results, new testing instruments were put in place, opening up the possibility of publishing new universal postal service quality indicators as from 2009.

New universal postal service quality indicators to be published from 2009

Indicators	Publication scheduled for 2009	Publication planned after 2009
% of Colissimo Guichet items delivered in D+7	X	
Transmission times for registered letters	X	
% of registered letters with erratic transmission times	X	
Transmission times for advices of delivery	X	
Transmission times for intra-regional letters		X
Indicator for satisfaction with accessibility		X
% satisfaction with the delivery service		X
Action taken to improve quality on the basis of information about complaints		X

21 - ARCEP's public consultation of 13 June 2007 on information about universal postal service quality, available on its website www.arcep.fr.

2.2 Greater transparency with regard to the quality of registered items and parcels

Stakeholder replies to ARCEP's public consultation revealed considerable expectations with respect to information on registered items and parcels. Postal service users are interested in transmission times for such items and the risk of their being lost.

Plans to expand the published list of performance indicators to include D+7 delivery figures for registered items and parcels are largely in response to the concerns of postal service users. Items not delivered after a certain cut-off date are lost or excessively delayed, indicating that the scheduled service has not been correctly performed.

Users also expect information about transmission times for advices of delivery for registered items which they often criticize as being too long. Given the price of the service, customers feel they are paying for a "premium" product and therefore demand fast transmission times. ARCEP believes that publishing transmission times for advices of delivery, as planned from 2009, will bring the necessary transparency on this point.

2.3 Demand for local information

In their reply to the public consultation, users also expressed the wish for the publication of local information because of its practical significance for them.

For instance, the transmission times published by La Poste are in fact an average of different local situations, as La Poste itself recognizes in its reply to the consultation. Such information allows users to be "virtually certain" that the relevant service will be performed only if the success rate is higher than 95%. Users would therefore like to know the likelihood of their item arriving in the addressee's particular area within the published times.

Moreover, several countries highlight these disparities using different types of indicators (by arrival areas, as in the United Kingdom, or by flows, as in Ireland).

While harmonizing quality standards seems impossible, as La Poste claims, the universal service must, by definition, be provided to users without discrimination because it *"contributes to social cohesion and balanced national development. It shall be provided in compliance with the principles of equality, continuity and flexibility, striving for maximum economic and social efficacy"*²².

22 - CPCE, Article L.1.

Thus, a balance has to be struck between the postal operator's economic constraints and possible quality discrepancies which could be unacceptable in social terms. ARCEP will therefore first try to understand the reasons for the spread in quality result patterns and their volatility before moving on to work with La Poste on different or finer-meshed indicators in a possible second phase.

In 2008, ARCEP will continue discussions with La Poste about the publication of the indicators identified so as to provide users with reliable, useful information.

D. Monitoring universal postal service quality

1. Legal framework of the quality of service targets assigned to La Poste

The Law of 20 May 2005 instituted a new regulatory framework for quality of service, replacing the previous system of contracts defining La Poste's relationship with the State. In future, *"after giving the universal service provider an opportunity to comment and after collecting the views of the 'Autorité de régulation des communications électroniques et des postes' (ARCEP) and of the 'Commission supérieure du service public des postes et communications électroniques' (CSSPPCE), the Minister responsible for Posts shall draw up an order on the quality targets applicable to the universal service as determined by him (...)"*²³.

23 - CPCE, art. R.1-1-8.

The minister set no universal quality objective for 2007, so ARCEP was unable to verify whether La Poste's quality of service results complied with the statutory targets.

For 2008, the minister sent ARCEP and the CSSPPCE a draft ministerial order setting out targets and asked them for their views. ARCEP responded on 11 March²⁴.

24 - ARCEP's opinion will be available once the ministerial order is published in the JO.

2. ARCEP's position on the type of quality targets to be set for the universal postal service operator

Based on the information it had collected, ARCEP felt that the quality of service targets should comply with the following principles:

- ◆ *focus on the general public's needs*: targets must determine the quality of the services used by the general public which is not empowered to negotiate with La Poste;
- ◆ *contain relevant information*: targets must allow users to correctly gauge the quality of service they can expect;
- ◆ *be ambitious yet realistic*: targets must take account of scope for improvements in universal service provider performance;
- ◆ *be stable for medium-term achievement*: targets must accurately convey what is expected of La Poste on a permanent basis;
- ◆ *cover services with unsatisfactory quality*: it seems unnecessary to set targets when service performance quality satisfies requirements and public information about the standard of this quality is good.

ARCEP believes that the benchmark standards to be guaranteed to users for an average period should be analysed quickly and in detail, to ascertain the factors determining La Poste's quality of service as well as the cost of this quality (particularly the geographical impact).

The Minister responsible for Posts was notified of this position to, and details will be released on publication of his ministerial order.

CHAPTER 5

The multi-year tariff framework for the universal postal service

The multi-year tariff framework

ARCEP was given responsibility by law¹ for regulating universal postal service tariffs.

The multi-year tariff framework (or “price cap”) is a contract between the regulator (ARCEP) and the regulated company (La Poste). It controls the tariff changes for all or part of the products in the regulated sector (the postal sector), so as to keep company profit margins stable through increases in productivity over a specific period (three years).

In the case in point, the tariff framework concerns price changes for postal products that are part of the universal service. In France, La Poste is the universal postal service provider.

The multi-year tariff framework is common practice among European regulators and is designed to allow the operator to change prices in line with inflation while providing for an adjustment mechanism.

In 2006, it was decided that La Poste could increase universal service tariffs within an overall range of 2.1% each year for 2006, 2007 and 2008.

For instance, the price of a postage stamp² rose from € 0.54 to € 0.55 on 1 March 2007.

1 - Law No. 2005-516 of 20 May 2005 on regulation of postal activities.

2 - This is the tariff applicable to letters weighing less than 20 grams.

3 - ARCEP Decision
No. 06-0576
of 1 June 2006.

4 - The figure adopted for changes in expenditure is based on two calculations which converge on the same result. The first is derived from La Poste's forecasts concerning the universal service scope, the second on an ARCEP simulation of the changes in the public establishment's 2004 expenditure. Both calculations arrived at the same result, pointing to an average annual increase of 1.65% for 2006-2008 (in terms of full costs).

5 - Volume development was approximated to letter volumes. La Poste expects these volumes to fall 0.65% per year. This traffic trend is explained by the emergence of new, paperless communication methods which have replaced postal items, and by rationalization measures on the part of large mailers. However, at present, there is no way of assessing the scale, or even the direction, of short-term fluctuations with any reasonable degree of accuracy. ARCEP therefore prefers to use a historic approach and has chosen the moving average of developments for 2003-2005, i.e. an assumed average decrease in business volume of 0.3% per year for the three years covered by the multi-year framework.

6 - ARCEP Opinion
No. 07-0131
of 13 February 2007.

7 - ARCEP Decision
No. 06-0576
of 1 June 2006.

A. The price cap in effect for 2006 to 2008

Following preparatory work in conjunction with La Poste during the first half of 2006, ARCEP set the price cap for postal tariff increases for the period from 1 January 2006 to 31 December 2008 at 2.1% per year³, thus taking account of foreseeable developments on the French postal market, inflation forecasts and La Poste's productivity gains. Initially, the movement in the Consumer Price Index was evaluated at 1.8% per year, and the hypotheses used by ARCEP for setting tariff increases arrived at an estimated annual increase in La Poste's expenditure of 1.65%⁴ and a 0.35% annual decrease in volume⁵.

Bearing in mind the short-term inflexibility of expenditure, it appeared essential to ensure the volume-related risk is fairly divided between the operator and users. Consequently, an adjustment mechanism provides for relaxation of the price cap should volumes fall further than the trend estimated for a given year, to allow La Poste to adjust its revenue. On the other hand, if the trend observed is more favourable, the price cap has to be tightened to ensure the automatic efficiency gain is passed on to the consumer. Likewise, it seemed necessary to update the rate of inflation on an annual basis to obtain a closer approximation to actual Consumer Price Index movements: the figure used for establishing the price-cap target for the second (2007) and third (2008) years is that of the forecast in the initial finance bill, which is known in the autumn prior to the year of application. This allows La Poste to draw up its tariff movement forecasts fairly early.

B. Review of the situation after two years of application

1. Price movements

Price movements for 2006 were estimated at 1.38%, an average figure derived from increases in both 2005 and 2006.

The estimate for 2007 was 2.41%. This figure was derived from the 2006 increases which had a carry-over impact of 2.38% in 2007 and, for the balance, from changes in the domestic parcel service for mainland France and between overseas départements at 1 March 2007⁶.

2. Price ceiling

The price ceiling applied to a particular year is adjusted in line with the provisions of the annex to ARCEP's Decision of 1 June 2006⁷, depending on how volume developed in the previous year and on the rate of inflation provided for in the finance legislation.

For 2007, 2006 volume movements were estimated at -1.38%, in economic terms. This figure, which is the difference between turnover and price movements, resulted in a 0.24% increase in the price ceiling. No adjustment was made for inflation.

Over the first two years, prices have therefore risen 1.9% a year on average, compared with a ceiling of just over 2.2% a year on average, a difference that allows application of the carry-over option.

C. Outlook for 2008

The tariff increases decided by La Poste in 2007, in particular for letters, economy letters, bulk letters, registered letters and insured items⁸, as well as for the “Colissimo” parcels service and the “Colissimo” registered parcels service⁹, should not cause universal service tariffs to increase by more than 1.44% in 2008.

As regards the 2008 price ceiling, excluding carry-over impacts, the 2008 finance bill provides for 1.6% inflation (instead of the original 1.8%), and 2007 volume movements seem to be in line with forecasts. Consequently, the 2008 price ceiling would be lowered 0.2% to 1.9% to take account of inflation only.

For 2006 to 2008 as a whole, La Poste's price-cap consumption should be much lower than the target initially set.

8 - ARCEP Decision
No. 07-1098
of 6 December 2007.

9 - ARCEP Opinion
No. 08-0002
of 5 February 2008.

CHAPTER 6

La Poste's cost accounting rules

ARCEP is charged with implementing the principles of the separation and transparency of La Poste's accounts, with the specific aim of guaranteeing the conditions for financing the universal service. For this purpose, it must have adequate and appropriate accounting information.

A. Regulatory framework and context

The European and national regulatory framework obliges the incumbent operator to keep separate accounts, i.e. to present separate accounts in its regulation accounting system for the reserved area and the competitive area and to isolate activities coming under the universal service therein¹. Legislation empowers ARCEP to set the accounting rules and establish accounting system specifications i.e. the reporting format for regulation accounts².

Within this framework, ARCEP set out in a 2007 decision³ the reporting formats for the regulation accounts La Poste is required to submit to it and conducted a public consultation on a draft decision on the accounting rules to be used by the incumbent operator when producing regulation accounts. Following this consultation, ARCEP adopted a second decision early in 2008⁴.

These two decisions are the product of work begun back in 2005 on the characteristics of La Poste's regulation accounting system. It should be emphasized that the La Poste Group consists of the public establishment La Poste and a group of subsidiaries, both in France and abroad, operating in areas that do not come under the universal postal service. For instance, express services and most parcel services are not part of the universal service. On the other hand, most letter activities are. Given the current organization of these activities, the regulation accounting system comes within the purview of the public establishment which is wholly responsible for managing universal service activities.

1 - Amended Article 14 of Postal Directive 97/67/EC and CPCE, art. R.1-1-14.

2 - CPCE. Article L.5-2, 6.

3 - ARCEP Decision No. 07-0443 of 15 May 2007 on accounting system specifications, in application of article L.5-2, 6 of the CPCE (Code des postes et des communications électroniques).

4 - ARCEP Decision No. 08-0165 of 12 February 2008.

B. Specification of reporting formats for regulation accounts

5 - ARCEP Decision
No. 07-0443
of 15 May 2007.

In its Decision of 15 May 2007⁵ – following on from preliminary work with La Poste on the characteristics of the existing accounting system and from a public consultation conducted in spring 2007 – ARCEP stipulated the reporting formats for regulation accounts, bearing in mind the requirements for effective implementation of La Poste's missions and its accounting system capacity. This Decision specified three categories of reporting: summaries, economic information and the costs of the main postal services.

1. Summary reports

These deal with the bulk of turnover and cost data for the public establishment La Poste:

- ◆ a first report explains the distribution of the public establishment's turnover and costs over the reserved area, the non-reserved area of the universal service and its other activities. This enables ARCEP to verify that postal monopoly activities are not being financed by activities other than those which come under the universal service;
- ◆ a second report explains the distribution of the public establishment's turnover and costs over “letters”, “parcels” and “other” activities. This report allows ARCEP to assess any transfers between the universal service and the public establishment's other activities and to situate universal service products in terms of revenue, costs and margins in the relevant operations.

2. Economic information reports

These regulation account reports break down economic information about the universal service.

A first report classifies the public establishment's expenditure by type of expenditure (e.g. staff expenditure, operational expenditure, funds earmarked for amortization and reserves, etc.).

A second report breaks down expenditure by production process (collection, conveyance, transit sorting, etc.), explaining how the costs are put together and their contribution to the earnings of the families of postal products (e.g. ordinary letters and associated products, “Ecopli”, direct marketing, etc.).

By identifying the economic weighting of the industrial processes and the impact of allocation rules on the costs assigned to the major product categories, this second report enables ARCEP to assess the effects of changes in allocation rules.

3. Report on the costs of the main postal services

This report breaks down the costs of the main postal services in terms of the major stages in the postal production process. By producing an operating account for each of the main commercial products, it helps monitor the extent to which tariffs are cost-oriented.

With the exception of this last report, the regulation reports are audited by an independent body⁶ which issues a declaration of conformity.

6 - Cf. CPCE, art. L.5-2, 6.

C. Accounting rules

1. ARCEP's analysis of La Poste's accounting system

As of financial year 2000, La Poste introduced a cost accounting system in accordance with a method and format approved by the Ministers responsible for finance, economics and the Post in 2001, in conformity with the laws in effect at that time⁷.

7 - Decree No. 2001-122 of 8 February 2001 amending La Poste's terms of reference..

ARCEP then endeavoured to verify the principles and hypotheses underlying the structure of La Poste's cost accounting because the operator's regulation accounting system merges into the public establishment's cost accounting system. In fact, the expenditure covered by La Poste's regulation accounts is the same as in its cost accounting, with no reprocessing. Similarly, the allocation rules applied are identical.

ARCEP needs to ascertain the costs incurred for each universal service product, so it had to make sure that La Poste's regulation accounting system complied with the principle of separate accounts and that all expenditure could be allocated to each of the postal services in accordance with accounting rules that accurately reflect actual consumption. The analyses conducted by ARCEP focused on the general architecture of the regulation accounting system and on the allocation rules for each of the following processes: "collection and consolidation", "conveyance", "transit sorting" and "delivery" (internal and external work). On completion of its analyses, ARCEP⁸ made it clear that it was not questioning the accounting system's general architecture which was mainly based on the subdivision of La Poste's operations by process and by product. This approach seemed both sound in respect of La Poste's organisation and relevant in respect of sector economics.

8 - ARCEP Decision No. 08-0165 of 12 February 2008 on accounting rules, in application of article L.5-2,6 of the CPCE (Code des postes et des communications électroniques).

2. Cost allocation rules

In connection with cost allocation rules, ARCEP⁹ asked La Poste to change the allocation rule that distributes delivery-round overheads over postal items according to the urgency of their delivery (D+1, D+3 or D+7). The new rule established by the Decision is based on reasoning that takes account of the competitive benchmark of the postal sector (which is that of an operator entering the market first with D+7, then D+3 and finally D+1 products) and which redistributes economies of scale equally (in terms of relative value) over the three products D+1, D+3 et D+7. This change to the allocation rule reduces the cost

9 - ARCEP Decision No. 08-0165 of 12 February 2008.

borne by urgent products (D + 1 delivery) and increases that borne by non-urgent ones (D + 3 and D + 7) products.

ARCEP also asked La Poste to do more work on weight and format cost factors for all processes, giving priority to delivery.

Cost allocation for postal delivery was one of the major topics of this decision because delivery is a tool common to virtually all postal items and accounts for a high proportion of total costs (28%). Thus, its allocation to various categories of items is based on conventions which will have a substantial impact on the distribution of expenditure over ranges of products, particularly in respect of item delivery times (urgency).

10 - This document reporting on La Poste's general cost-accounting architecture and all its cost-allocation rules is protected by business secrecy.

ARCEP's conclusions took account of La Poste's current organisation and were based on La Poste's presentation of its accounting system in the document entitled "Le système de comptabilité réglementaire de La Poste"¹⁰.

CHAPTER 7

ARCEP's international activities

At international postal-sector level, ARCEP has been involved in Universal Postal Union (UPU) activities since taking up its postal regulation mandate in France in 2005.

Created in 1874, the UPU¹ – a United Nations specialized agency – is an inter-governmental institution with 191 members. Its mission is to further international technical cooperation so as to promote efficient universal postal services of a high standard that are permanently accessible to all, anywhere in the world.

1 - UPU website:
www.upu.int.

Joëlle Toledano, an ARCEP staff member, heads the “Postal Economics” Project Group with its dual objective of improving knowledge of the factors influencing traffic development and postal markets in developing and emerging countries, and of assessing the postal sector’s contribution to countries’ economic and social development.

In 2007, the Group took stock of its cycle of work ahead of the UPU Congress², the organization’s supreme body that will meet in Geneva in 2008. The Project Group’s work highlighted the considerable differences that exist between the postal economic models of industrialized and developing countries, as well as among the developing countries themselves. Thus, the sectoral reforms implemented in industrialized countries cannot merely be transposed to many developing countries.

2 - The UPU Congress meets every four years and aims to help member countries develop new products and services for integration into the international postal network. France is represented at this Congress by the Minister Delegate for Industry..

Its findings also showed that, for low-income countries, the relationship between revenue and per capita traffic was not borne out by statistics, though the link exists for middle-income developing countries. Other important factors, such as network coverage, choice of delivery method, literacy rates or access to new information and communication technology contribute to a better explanation of traffic variations between developing countries. In the light of the econometric studies conducted, new information and communication technologies – like mobile phones and the Internet – appear to complement the letter post in developing countries rather than to be a substitute for it.

Using the example of South America, the Group's work also brought out the negative impact of the absence of a regulatory framework, or of failure to comply with such a framework, on the development of postal markets, irrespective of whether the operators are public or private. Research into the economic and social impact of the postal network also revealed that its impact is just as important as other kinds of infrastructure (telecommunications, energy, roads). The Post's structured physical delivery network provides better geographical coverage than any other physical network (financial, utilities, etc.).

Moreover, the Project Group noted the limits of the virtually exclusive model of delivery to P.O. boxes against payment used in sub-Saharan Africa. After developing an econometric model which made it possible to monitor the impact of other factors, the Group's work demonstrated that the P.O. box model chosen by the majority of the region's operators had largely contributed to the decline in their postal traffic over the years. Delivery at the addressee's expense considerably hampers progress in the business-to-consumer (B2C) segment, the most promising letter-post segment.

Future work on postal economics could centre on development, interconnection and governance – the three strategic thrusts defined in the new Postal Strategy to be adopted by the 2008 Geneva Congress.