

**POSITION PAPER ON THE EUROPEAN REGULATORS GROUP FOR POSTAL SERVICES (ERGP)
PUBLIC CONSULTATION OF 30 NOVEMBER, 2012 ON THE DRAFT COMMON POSITION ON COST ALLOCATION
RULES.**

Brussels, 22 January 2013

PostEurop, representing 52 Universal Postal Service providers across Europe, wishes to present the conclusions of its analysis, on one of the three documents submitted for consultation on 30 November 2012, on the ERGP draft common position regarding cost allocation rules.

PostEurop's Members welcome the opportunity offered to the stakeholders of the postal sector to reflect their opinion.

It nonetheless re-iterates that the postal sector is confronted now and over the next years with a huge challenge: the necessity to fundamentally redesign its business model because of the structural decline of its traditional markets and the adverse economic climate.

The objective for regulators should no longer be a matter of introducing additional regulatory mechanisms in a fully liberalised market in a growing market but to ensure that there is adequate degree of flexibility left to incumbent operators to sustain appropriate universal service obligations, - subject, of course, to a level playing field with new competitors.

PostEurop comments on the draft Common Position on cost allocation rules - ERGP (12) 28

The draft position paper seems to aim at promoting a common understanding regarding the scope of the national regulators' activities. On a positive note, the paper does not seek to determine a common cost standard for regulatory purposes: "*this common position is not about defining one relevant cost standard*" (p. 12).

However, the position paper does raise concerns with regard to the following points:

- **Cost allocation methodology**

Some proposed principles considered in the ERGP paper seem to go far beyond what is requested by article 14 of the postal directive: the ERGP-paper provides for the possibility by the NRA to pre-define the methodologies to be applied (e.g. p. 7, "*the preferred solution is that the NRA set methodological principles which specify the high level accounting and costing rules*"; p. 18, "*a set of broad principles should define a framework by which compliance can be assessed... Depending on the circumstances, the NRA can vary in its specification from certain specific issues, to the whole spectrum of accounting and costing rules... This solution gives the NRA significant control over how the figures in the regulatory report are produced. However, the more detailed and granular the prescribed rules are, the more important it is for the NRA to ensure that the level of control is appropriate and proportionate (...)*"

That gives the NRAs some powers which seem to go far beyond what is requested by the Directive, considering that the methodological principles for allocating costs are exhaustively described by art.14 of the directive (par. 3).

- **Cost allocation methodology – principle of causality**

The principle of cost causation has to be better recognised in the document. Causality is the basic principle for allocating costs according to the Postal Service Directive. Although the ERGP-paper on a number of occasions refers to the principle of causality as a general principle, it could be understood that it recommends that the NRA does not consistently apply the principle of causality and instead “gives priority to” the “principle of proportionality”, reflecting the use of resources (page 27). Using cost drivers such as number of items, weight, volume etc is only consistent with the principle of causality when the costs are actually caused by them.

The postal directive would not allow the NRAs to choose, at their convenience, the proportionality principle over the causality one.

PostEurop suggests that the final document emphasises the fact that causality is the fundamental principle for cost allocation.

- **Transfer prices**

The draft position leaves some room for different interpretations on the issue whether transfer prices should be set at cost or at market prices. With respect to the state-aid European jurisprudence, PostEurop suggests a clear statement that the basic principle for transfer prices is market price, and , as an exception when no real market reference exists (e.g. market price, mark up, etc.), transfer prices should be cost oriented.

- **Sources for calculating the net cost of the universal service**

The ERGP paper presupposes that the product cost accounting system is an important and relevant source of data and methods for the calculation of the USO cost. However, it is important to insist on the fact that this is not the only relevant source for cost allocation.

Whereas the purpose of the cost accounting system is to assign costs to products, the purpose of the USO net cost calculation is to calculate the difference in profit between the actual USO-provision situation and a reference scenario. The difference between the actual situation and the alternative scenario will typically be such variables as number of delivery days, number of post offices, franchised versus traditional post offices etc, and for this kind of calculations the methods used for assigning costs to products in the cost accounting system will generally be irrelevant. For many USO and reference scenarios it would rather be correct and relevant to use actual data from other systems, such as the financial accounts. The cost accounting system should therefore not be viewed as a major or even compulsory source of input to the USO-cost calculation. As a consequence, the second last paragraph of point "0.III - A tool for different issues" should be deleted or rewritten according to the above.

- **Future scope of supervision by the authorities, especially when it comes to non-universal services.**

For some countries and depending on how the directive has been transposed, the ERGP paper would extend the scope of regulatory reporting beyond the products of the universal service when it is not already the case, and then tends to extend the scope of the regulatory accounting too far and much beyond the scope of the postal directive.

In addition, the paper would recognise potential impediments for the provision of the universal service at an early stage. Thus, it is proposed for the regulator to examine core business activities and decisions (e.g. investment plans or proposed acquisitions) which are outside the universal service but due to their associated business risk could potentially be harmful for the company's finances and hence for the secure funding of the universal service. Such a wide regulatory influence on business strategies could lead to a competitive disadvantage of the regulated entity.

It is also suggested that regulatory accounting should enable the regulator to model itself another type of cost allocation, for example "stand alone" or "incremental costs" of a certain service. (p. 28). However, these are separate costs standards which cannot be derived at will from a company's internal accounting. It would be an excessive burden for regulated companies to keep available additional calculations of stand-alone and/or incremental costs for regulatory purposes only. These alternative calculations shall be without prejudice to the principle that causality is the fundamental principle of cost allocation.

Ultimately, it is proposed to require the earnings and costs of the universal service business to be subject to certification by an independent external auditor. For countries where it is not already the case, this would lead to increased costs for the universal service provider.

The proposed scope of the auditing procedure is also too wide since the auditor's main mission strictly consists in verifying that there is a compliant accounting system.

This position paper is supported by the following universal service providers:

Country	Universal Service Provider
Austria	Österreichische Post AG
Belgium	bpost
Bulgaria	Bulgarian Posts plc
Croatia	Hrvatska pošta d.d.
Cyprus	Cyprus Post
Czech Republic	Česká Pošta
Denmark	Post Danmark A/S - PostNord
Estonia	Eesti Post Ltd
Finland	Itella Oyj
France	Le Groupe La Poste
Germany	Deutsche Post AG
Greece	Hellenic Post - ELTA S.A.
Hungary	Magyar Posta
Iceland	Islandspóstur hf
Ireland	An Post - General Post Office
Italy	Poste Italiane S.p.A.
Latvia	Latvijas Pasts
Liechtenstein	Liechtensteinische Post AG
Lithuania	AB Lietuvos paštas
Luxembourg	EPT Luxembourg
Malta	MaltaPost p.l.c.
Netherlands	Postnl
Norway	Posten Norge AS
Poland	Poczta Polska
Portugal	CTT - Correios de Portugal, S.A.
Romania	C.N. Posta Romana S.A.
Slovakia	Slovenská pošta, a. s.
Slovenia	Pošta Slovenije, d.o.o.
Spain	Correos y Telégrafos S.A.
Sweden	Posten AB - PostNord
Switzerland	Swiss Post
United Kingdom	Royal Mail

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