

# Organisation of postal service

*What are the problems with the universal postal service and home delivery of periodicals?*

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## Summary

**The universal postal service** is addressed to postal items – domestic and international ordinary, registered or insured letters of up to 2 kg; postal parcels as registered or insured postal items of up to 20 kg – consistent, high-quality and affordable delivery throughout the country.

The provider of the universal postal service must take account of the obligations arising from the Universal Postal Convention.

In Estonia, the universal service provider must also deliver periodicals via its postal network.

As a member of the Universal Postal Union / By acceding to the Universal Postal Convention, the state must ensure that all users, i.e. customers, have the right to enjoy **universal postal service** involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices.

Although a lot of work has been done in the Ministry of Economic Affairs and Communications as well as in its administrative area, the decisions that would ensure the provision of the universal postal service that meets the needs of the Estonian people and the possibilities of the state, are unmade. The organisation of the service does not take into account changes in the service amounts and consumer behaviour, is unnecessarily costly and loss-making, and has not ensured compliance with quality requirements for many years.

According to the Competition Authority and the Ministry of Economic Affairs and Communications, the organisation of the postal network is costly, does not ensure optimal availability of services to the customer and does not allow the use of modern solutions.

### Developments over the last 10 years:

sending letters

↓ 75%

subscription to periodicals

↓ 30%

number of post offices

↓ 25%

number of letterboxes

↓ 40%

**In the field of postal services, no decisions have been made that would allow a balance to be struck between the needs of the people who use postal services in their current form and those who prefer more flexible solutions.** The needs and practices of the postal users have changed significantly, the sending of paper letters and the use of the post office have significantly decreased. At the same time, the requirements for the postal network (number of post offices, location, and working hours) set out in the regulation of the minister have remained largely unchanged. The Postal Act, adopted thirteen years ago, has ensured the availability of the basic postal services, but at the same time is an obstacle to offering more suitable and modern solutions.

The closure of an underused post office can induce a pained reaction in local communities, as it is feared that the availability of the service will deteriorate. Most postal users prefer to send and receive parcels through a parcel machine instead of a post office with limited working hours, but in rural areas parcel machines are on average further away from the postal users than the post offices belonging to the regulated network.

Already in 2014, the working group of AS Eesti Post, the Competition Authority and the Ministry proposed to add a self-service point to the regulation as an access point to the universal postal service, which would have enabled the provision of the service via parcel machines. In addition to reducing the number of post offices, the draft Postal Act, which was

being drafted in 2016, also provided for the possibility of offering the universal postal service via parcel machines. The current regulation defines the place of receipt and delivery of a parcel by the nearest post office of the recipient's place of residence or location.

### Requirements for the license for the provision of the universal postal service in 2019–2024:

- 215 post offices open 5 days a week for 2 hours a day;
- in rural areas, where the post office is more than five kilometres away, it is possible to invite the letter carrier home;
- 1453 letter boxes;
- payment of pensions and benefits via the postal network;
- provision of money remittance services (i.e. making money transfers) via the postal network;
- delivery of periodicals across Estonia six days a week once a day.

**Over the years the speed of letter delivery has been below the level required by law.** The requirement of the Postal Act to deliver 90% of letters on the working day following the deposit of the item, had not been fulfilled in 2012–2019. In the spring of 2020, the speed of letter delivery was reduced within the established rules, after which it was possible in the autumn to offer the service that meets the requirements arising from the law.

**Over the years, the costs of Eesti Post's universal postal service have exceeded its revenues by millions of euros. The financing system of the universal postal service is not functioning.**

The universal postal service provider is designated as a result of a public competition organised by the Competition Authority, but the competition is formal, because the competition for the provision of loss-making services does not motivate other participants to participate and even if the competition fails, the obligation to provide universal postal services would remain imposed on Eesti Post.

The provision of the universal postal service in the conditions of the Postal Act has meant earning a loss for the enterprise, of which the ministers responsible for the field have also been informed. Eesti Post's costs for the provision of the universal postal service exceeded revenues by a total of 31 million euros in 2010–2019, and a loss of 16.6 million euros is the forecast for the period 2021–2025. The reasons for occurrence of the loss are the costs arising from the requirements set for the postal network, the declining demand for the service, the selling price set below the net-cost of the service, and delays in changing the price.

In the system of financing of the universal postal service, there is a time-consuming process with a high administrative burden, where Eesti Post requests compensation for unreasonably burdensome costs from the fund, monetary means of which are largely collected from Eesti Post's own contributions from the provision of free market services.

**The lack of vision for the future of the universal postal service provision has hampered making decisions that would allow to make it more responsive to the needs of the postal users and economically sustainable.** No development plan or other strategy document addresses the strategic objectives in the field of the postal services or the measures to achieve them.

**Although Eesti Post increases the price of home delivery of newspapers and periodicals every year and the state subsidises home delivery in rural areas, it does not cover the costs of home delivery in the rural areas, as the number of subscribers has been decreasing and the costs have been increasing.** Therefore, an increase in the price of the service is inevitable, but subscribing to the press delivered at home should not become a luxury service. The allocation of a subsidy to the periodical home delivery service in the state budget should be based on

What should be taken into account when changing the requirements of the universal postal service and ensuring the sustainability of home delivery of periodicals?

cost-revenue analysis, and the regional policy impact of the subsidy should also be taken into account.

**At the latest before the announcement of the competition for the designation of the universal postal service provider in 2024, an approach regarding the organisation of the provision of the universal postal service that takes into account contemporary capabilities and changed needs, must be developed.** Toward this goal, the Ministry of Economic Affairs and Communications should, in the long run, find out what services people need and make decisions to put the current system in order.

**The requirements of the postal network should enable flexibility** to allow for the partial replacement of post offices and sub-post offices that are underutilised and have limited working hours with parcel machines in order to provide the universal postal service. Before and after the change in regulation, studies should be carried out to find out what services require the existence of a post office and what are the options for replacing it with an alternative solution.

**The cost of sending a letter and a parcel should cover as much of the associated costs as possible.** The principle that prices must be geared to cover the costs, which is also emphasised in the European Union's Postal Services Directive, would make it possible to abolish the universal postal service fund. It should not be the Minister to determine the price of sending a letter or a parcel. The control over the cost-based pricing of the universal postal service and its coordination should be within the competence of the Competition Authority.

Given that, at least now and in the near future, print media is important enough because a large number of people do not use the Internet, a **compromise should be found with publishers on the nationwide operation of home delivery of newspapers and periodicals, by increasing subsidies or decreasing delivery days.**