



Belgisch Instituut voor  
postdiensten en telecommunicatie

**Communication of the BIPT Council  
of 24 December 2024  
on  
a study regarding the intangible and market benefits of  
the Belgian universal postal service provider**

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## 1. Introduction

2. The (Postal) Act of 26 January 2018 on postal services and the Royal Decree (hereinafter: 'the RD') of 20 December 2018 pertaining to the calculation of the net costs, which constitute the current legal framework, stipulate that bpost, as of 1 January 2019 (as of the 2018 calculation), is required to calculate the net cost of the universal service obligations ('USO') and that the BIPT is tasked with the verification thereof. In the absence of a request for compensation from bpost, BIPT carried out a prospective economic exercise over six years, during which regular exchanges took place with bpost, while using the services of a consultancy firm with expertise in the field. The RD furthermore stipulates that not only the (costs and revenues of the) universal service ('US') must be taken into account, but also the benefits that are not directly measurable by the designated provider, namely the intangible and market benefits ('IMB'). These should be quantified and deducted from the calculated US costs. In this context the BIPT commissioned WIK Consult to conduct a study regarding the intangible and market benefits of the Belgian universal postal service provider.

## 2. Retroacts

3. Based on the new Postal Act and in anticipation of the RD (that was being drafted at that time) the BIPT decided in 2018 already to launch an in-depth study of the intangible benefits. Early 2018 WIK was designated to carry out an extensive study into the intangible benefits. The assignment comprised:
  - 3.1. a comprehensive literature review;
  - 3.2. identification of the relevant IMBs that bpost enjoys;
  - 3.3. quantification of these IMBs.
4. Meanwhile the BIPT informed bpost of the methodology used and the (estimated) results obtained. Next, on 24 July 2019, the study was sent to bpost in order to allow the latter to formulate possible comments. On 3 October 2019, bpost sent its comments, specifications and additional information as regards the methodology on the one hand and an update of the numbers used on the other hand. Prior to transferring its update of the numbers, bpost announced that it wished to learn the BIPT's point of view on the comments first. To that effect, a meeting took place on 9 March 2020. During this meeting bpost was assisted by consultant CRA and on behalf of the BIPT, WIK was present as well. Next, the BIPT received the CRA's written comments on 20 March 2020. These comments in particular concerned the sections 'enhanced corporate reputation' and 'bargaining power due to USO'.
5. The BIPT Council decided to provide an extensive reply to these comments. Consequently the following assignment was then issued:
  - 5.1. Summary by WIK: an outline containing a description of the benefits established, without details as regards their valuation. This would allow a publication of a non-confidential communication for the outside world regarding this study;
  - 5.2. Verification by WIK of the intangible benefits determined by bpost in its 2018 net cost calculation;
  - 5.3. Final report by WIK: update and finalisation of the entire report including a valuation of the benefits.
6. At the same time, parallel to the intangible benefits study, Analysys Mason was commissioned to verify the 2018 net costs. Once bpost had provided its calculations on 22 September 2020 Analysys Mason launched its analysis together with the BIPT's postal department. Following an intermediary report by Analysys Mason and the ensuing comments from bpost, the BIPT consultants were able to finalise their work with reports transmitted to bpost on 6 July 2021.
7. At the request of bpost, following its final comments of 15 April 2022 (on both the Analysys Mason study regarding the net costs and the WIK study regarding the intangible benefits), an overall BIPT analysis was then prepared, gathering and weighing the views of Analysys Mason, WIK and bpost. During that process, In March 2024, WIK was asked to update its summary by incorporating the most recent European Commission decisions on state aid. This enabled the summary report to reflect the most recent developments in case law on the subject, with publication as the aim.
8. Attached is therefore the non-confidential version of WIK's summary regarding intangible and market benefits. This report not only discusses the benefits identified as relevant but also contains the proposed methodology for valuing these benefits.

### **3. Content of the study conducted by WIK Consult**

9. From an extensive literature review, WIK identified five key benefits for bpost resulting from the implementation of the USO:
  - VAT exemption: The USO ensures that bpost is not charging VAT on the services within this framework, which can provide a financial benefit.
  - Enhanced corporate reputation: Offering a universal service contributes to a positive image of bpost as a reliable and socially committed provider of (postal) services.
  - Enhanced advertising: Broad access and visibility allows bpost to advertise more effectively than competitors.
  - Simplified customs procedures: Thanks to its position, bpost has advantages in cross-border shipments and customs formalities.
  - Stronger negotiating position: As provider of the USO, bpost has an improved position when negotiating with other parties including in particular the Belgian State.
10. These benefits were analysed by WIK Consult and provided with a methodology for quantification in order to accurately determine their value and include them in the net costs of the USO. This process helps to establish a fair balance between costs and benefits of the universal service.

#### **3.1. VAT exemption**

11. Under Belgian tax law, bpost is exempt from VAT for its services under the USO, while competitors of bpost cannot benefit from such exemption. This exemption gives bpost additional flexibility in setting tariffs, especially for private customers and small businesses that cannot deduct VAT. However, it should be noted that bpost cannot recover the VAT it pays itself on purchases for the services and goods needed to provide the USO services.

#### **3.2. Enhanced corporate reputation**

12. Research shows that companies often benefit financially when they are perceived as caring for their stakeholders. This is particularly true for postal universal service providers, whose reputation is closely linked to their role in ensuring the availability and quality of (postal) services. An enhanced reputation can lead to customer loyalty and preference, which is also commercially/financially beneficial for the company.

#### **3.3. Enhanced advertising**

13. In the literature, enhanced advertising is seen as a likely advantage for a universal service provider because of its increased visibility due to its nationwide street presence and daily transport and deliveries (Monday to Friday). This visibility comes from exposure to logos and messages on vehicles, employees and facilities. If the operator should no longer be a

universal service provider, this effect may diminish. Again, to determine the value of this enhanced visibility, the actual situation (where the operator performs the USO) should be compared with a counterfactual situation (where the operator does not have this obligation).

### **3.4. Simplified customs procedures under the UPU Convention**

14. Bpost, as the Belgian incumbent postal operator and universal service provider, is also the country's UPU representative. Through the UPU Convention, bpost handles inbound and outbound postal shipments containing especially small parcels. These shipments were traditionally accompanied by paper customs forms (CN 22 and CN 23). Bpost benefits from simplified customs procedures for incoming parcels from non-EU countries and vice versa for outgoing shipments.

### **3.5. Enhanced bargaining position**

15. The term 'enhanced bargaining power' is used to describe the advantages a company has over the State. In this case, however, it refers to the advantages enjoyed by bpost because of its close relationship with the Belgian State. The State has imposed the USO on bpost, leading to government actions that benefit bpost. Two examples are the license conditions legally imposed on competitors in the past and the State guarantee on loans taken out by bpost.

### **3.6. The importance of the benefits**

16. This section presents an indicative ranking of the intangible benefits granted to bpost by the USO, based on the likely financial impact (to be determined for each annual net cost calculation). Several state aid cases in other countries (Greece, Spain, Poland, Italy) have identified significant intangible benefits ranging from 1% to 4.7% of USO turnover. For bpost, the most significant benefits are considered to be the following: the close relationship with the State, the enhanced reputation, the VAT exemption, the enhanced advertising and, finally, the simplified customs procedures.

- Close relationship with the State: The main benefit comes from the influence bpost has on government policy because of the USO.

- Enhanced corporate reputation: As a universal service provider, bpost enjoys significant benefits in terms of brand equity and reputation, which reduces the need and cost for advertising and publicity.

- VAT exemption: The VAT exemption leads to more flexibility regarding pricing, with a focus on attracting volume or pursuing additional margin if desired.

- Advertising advantage: The enhanced corporate reputation may offer bpost additional advertising advantages, given the broad territorial coverage and visibility of the universal service provider.

- Simplified customs procedures: Bpost benefits from simplified customs procedures for inbound parcels from non-EU countries and vice versa for outbound shipments. This benefit

may vary over time depending on the effects of digitization (versus paper customs forms) of UPU flows and changes in VAT rules.

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**4. WIK Consult: Study on Immaterial and Market Benefits of the Postal Universal Service Provider - Updated Summary Report**

# WIK-Consult • Report

Study for the BIPT



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## Study on Immaterial and Market Benefits of the Postal Universal Service Provider

Updated Summary Report - Non-confidential Version  
Review of the Literature and Results from a First Analysis

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## 1 Introduction

Based on a management contract with the Belgian government<sup>1</sup> the historical postal operator, bpost, fulfils the universal service obligation (USO) in Belgium. In recent history, the Postal Law of 21 March 1991 described that the regulatory authority, the Belgium Institute for Postal services and Telecommunication services (BIPT), should verify the net cost calculation related to the USO, in case bpost claims compensation for fulfilling the USO and or filed a calculation thereof. The Postal Law of 26 January 2018 and the Royal Decree (2018)<sup>2</sup>, being the current legal framework, determined clearly that, from the calculation for 2018 onwards, bpost is obliged to annually perform the net cost calculation regarding the USO, and that the BIPT is assigned the task of verifying the calculation. The Royal Decree further states that not only costs and revenues of the USO and non-USO products must be considered, but also the benefits not directly measurable by the designated Universal Service Provider (USP) – it explicitly mentions more efficient advertising and a better corporate image. These so-called intangible and market benefits should be quantified and deducted from the calculated USO costs.

Bpost has never claimed compensation and filed in September 2020, its first net cost calculation for the year 2018 including a statement regarding the valuation of intangible benefits linked to the USO. The BIPT performed previously, on its own initiative, an annual net cost calculation merely to monitor the evolution of USO net cost. In 2014, the BIPT published<sup>3</sup> a methodology for this calculation, that was developed by TERA Consultants (TERA).<sup>4</sup> Basically, in this methodology, the costs and revenues of the factual situation are compared with a counterfactual scenario (in which bpost does not fulfil the USO), where the difference is considered to be the net cost of the USO.

In 2021, WIK-Consult (WIK) carried out an update of the literature review conducted by TERA Consultants in 2014. The results of this review determined the theoretically possible intangible and market benefits of a postal USP. This formed the basis for reviewing the actual relevant benefits for bpost as the designated USP in Belgium. All of this information was captured in condensed format in the Summary Report. In a separate internal report, WIK discussed possible calculation methods to quantify the relevant intangible benefits for bpost. For 2024, the BIPT has planned the publication of the earlier produced Summary Report, after its own overarching analysis based on the WIK report, the Analysys Mason net cost analysis, the net cost calculation and many inputs received from bpost. . In this context, the BIPT has requested WIK to update the 2021 Summary

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- <sup>1</sup> Currently as a specific management contract regarding the universal service that runs until the end of 2023.
  - <sup>2</sup> Royal Decree of 20 December 2018 on the calculation of the net cost of the universal service obligations of the universal postal service provider
  - <sup>3</sup> BIPT (2014).
  - <sup>4</sup> TERA Consultants (2014). In the following there will be quite a number of references to this study and the model described in it. In order not to clutter the text we will in the following refer to this study mostly as TERA, TERA (2014) or the TERA study and to its model as the TERA model.

Report with the most recent and relevant State Aid cases in the European Union containing discussions on immaterial / intangible benefits of the postal USP.

This project is the continuation of earlier work that WIK had done for the BIPT in 2018/19, which so far resulted in a draft report. That draft report presented methods regarding the calculation of immaterial and market benefits of a postal USP and an actual determination of such benefits for bpost. Several consultation rounds with bpost have taken place in this time frame. In its general comments to WIK's draft report, bpost had taken strong issue with WIK's results and subsequently submitted its own evaluation of the benefits that bpost may – or may not – derive from its role as postal USP in Belgium. The results of this evaluation strongly differed from those obtained by WIK. The BIPT decided to update the earlier WIK draft study and integrate a review of bpost's objections into the planned Summary and the internal report (including a detailed calculation for a given year i.e. 2018). Furthermore, this extra round of studies made it possible to use currently available information as well as take into account other developments that occurred in postal markets following the initial assignment of WIK. The present Summary Report thus brings together the current state of the study and analysis of intangible benefits by WIK that can be further evolved, adapted or deepened in upcoming exercises in the calculation and verification of the net cost of the universal service and the intangible benefits associated with it. Bpost was offered the opportunity to provide comments on this Summary Report, to which it responded in writing on 9 July 2021. A meeting was also held with bpost on 31 August 2021 to clarify their comments to ensure consideration.

The report is organised as follows. Chapter 2 consists of the review of the literature and contains a table listing each of the aspects that have been listed as a potential benefit of the postal USO in at least one of the listed studies/documents. Chapter 3 provides an analysis of the benefits that were identified in Chapter 2 as probably constituting a benefit for bpost due to the USO. In this Summary Report, we state whether such benefits exist or not; we however do not attempt to specify amounts.

## 2 Potential benefits due to the postal USO - Literature review and initial assessment

### 2.1 Introduction and preliminary observations

The objective of the literature review is to update and complete the corresponding discussion in the report prepared by TERA for the BIPT in 2014.<sup>5</sup> The result is a listing of all aspects that have been mentioned as a candidate for a benefit of the USO in at least one of the studies/documents reviewed. The listing comprises altogether 25 aspects of which many, after review, are not currently considered a benefit or an important benefit for bpost. Nevertheless, to provide an overview over the scope of the subject, all mentioned aspects are listed. Those aspects deemed relevant for bpost are analyzed in detail in Chapter 3.

### 2.2 The reviewed literature and list of potential benefits

The following documents have been found in the public domain and have been used for the literature update (in chronological order). We have also reviewed State Aid cases up till now in relation to possible immaterial benefits due to the USP role.

- WIK-Consult (2008): Methodology for calculating the net cost of PTC's universal service obligation (USO) and the definition of an "excessive burden". Report prepared for ANACOM, Bad Honnef, 16 July 2008. This study was in part the basis for Anacom's decisions in 2014 on the USO regarding the postal services.
- Copenhagen Economics (2008): What is the cost of Post Denmark's universal service obligation? Study for the Danish Chamber of Commerce.
- WIK-Consult (2009): Definition, classification and methodology for evaluating intangible benefits related to universal postal service. Study for ARCEP. Bad Honnef, 3 December 2009, published by ARCEP 31 May 2010.
- Frontier Economics (2012): Study on the principles used to calculate the net costs of the postal USO, December 2012. Study for the EC, addressed to EU Member States.
- Comreg (2013): Response to Consultation and ComReg's determination on the form and manner of any net cost request by the universal postal service provider under Section 35 of the 2011 Act. Dublin, 25 July 2013.
- European Regulators Group for Postal Services (ERGP 2014): Report on the outcome of the ERGP public consultation on the evolution of the Universal Service Obligation.
- Anacom (2014): Decision on the methodology for calculating the net cost of the universal postal service (CLSU), Lisbon, 14 February 2014.

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<sup>5</sup> TERA (2014). The first round of literature review took place until mid 2019. The second round for this summary report reviewed the available literature up to December 2020. State Aid cases were updated in March/April 2024.

- TERA Consultants (2014) : Vérification du calcul du coût net du service universel postal en Belgique. Study for IBPT, confidential version. Paris, January 2014.
- European Commission (EC 2014a): Commission Decision on State Aid SA.36512 (2014/NN) – France - Measures to compensate La Poste for its regional development, press transport and distribution responsibilities. Brussels, 26 May 2014, C(2014) 3164 final.
- European Commission (EC 2014b): Letter with subject: State Aid SA.35608 (2014/C) (ex 2014/N) – Greece Hellenic Post (ELTA) - Compensation for the financing of the universal postal service. Brussels, 1 August 2014. C(2014) 5436 final.
- European Commission (2015a): Commission Decision on State Aid SA.38869 (2014/N) – Poland. Compensation of Poczta Polska for the net cost of USO 2013-2015. Brussels, 26 November 2015. C(2015) 8236 final.
- European Commission (2015b): Commission Decision on State Aid SA.43243 (2015/N), Italy, State compensations granted to Poste Italiane SpA for the delivery of the universal postal service over the periods 2012-2015 and 2016-2019. Brussels, 4 December 2015, C(2015) 8545 final. Contains a discussion of AGCOM's approach to intangible benefits.
- AGCOM (2017): Section regarding intangible and commercial advantages, excerpt from: Delibera 298/17/CONS – Servizio postale universale: Analisi e applicabilità del meccanismo di ripartizione e valutazione dell'eventuale costo netto per gli anni 2013 e 2014. Translation of the part regarding the postal USO from the Italian language decision by AGCOM.
- Copenhagen Economics (CE 2018a): Report on USO net costs in Iceland. This report was commissioned by the universal service supplier Iceland Post, rejecting all but one of the mentioned candidates for intangible benefits.
- BIPT (2018b) : Liste des privilèges (« special rights ») de bpost. Internal document by BIPT of possible intangible and market benefits.
- European Commission (2018a): Commission Decision on State Aid SA.47293 (2017/N) Czech Republic - State compensations granted to Czech Post for the provision of the Data Boxes Information System over the period 2018-2022. Brussels, 2 February 2018. C(2018) 561 final.
- European Commission (2018b): Commission Decision on State Aid SA.45281 (2017/N) and State Aid SA.44859 (2016/FC) – Czech Republic - State compensations granted to Czech Post for the provision of the universal postal service over the period 2013-2017. Brussels, 19 February 2018. C(2018) 753 final.
- European Commission (2018c): Commission Decision on State Aid SA.47707 (2018/N) – State compensations granted to PostNord for the provision of the universal postal service – Denmark. Brussels, 28 May 2018. C(2018) 3169 final.

- European Commission (2018d): Commission Decision of 10 July 2018 on the measures SA.37977 (2016/C) (ex 2016/NN) implemented by Spain for Sociedad Estatal de Correos y Telégrafos, S.A. Brussels, 10 July 2018. C(2018) 4233 final.
- European Commission (2018e): Commission Decision on State Aid SA.49469 (2018/N) – France. Compensation for the regional development mission for La Poste for the period 2018-2022. Brussels, 6 April 2018, C(2018) 1937 final.
- European Commission (2020a): Commission Decision on State Aid SA.55270 (2020/N), Italy. State compensations granted to Poste Italiane SpA for the delivery of the universal postal service for the period 2020-2024. Brussels, 1 December 2020, C(2020) 8340 final.
- European Commission (2020b): Commission Decision on State Aid SA.50872 (2020/NN) – Spain USO compensation to Correos, 2011-2020. Brussels, 14 May 2020, C(2020) 3108 final.
- European Commission (2021): Letter with subject: State Aid SA.57991 (2021/C) (ex 2021/NN) – Denmark USO compensation for Post Danmark 2020. State aid SA.55918 (2020/FC) – Denmark Alleged State aid for Post Danmark for USO in 2020. Brussels, 23 July 2021. C(2021) 5366 final.
- European Commission (2022a): Commission Decision of 25 July 2022 on the State Aid S.A.55208 (2020/C) (ex 2022/NN) implemented by Czechia for Czech Post. Brussels, 25.7.2022, C(2022) 5136 final.
- European Commission (2022b): Commission Decision of 10 August 2022 on the State Aid SA.57991 – 2021/C (ex 2021/NN) implemented by Denmark for USO compensation to Post Danmark A/S for 2020. Brussels, 10 August 2022. C(2022) 5706 final.
- European Commission (2023): Letter with subject: State aid SA.100746 (2023/NN) – France. State aid to La Poste in return for universal postal service for the years 2021 – 2025. Brussels, 7 December 2023. C(2023) 8708 final.

Table 1 below shows the 25 possible immaterial benefits associated with the USO in reports made by or for postal regulators.<sup>6</sup> Separately, in Table 2, we have listed the associated immaterial benefits related to the USO in the context of State Aid cases for the European Commission.

The possible benefits in Table 1 are listed in descending order of the number of studies/documents in which they have been mentioned. For example, the value added tax (VAT) exemption is listed first, as it appeared in each of the studies/documents reviewed. Note that when one of the studies/documents mentions a particular aspect, this does not necessarily mean that we considered it a potential benefit relevant to the Belgian situation at that point in time. Neither is the number of studies/documents in which a

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<sup>6</sup> With one exception in 2008 for the Portuguese telecom regulator to mark the start of any publication on the topic.

particular aspect is mentioned an indication of its actual relevance, as our initial assessment in Section 2.3 will show.

As the statements in two related documents [WIK (2008)/Anacom (2014) and EC (2015a)/AGCOM (2017)] are based on the same analysis, the statements from these documents are listed in the same column.

Table 1: Potential benefits associated with the postal USO in the literature

Proposed benefit	WIK 2008 & Anacom 2014	CE 2008	WIK 2009	Frontier 2012	Comreg 2013	ERGP 2014	TERA 2014	EC re Polish NRA 2015a	EC 2015b & Agcom 2017	CE 2018	BIPT 2018
Value added tax exemption	X	X	X	X	X	X	X	X	X	X	X
Enhancement of corporate reputation and brand value	X	X	X	X	X	X	X	X	X	X	
Ubiquity	X	X	X	X	X		X		X	X	
Enhanced advertising effect	X		X	X	X		X	X	X		
Simplifications regarding customs regulations	X		X	X	X		X			X	X
Exemption from certain traffic regulations		X	X	X	X		X			X	X
Privileges in the philately market	X		X	X	X		X			X	X
Demand complementarities			X	X	X		X	X	X	X	
Recipient database	X	X	X	X	X		X				X
Life cycle effects	X	X	X	X	X		X			X	
Ownership of post office boxes	X	X	X	X	X		X			X	
Better bargaining position	X		X	X	X		X			X	
Economies of scale/scope			X	X	X		X		X	X	
Low transaction costs due to a uniform price		X	X	X	X		X			X	
Exclusive rights, in particular reserved area	X			X	X			X		X	
Interest profit due to prepaid postage	X		X	X	X					X	
Exemption from transport licenses			X								X
Tax abatement			X								X
Press subsidies			X	X							
Dominant market position along with strategic advantages			X							X	
Other benefits accorded to the postal operator	X									X	
Logistical typology		X	X								
Privileged access to terminal dues of foreign postal operators			X								
Detailed knowledge of the market			X								
Exemption from fees for licenses / authorizations to be active as postal service provider	X										

Source: WIK-Consult

In Table 2, we have listed the associated immaterial benefits related to the USO in the context of State Aid cases for the European Commission. The essential question in these State Aid cases is whether provided State Aid has been legal according the European framework on public compensation for services of general economic interest (SGEI).<sup>7</sup>

For the practical purpose of calculation and therefore based on the availability of data, these State Aid cases estimate the most obvious immaterial benefits such as value added tax (VAT) exemption and in some cases enhanced brand value, enhanced advertising and privileges in the philately market. However, many other immaterial USO benefits are noted as well in these State Aid cases. No additional benefits were identified compared to the previously identified immaterial benefits from the other literature in Table 1.

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<sup>7</sup> See [https://ec.europa.eu/competition-policy/state-aid\\_en](https://ec.europa.eu/competition-policy/state-aid_en)



## 2.3 Results of the initial assessment

In an initial review, the above mentioned 25 potential benefits identified in Section 2.2 were scrutinized as to whether they would qualify as being relevant in Belgium at this moment in time.<sup>8</sup> The criteria for relevance stem from the 2014 TERA study and are: a) there is a clear benefit for bpost, b) the benefit is linked to bpost's status as designated USP and c) the benefit, while reflected in bpost's financial performance, is not captured through the counterfactual scenario as it is not immediately recognisable as being due to the USO. Finally, only benefits with a significant (financial) impact were retained.

The outcome of the initial assessment identified five important benefits that meet the criteria of relevance for Belgium. These will be the focus of the remainder of this report. They are:

1. Value added tax (VAT) exemption
2. Enhanced corporate reputation
3. Enhanced advertising
4. Simplified customs procedure under the UPU Convention
5. Enhanced bargaining position

Similar to Table 1, the relevant benefits are listed in descending order of the number of studies/documents in which they have been mentioned. This does not imply their rank or importance.

As noted, the reviewed State Aid cases (see Table 2) focus on the most obvious benefits, for which data is available in order to perform a calculation. However, it is observed that these State Aid cases also include many other immaterial benefits beside the 5 considered above for bpost in Belgium. In the following discussion of the 5 relevant benefits for bpost, we will reference relevant information from the State Aid cases regarding approaches of other postal regulators and the European Commission.

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<sup>8</sup> New benefits might of course appear, while on the other hand benefits can also fade and disappear over time.

### 3 Reviewing the relevance of identified benefits for bpost

#### 3.1 VAT exemption

##### 3.1.1 The basic argument

According to the Belgian tax code, bpost is exempt from value added taxes (VAT) for its USO services.<sup>9</sup> Competitors of bpost cannot claim such an exemption. Insofar as bpost's customers are enterprises or professionals who can have the VAT paid by them reimbursed from the tax authorities, this does not affect bpost's degrees of freedom when setting prices. Insofar as its customers are individual persons, small businesses and organisations, and companies who do not have the possibility of getting the VAT reimbursed, this does provide bpost with extra degrees of freedom and therewith a potential benefit. However, it should also be considered that bpost cannot recuperate the VAT it pays itself when buying the inputs needed to provide USO services.

##### 3.1.2 Bpost's approach

In chapter 3, entitled 'Inschatting Immateriële Voordelen', of its net cost submission for the year 2018<sup>10</sup>, bpost sets out to show that whatever benefit there may be, it is less than what it has to pay in own non-reimbursable VAT. Bpost carries out calculations showing the effect on its EBIT<sup>11</sup> if it increased prices by the rate of the VAT. For this, bpost applies price elasticities to volumes considered to be 'at risk' in the case such price increases occurred. The decrease in EBIT resulting from the decreases in volumes and sales is supposed to correspond to the increase in EBIT bpost enjoys due to being able to sell at lower prices on account of the exemption. This amount is then compared to the amount of the own VAT payments. Bpost then argues that if this amount is equal to or lower than the VAT payments then there is no benefit.

Bpost's calculations are performed with volumes derived from the counterfactual scenario in bpost's net cost submission while the (confidential) values of the price elasticities used come from a study carried out for the BIPT by London Economics in 2020 based on data which bpost provided<sup>12</sup>. The results of bpost's calculations show that the benefits from the exemption are less than the extra burden due to its own non-reimbursable VAT payments and hence that there is a negative immaterial benefit.

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<sup>9</sup> Article 44, § 3, 14° VAT code reads as follows: « (Sont encore exemptés de la taxe) les prestations de services et les livraisons de biens accessoires à ces prestations de services effectuées par les prestataires de services postaux, qui s'engagent à assurer la totalité ou une partie du service postal universel, lorsque ces prestations de services concernent des services postaux universels tels que définis à l'article 142 de la loi du 21 mars 1991 portant réforme de certaines entreprises publiques économiques." Regarding this text, see État Belge (2014).

<sup>10</sup> See bpost (2020b).

<sup>11</sup> EBIT = earnings before interests and taxes.

<sup>12</sup> London Economics Europe (2020).

As, the price elasticities bpost uses in its calculations come from the London Economics (2020) study, they are estimated with (recent) historical data from bpost. Therefore, they reflect the current position of bpost on the Belgian postal market, where bpost is for many product categories, namely in the letter segment, practically the sole provider. Actually, it is only for parcels that a quasi-monopoly situation is not the case. For the other product categories, the only substitution effect taken into account by bpost at this point is that of digitalization.<sup>13</sup> From this follows that for each such product, the applied price elasticity is for the whole market and not for a company competing with other companies in that market.

One can therefore conclude that the absolute values of the price elasticities, when reflecting a truly competitive market as demanded by the Royal Decree, would be higher than those applied by bpost.<sup>14</sup> The basic economic theory<sup>15</sup> regarding the Cournot competition model shows for instance that with  $n$  equal sized firms, to go from the market elasticity of demand to the firm's elasticity of demand you have to multiply the market elasticity by  $n$  (the number of firms). Such an effect was also pointed out by London Economics in their 2020 study. If bpost had applied company or firm price elasticities the result would most likely be that there is a benefit due to the VAT exemption. Bpost noted that it is unclear how it should concretely implement this hypothesis of a competitive market..

### 3.1.3 Impact of price elasticity of demand

The aim in this report is not to set the precise price elasticity of demand to be used or to argue for a fixed value for all product categories, but to stress the crucial impact thereof on the possible benefit of VAT exemption. In this regard, it is worthwhile noting that the BIPT has done an extensive study into the price elasticities in the Belgian market and published on 20<sup>th</sup> April 2021 its results.<sup>16</sup>

Beside the econometric analysis of London Economics, this publication contained as well a literature study, a large consumer survey among more than 4000 residential and business customers in Belgium and interviews by WIK-Consult/MAS. The published WIK-Consult/MAS study contained proposed values for price elasticities of demand, which ranged from -1.69 to -2.90 for residential customers differentiated per product category and from -0.76 to -1.15 for business customers differentiated per product category. The

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<sup>13</sup> As correctly pointed out by bpost in its answer of 17 March 2021 on questions regarding its 2018 net cost calculation.

<sup>14</sup> Even the other elasticities bpost refers to in its reaction of the 9 July 2021, are in absolute value higher than the ones bpost used in its exercise.

<sup>15</sup> Massachusetts Institute of Technology Lecture notes on pricing (August 2010): [https://www.mit.edu/~rpindyck/Courses/Pricing\\_10.pdf](https://www.mit.edu/~rpindyck/Courses/Pricing_10.pdf)

<sup>16</sup> See <https://www.bipt.be/index.php/operators/publication/communication-of-20-april-2021-on-studies-about-postal-product-elasticities>

published London Economics study based on data ranges from bpost did not show any values due to redaction (considered to be confidential information by bpost).

### 3.1.4 European Commission practice in State Aid cases

The State Aid cases we examined are all characterized by a uniform approach to the calculation of the VAT exemption: the impact of the VAT exemption on revenues is considered (increased revenue depending on the price elasticity for different types of customers) as well the impact of the VAT exemption on the costs (increased costs for purchased goods as the USP cannot reimburse VAT for purchased services and goods relating to the provision of universal services). The procedure is described in detail in the Polish State Aid case SA.38869 (2014/N) and the Czech State Aid cases SA.44859 (2016/FC) and SA.45281 (2017/N). In these cases, a counterfactual scenario (without VAT exemption) was developed and customer segments were identified that cannot deduct VAT from purchased postal services. For these customers the end of the VAT exemption would result in an increase in prices, which could discourage them from buying postal services.

In the review by the European Commission of state compensations granted to Czech Post for the provision of the universal postal service for the period 2013-2017 (State Aid cases SA.44859 (2016/FC) and SA.45281 (2017/N)), the benefit of the VAT exemption is expressed as a percentage of the revenues for registered letters sent by public administrations and a percentage of the revenues generated by retail customers.<sup>17</sup>

In the Polish State Aid case SA.38869 (2014/N), the net benefit/burden of the VAT exemption was calculated as the difference between the revenues that the USP would lose in the absence of the exemption and the cost savings due to the possibility of deducting input VAT. Whether this is ultimately a benefit or a burden depends on the elasticity of demand of the various customer groups and their respective share.<sup>18</sup> In the Polish State Aid case SA.38869 (2014/N), a price elasticity of -0,49 was applied (based on a study of Pitney Bowes).<sup>19</sup>

In the Spanish State Aid case SA.50872 (2020/NN), the Spanish authorities used a constant price elasticity of demand of -1.1 for business customers, that were unable to deduct VAT and -0.5 for individual customers based on the findings of a number of surveys and studies carried out for postal operators in other countries.<sup>20</sup>

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<sup>17</sup> European Commission (2018b). Recital 135.

<sup>18</sup> European Commission (2015a). Recital 52 and 71.

<sup>19</sup> The estimation of the indicator at -0,49 was done by the Polish authorities on the basis of a study by Pitney Bows "A review of price elasticity models for postal products" (2007), as the average of 42 results of research on price elasticity of demand for postal services, carried out in different countries in 1991-2005.

<sup>20</sup> European Commission (2020b). Recital 161.

In other cases, e.g. the Greek State Aid case SA.35608 (2014/C) (ex 2014/N)<sup>21</sup> and the Danish State Aid cases SA.47707 (2018/N)<sup>22</sup>, SA.57991 (2021/C) (ex 2021/NN) and SA.55918 (2020/FC)<sup>23</sup>, a similar approach was used.

In all cases examined, the VAT exemption was classified as a benefit for the USP. However, the extent of this specific benefit was not disclosed in all cases. In the investigation on state compensations granted to Czech Post for the provision of the universal postal service for the period 2018-2022 (SA.55208 (2020/C) (ex 2022/NN)), the VAT benefit was specified at 2-8% of the revenues for registered letters sent by public administrations and at 4-9% of revenues for services provided for retail customers.<sup>24</sup> In total, the benefit of the VAT exemption for Czech Post was estimated at between CZK 500.000 and CZK 15 million (between EUR 18.900 and EUR 566.000<sup>25</sup>). The only other case where the total estimated benefit of the VAT exemption was disclosed was Spain in SA.50872 (2020/NN): between EUR 5 and 10 million yearly for Correos.<sup>26 27</sup>

## 3.2 Enhanced corporate reputation

### 3.2.1 The basic argument

From surveying the relevant business administration literature we know that companies tend to benefit financially when they are perceived to care about their stakeholders. The aspects that are emphasized in this literature are among others close relationship capability with their customers and attention to product safety, availability and quality, two of which aspects are generally attributed to postal universal service providers. The mechanism by which this usually operates is an increase in reputation through which customers/users are led to give preference to the company in question, here the postal operator.

Correspondingly, in its study for the BIPT<sup>28</sup>, TERA identified enhanced corporate reputation as one of the benefits of the postal USO. In order to value this benefit, TERA recommended a method proposed by WIK-Consult in its study for ARCEP<sup>29</sup>. This method is based on a comparison of ratios of comparable companies' publicity budgets with their

<sup>21</sup> European Commission (2014b). Recital 74-77.

<sup>22</sup> European Commission (2018c). Recital 193 and 194.

<sup>23</sup> European Commission (2021).

<sup>24</sup> European Commission (2022a). Recital 228.

<sup>25</sup> Based on historic exchange rate between 2018-2022 of around 1 Euro to 26,5 CZK. See EUR to CZK Exchange Rate History for 2020 (exchange-rates.org).

<sup>26</sup> Being the result (in the counterfactual scenario) of the difference between a revenue loss of EUR 49.7 million by adding VAT and a saving of EUR [40-45] million in VAT costs due to recuperated VAT. See European Commission (2020b).

<sup>27</sup> With the Spanish USO scope even containing (next to single piece items) both bulk letters and parcels. <https://www.cullen-international.com/client/site/documents/CTPOEU20230014>

<sup>28</sup> TERA (2014), p. 102.

<sup>29</sup> WIK-Consult (2009).

relative degrees of reputation or brand value. The difficulty for an external observer is here that information regarding the degree of a company's corporate reputation or its brand value is not readily available. A closely related approach is to recognize that, if a company is considered to have high reputation or brand value, its level of marketing effort relative to its level of sales would not need to be, as high as that of the average of other otherwise comparable companies.

We will explore this relationship further below but before that provide a brief conceptual clarification regarding how reputation and brand value mesh in the present case and how they relate to the obligation to provide the universal service (the USO).

### 3.2.2 Reputation and brand value

So far, the two terms 'reputation' and 'brand value' have been referred to as being synonymous. As the academic literature on this subject makes clear, however, the two concepts are different. It is shown that while brand is a 'customer centric' concept, reputation is a 'company centric' concept. The former focuses on what a product has promised to its customers and what that commitment means to them, whereas the latter focuses on the credibility and reputation that an organisation has among different stakeholder groups. Both concepts are strongly interrelated. The degree of brand recognition reflects one way or the other on reputation, and the reputation as a good or bad corporate citizen accordingly affects brand value. But this interrelationship is not 100% (for example VW's diesel scandal strongly affected its reputation, while its various brands of automobiles continue to perform relatively well).

The situation of reputation vs. brand is different when the company and the product it offers are more or less perceived as identical, as is the case for postal services and their provider. In this case, reputation and brand value almost merge in the public perception. This, as emphasized in the literature, is particularly important when the company also claims that it has an ethical mission to accomplish, such as assuring 'universal' postal service. Then the kind of service customers receive, as well as the company that assures it, enjoy high appreciation. This holds even more so if the organisation in question has been providing this service for a very long time, in the case of postal services for more than a century.

### 3.2.3 The view from TERA and bpost's approach

TERA had pointed out in its report that after the name change in 2010 from The Post<sup>30</sup> to bpost, the company's reputation had declined. Furthermore, TERA stated that the USO enhances bpost's reputation. As the USO has been imposed by the government to ensure the indefinite future delivery of this type of service, TERA is actually saying that the longstanding service the postal operator has always provided is the reason for this

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<sup>30</sup> We use "The Post" to stand for "De Post / La Poste"

enhancement. As bpost from 2010 onward continued to provide the type of service that the public has been used to for as long as they can remember, we expect that this enhancement of bpost's reputation has continued.

In this context, we note that bpost, in its net cost submission for 2018, uses a different methodology to show the impact of its USP status on its companies reputation. It argues that its rational business customers would have selected the best price performance combination already, so they would not be affected when bpost loses its USP status. Hence, bpost focuses solely on its residential customers, for which it performed a survey among 990 customers, based on a waterfall principle. First, the survey asks if respondents know USO as a term (only the case for 164 out of 990 responses), and then finds that only few of those respondents (49 out of 164) are aware of the fact that bpost is the sole USO provider for postal items in Belgium. The survey then asks respondents to correctly describe the USO (21 out of the remaining 49 were able to do this), and if they feel that the USO is important to them (20 out of the 21). Finally, the survey checks among the remaining 20 customers, if they would send less letters and parcels with bpost if bpost is no longer the USP but continues to provide exactly the same service in terms of quality and delivery time, price, etc.). Only 2 customers said they would do so and from this bpost concludes that merely 0.2% (2 out of 990 respondents) of bpost's residential customers would be impacted if bpost would lose its USP role. Hence, bpost argues that its USP role has no significant impact on its corporate reputation. Furthermore, bpost notes that this methodology is accepted by the European Commission in State Aid case SA.55270 (2020/N).

WIK remained consistent with the methodology proposed by TERA/BIPT (and the Greek State Aid case SA.35608, see below) while still considering remarks from bpost's on using comparable postal companies (and not companies from brand lists, which are active in other non-comparable sectors). Due to non-availability of brand listing data for comparable postal companies, we therefore switched to the advertising-to-sales ratio, which as later discussed in paragraph 3.2.4 is close to the original advertising-to-brand recognition ratio.

A customer survey as used by bpost could shed additional insights in customer behaviour but results are very much dependant on the design and representativeness:

- We note that the assumption that bpost's business customers are not impacted by bpost's USP role is not supported with any evidence.
- Secondly, we observe that the very selective 'waterfall' impacts the end result strongly. An essential element in the 'waterfall' selection of bpost is asking users about the formal status of bpost as USP. However, coming back to the proposed approach of TERA/BIPT described in the first paragraph, it does not matter whether customers are aware of bpost's *formal status* as USO provider. What matters is that customers are aware of what bpost *is doing*. Bpost and its

predecessor organisations have been providing service to all corners of the country and bpost continues to do so, of which people are well aware. The practical implication thus is that users tend to habitually turn to bpost whenever they want to send a letter or dispatch a parcel.

- Furthermore, it is not clear if a sample of 990 residential customers is representative and practically for the last survey question (would you buy less if bpost loses the USP role) there is an effective sample size of 20 residential customers, which cannot be representative.
- Finally, an important assumption in bpost's last question is not correct; '...bpost would continue to deliver the same quality, delivery and price...' when it loses the USP role. However, as described under section 3.1, bpost for instance would have to charge VAT which means that retail prices would most likely be increased and secondly, without the USO, bpost is able to change its conditions more easily and users have less certainty that the services will remain the same.

### 3.2.4 European Commission practice in State Aid cases

Evidence on the effect of reputation or brand value on the performance of a postal USP exists for the UK. It was provided by a 2002 study by London Economics regarding Consignia, which at the time was the name of the UK postal service provider.<sup>31</sup> The study focuses on two ratios:

- The ratio of advertising expense relative to the brand perceptions of the UK postal service provider with corresponding ratios of companies with a similarly broad base of consumers (where this ratio corresponds closely to the one recommended by TERA and originally by WIK); and
- The ratio of advertising expense to sales of the UK postal operator with the corresponding ratios of other UK companies that sell similar products.

In both cases, the values of the ratio of 'advertising expense relative to the brand perception' and 'advertising expense to sales' for the UK postal provider are reported to be very low (concrete numbers are not provided due to confidentiality reasons). London Economics concluded as follows: "*We certainly admit that part of this effect is due to the fact that Consignia does provide a good quality service to its customers. However, it seems probable that a portion of this effect is due to Consignia's USP status... It seems ... possible that the order of magnitude of this effect could be in the tens of millions of pounds*".<sup>32</sup>

A similar approach was used in the Greek State Aid case SA.35608 (2014/C): "*...the benefit is estimated by taking into account the saving in advertising expenses by ELTA*

<sup>31</sup> London Economics (2002a), pp. 77-81.

<sup>32</sup> London Economics (2002a), p. 80 and 81.

*due to its USP status. The Greek authorities have assumed that in order for ELTA to achieve its current brand awareness, in case that it was a private company without ELTA's wide presence, the advertising expenses would have to be approximately € [...] million. Consequently, in the NCUS calculation model, the overall benefit is estimated at € [...] million for 2013.*"<sup>33</sup>

Also in the Polish State Aid case SA.38869 (2014/N), it is stressed that *"...senders..consciously decide to use the designated operator's services due to the fact that this operator is carrying out the USO."* <sup>34</sup>

In the Czech State Aid cases SA.44859 (2016/FC), SA.45281 (2017/N)<sup>35</sup> and SA.55208 (2020),<sup>36</sup> the increase in brand value was understood as a benefit due to increased revenues, because the brand was well known and people believed it guaranteed a certain quality of service. For these cases, this benefit was calculated as the amount of revenue corresponding to the percentage of clients who would not select a postal service provider if it was not the universal service provider. In the 2016 and 2017 cases, a percentage of 0.4% was used based on the conclusions of the 2012 study of Frontier Economics.<sup>37</sup> In the 2020 case, on the same basis, the benefit was estimated to amount to EUR 1.7 to 1.9 million per year for 2018-2022.

In the Spanish State Aid case SA.50872 (2020/NN) the benefit of the enhanced brand value is also considered to be significant; 16.5% of Correos's (Spain's postal operator) brand value or EUR 36 million is considered to be specifically due to the USO. The enhanced brand value was then multiplied with Correos's weighted average capital cost (8.2%) leading to a total annual increase in revenues due to Correos's USO-related brand value of around EUR 3 million.<sup>38</sup>

However, in the review of two State Aid cases (SA.57991 and SA.55918) in Denmark in 2021, the EU Commission noted that there was no enhanced corporate reputation and ubiquity in respect to the letter post sector as supported by the General Court that stated *"...in the absence of the USO, Post Danmark would discontinue the distribution of letters since that service is unprofitable."* <sup>39</sup> In addition, it noted that *"...Post Danmark does not benefit from its corporate reputation and/or brand value as a consequence of the former monopoly it had and the current status as USO provider."* As their image *"...is generally*

<sup>33</sup> European Commission (2014b), Recital 78. p. 14.

<sup>34</sup> European Commission (2015a), Recital 49. p.10.

<sup>35</sup> European Commission (2018b), Recital 130, p. 36 and European Commission (2022), Recital 223 and 230 respectively p. 57 and 58.

<sup>36</sup> European Commission (2022a). Recital 223, p.57 and Recital 230, p. 58.

<sup>37</sup> Frontier Economics (2012). Study on the principles used to calculate the net costs of the postal USO, december 2012.

<sup>38</sup> European Commission (2020b), Recital 164, p. 30. The calculation is as follows: EUR 218.4 million \* 0.165 \* 0.082 = EUR 3.0 million.

<sup>39</sup> European Commission (2021), Recital 164, p.35.

*bad and associated with expensive and slow services.*<sup>40</sup> This being based on studies regarding the reputation of Post Denmark compared to other companies.

In the latest State Aid case in France (SA. 100746) in 2023, the French authorities noted that the strong reputation of La Poste Group “...is a result of a combination of multiple factors that are difficult to distinguish...” And they produced an estimate of the value of this reputation linked to the status of USP for 2 business sectors where the impact of the brand image is more likely: namely the parcel-express sector and local services delivered by the postman apart from parcel and letter delivery. For each segment, the decreased demand in the counterfactual scenario was calculated (confidential values), resulting in lower profits for the years 2021-2025.<sup>41</sup>

### 3.3 Enhanced advertising

#### 3.3.1 The basic argument

In the literature review, enhanced advertising was noted as likely benefit due to the higher visibility for a universal service provider (USP) due to related nationwide service provision and daily deliveries (Monday to Friday). Hence, the general public comes steadily across logos and advertising messages on vehicles, agents and facilities of the USP. This effect may be less if the respective operator would no longer be the USP. For determining the value of this enhanced advertising effect, one should value the difference in visibility between the factual situation (operator as USP) and a suitably designed counterfactual scenario (operator is no longer the USP). In the following we will outline the overall approach and discuss the merits of different arguments regarding the relevance of this benefit.

For every year that is to be reviewed, the factual and counterfactual scenarios are defined and calculated by bpost using its net cost model.<sup>42</sup> After submission of this model to it, the BIPT will carry out a validation. Thereafter, the validated data related to the visibility of vehicles, personnel and facilities can be used as input to review the beneficial visibility bpost might have due to being the USP. As observed from bpost’s submitted net cost model of 2018<sup>43</sup>, the relevant output of both scenarios is the number of contact points for the different transport modes which bpost requires according its distribution model. In addition, the number of post offices and service points is relevant. Consequently, based on validated assumptions regarding available advertising space and the duration of

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<sup>40</sup> European Commission (2022b), Recital 346, part 2), p.74.

<sup>41</sup> European Commission (2023), Recital 182-183

<sup>42</sup> See bpost (2019c) for further details how bpost has defined the factual and counterfactual scenario for 2018. Among others the delivery time of services is differentiated in priority/non-priority combined with a price increase for priority.

<sup>43</sup> See bpost (2020b).

visibility to the general public per transport means/office/service point, a difference in visibility will result.

As a last step, this difference in visibility, expressed as the time of advertising space visibility per year, should be valued. Bpost has noted that the methodology applied by them is very similar to the one proposed by WIK in its draft report. The main difference is that WIK used at that point in time available output from TERA's counterfactual scenario, while bpost bases its calculation on the counterfactual scenario as defined in its net cost submission for 2018.<sup>44</sup>

### 3.3.2 Visibility of bpost in the counterfactual scenario for 2018

Contrary to the literature, bpost has stated in its net cost submission for 2018, that there is a higher visibility of advertising space in the scenario in which bpost is no longer the USP. This is due to bpost applying a new distribution model for the counterfactual scenario; bpost envisages [CONFIDENTIAL]. As large vans have significant larger advertising space than small vans and longer rounds, bpost claims that this would entail more advertising space in the counterfactual scenario than currently. Accordingly, bpost claims that it has a disadvantage in advertising visibility due to being the USP.<sup>45</sup>

In its response to the draft summary report of 9<sup>th</sup> July 2021, bpost noted that it does not want to calculate a net cost based on universal service obligations that have been modified in the meantime. Therefore, it used for 2018 a virtual 'reference scenario', which assumes that the 2019 USO was already in force. For consecutive reviews of the net cost this discrepancy will disappear as the new USO (distribution model) has entered into force in 2020.<sup>46</sup>

### 3.3.3 The value of additional visibility

Bpost argues in its net cost submission for 2018 that due to 1) technical limitations of the concerned advertising space (stickers and/or bpost logo only), 2) its merely supportive role in marketing campaigns and 3) the decreased impact of repetitive marketing messages, the value of the extra visibility on its transport fleet, postal offices and service points due to the USO would be less than that of commercial advertising.

Before discussing bpost's arguments, we note that it has been WIK's position in the draft report of 2019 to use a conservative low value based on a benchmark of commercial advertising costs to estimate the value of the additional visibility. However, this value was

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<sup>44</sup> See bpost (2021).

<sup>45</sup> From bpost submission of the related calculation of 'Advertising efficiency' related to its net cost submission for 2018. In this excel file, it is noted that despite a reduction of the (advertising) contact points in the counterfactual scenario, the overall advertising space in the counterfactual is still larger due to the shift from Coureg rounds with relatively limited visibility to P2P rounds with higher visibility.

<sup>46</sup> With two general 'coureg' rounds per week and added specific point to point (P2P) rounds for priority mail on the other working days of the week.

based on other arguments as are now brought forward by bpost. There are two reasons for WIK's low values: first and mainly, in the counterfactual scenario the route optimisation (read: where delivery frequency is low and hence also visibility) is likely to be disproportionately applicable to less dense areas, where commercial advertising is cheaper than in city centres;<sup>47</sup> second, it is good practice in general to use a conservative benchmark as it would result in an estimate of the benefit that has a higher probability of being in the right range and therefore countering the possibility of overestimation.

As bpost procures advertising in the public space itself, it is in the best position to estimate the cost thereof. Unfortunately, so far we have not received information from bpost on this cost. However, there is an indication that the benchmark values derived by WIK for its draft report of 2019 are in a range acceptable to bpost. This follows from the fact that in its net cost submission for 2018 bpost adopts these benchmark values (with only a small correction regarding the campaign duration).

We now turn to bpost's arguments why the additional visibility due to its USP role has less value than the conservative benchmark of commercial advertising:

1. Technical limitations of advertising space: It is recognised that uniforms of the delivery personnel and certain parts of bpost's transport fleet (such as electric bikes) have a small advertising space, which might be only suitable for a stickered logo. However, there is larger advertising space on large vans, up to 10,5 m<sup>2</sup>, which is suitable for more extended marketing messages as well. A related argument is that bpost's logo on its vans and trucks is merely a legal obligation. However, if there was no advertising value then bpost's logo could be smaller in size (and hence less costly to fabricate and apply) compared to the huge logos on the side of vans and trucks that can be seen in reality.
2. Merely supportive role in marketing campaigns: This argument neglects that the public perceives bpost as 'the postal provider' due to its large public and nationwide presence (brand awareness). In this context, we wish to refer to the 'mere exposure theory', which states that people have a more favorable attitude towards a stimulus which they see more frequently. This effect has been well known for decades and has often been confirmed since then.<sup>48</sup> Lee & Pedersen (2010) also added that the frequency of brand exposure positively influenced the attitude towards the brand and brand awareness. And exactly this brand awareness is used by consumers to save time and effort when deciding on repeated purchase products like postal services even when the product in question is of lower quality than similar offers from other brands as shown in an earlier study by Hoyer & Brown (1990).

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<sup>47</sup> London Economics (2002b) has performed a similar exercise for the UK market. It assumed a conservative value for advertising of routes, which were decreased, as these were most likely in the less dense areas for which advertising is cheaper compared to advertising in e.g. city centres.

<sup>48</sup> See Zajonc (1968), Lee & Pedersen (2010).

Therefore, when bpost runs campaigns in which its presence in the public space is used for supporting and/or complementary campaigns, the latter's effect would add to the general awareness by the public. Furthermore, as described above, certain advertising space due to the USP status can be used for more than logos only<sup>49</sup> and hence applied messages are not by default only supporting other (online) campaigns.

3. Bpost argued furthermore in its net cost submission for 2018 that there is a decreasing impact of repetitive marketing messages by referring to an inverse U-shape of the 'add recall' versus increased repetition of advertising campaigns. The underlying explanation of bpost is that it assumes that an average customer views these marketing messages more than 12 times, which is then combined with a Facebook study, which shows the inverse U-shape to derive a correction rate of its value. First, we note that the frequency of 12 is not substantiated by bpost and that the implied statement that this might apply on marketing messages on bpost's fleet due to the long term character is also not substantiated. Secondly, the Facebook study is in regard to online campaigns and bpost itself distinguishes clearly between supporting marketing channels (such as messages on its transport fleet) versus online campaigns, which in respect of a recent bpost campaign is described to be the main advertising channel ([CONFIDENTIAL]% of the budget). Bpost confirmed that the referred 'add recall' shape relates to short term campaigns and that to its knowledge there are no studies available, which measure the effect on recall of repeating messages of a USP or postal services in the context of long-term poster campaigns.<sup>50</sup> We conclude that it seems unrealistic to consider that the numbers of the Facebook study also apply to a non-comparable supporting marketing channel of a postal company and the same applies for the setting of a correction factor of [CONFIDENTIAL]%.

In sum, we conclude that based on the arguments and information provided by bpost, we do not consider its additional visibility in the public space to be of less value than the earlier derived conservative benchmark of commercial advertising in the public space.

### 3.3.4 European Commission practice in State Aid cases

There is evidence in the EC decision-making practice in postal State aid cases that USP status is associated with enhanced advertising and thus confers a benefit on the USP. In the State Aid case SA.45281 (2017/N), the Czech Authorities calculated an annual amount from EUR 9.6 million to 19.8 million for the period 2013-2017 due to enhanced advertising on buildings and vehicles.<sup>51</sup> In the following case SA. 55208 (2020/C) (ex 2022/NN) for the period 2018-2022, the impact was much lower and estimated at around

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<sup>49</sup> Like the following slogan: "Met zorg gebracht" or job adverts for mailmen and drivers.

<sup>50</sup> See bpost (2021).

<sup>51</sup> European Commission (2014c). Recital 132 and 137.

EUR 0.2 million per year (using a similar approach to that used for the previous period, but without going into the specific details of calculation).<sup>52</sup>

The French State Aid case SA.36512 (2014/NN) also considered the value of the logo deployed on the network's contact points.<sup>53</sup> This calculation was based on the size of the logos, the gross billposting rates per square meter, per week and per inhabitant, and a perimeter of municipalities concerned. The Commission concluded that the net avoided cost method including intangible benefits was correctly applied. In 2018, the same benefit was taken into account in ARCEP's final assessment of the net cost of the regional development mission in case SA.49469 (2018/N).<sup>54</sup>

The Spanish State Aid case SA.50872 (2020/N) had a more limited scope, focusing only on the advertising space (to be lost in the counterfactual scenario) on post office buildings, amounting to EUR 0.3 million per year for the period 2011-2020.<sup>55</sup>

The Danish State Aid cases SA.57991 and SA.55918 in 2021 considered the so-called intangible benefit of 'intellectual property assets' comparable with enhanced advertising because the amount was estimated in relation to the number of visible contact points established by Post Danmark based on an assessment of brand value made by external market research.<sup>56</sup> Furthermore, the market research found that the brand value decreased in recent years, mainly due to a lower level of activity of Post Danmark which resulted in fewer trucks and vehicles being used and in a reduction of street letter boxes.<sup>57</sup>

The 2020 Italian State Aid case SA. 55270 also quantified the advertising benefit in a similar manner. It considered the difference in advertising spaces available to Poste Italiane (PI) thanks to the USO on post offices, but also on helmets, uniforms, cars, trucks and airplanes (factual scenario versus counterfactual scenario). This difference was then multiplied by the market value of advertising per square meter for the year 2016<sup>58</sup> resulting in an amount of approximately EUR 14 million per year for the period 2020-2022. However, Poste Italiane would also incur lower costs, proportional to the reduction in revenue due to the advertising effect, which was estimated to be between EUR 10-11 million per year.<sup>59</sup>

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<sup>52</sup> European Commission (2022a). Recital 225 and 230.

<sup>53</sup> European Commission (2014b). Recital 99.

<sup>54</sup> European Commission (2018e). Recital 83.

<sup>55</sup> European Commission (2020b). Recital 166.

<sup>56</sup> Done by annalect in January 2020.

<sup>57</sup> European Commission (2021). Recital 134-135.

<sup>58</sup> The market value of advertising space was established by AGCOM to be EUR 92.8 per square meter in 2016 in Resolution 214/19/CONS. of (paragraph 184 of the Resolution)

<sup>59</sup> European Commission (2020a). Recital 108-113

In the latest State Aid case in France (SA. 100746) in 2023, the French authorities “...believe that in the absence of universal postal service obligations, the La Poste brand would be less visible. Fewer letter carriers and vehicles would criss-cross the country, and the La Poste brand would be less visible.” and “To compensate for this lower visibility, the operator would be obliged to incur additional advertising costs.”<sup>60</sup>

The intangible advantage associated with advertising expenditure in France was estimated for 2021-2025 (confidential values) based on a similar approach as proposed by WIK (considering factors like estimated surface area available to La Poste for advertising, the type of advertising).<sup>61</sup>

### 3.4 Simplified customs procedures under the UPU Convention

#### 3.4.1 The basic argument

Being the incumbent postal operator and at the same time the universal service provider has historically been intertwined with being the representative of its country at the Universal Postal Union (UPU). Under the UPU Convention, designated operators of member countries handle a large volume of letter post items flowing between countries. With emerging e-commerce the number of small parcels within the letter post stream has extremely increased (mainly from China), challenging designated operators and customs authorities, especially if manual checks of items are required. Postal operators traditionally did not provide customs authorities with any data on individual consignments, but instead provided a summary manifest summarising the total mail shipment (‘receptacles’). Data on individual consignments were provided on simplified paper customs forms developed by the UPU, which were completed by the sender and attached to the consignment. The UPU developed the CN 22 (for low-value packets) and CN 23 forms to accompany all letters (with goods) and parcels, respectively, which were treated as formal customs declarations by customs authorities.<sup>62</sup>

As these forms were intended to assist customs authorities in their risk profiling and hence improve collection of duties and taxes, as well as supporting postal operators in enhancing service delivery, this has been recognized in the literature as a potential benefit related to the provision of the universal service (see chapter 2). Bpost as Belgium’s incumbent operator and universal service provider is also its UPU representative as designated operator. Consequently, bpost was allowed to apply the simplified customs procedures for the inbound packages being received from other non-EU UPU-members.

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<sup>60</sup> European Commission (2023), Recital 184-185

<sup>61</sup> See footnote 97

<sup>62</sup> See for more details, WIK (2020), Chapter 4.

Traditionally, the simplified CN22/CN23 declarations have been paper based since many designated operators did not have the necessary electronic systems in place allowing electronic communication of customs information between designated operators, at origin and/or destination, or between designated operators and customs authorities. Paper-based customs declarations resulted in manual tasks in the customs process, such as randomly checking the value of letter post and parcels and, if information on the relevant forms is not sufficient to determine the value of the contents, the package is opened for inspection. If information on the customs declaration is missing, the recipient is contacted to obtain this information before the consignment can be released from customs. For these services, bpost charges a customs clearance fee. Furthermore, bpost can use the simplified customs procedures for its outbound postal items being send to non-EU UPU-members. The customs representation on the inbound flow is expected to be profitable for bpost and the adapted customs procedures for the outbound flow is expected to be time saving and hence save costs for bpost.

The submission of electronic customs declarations for postal imports into the EU became mandatory in 2021, following the reform of the EU VAT legislation (abolition of the 22 € de-minimis VAT exemption for imported low value goods) and the reform of the Union Customs Code import control system (ICS2). These measures, when fully implemented, should result in equal treatment of postal and commercial imports, thus eliminating the benefits of the simplified customs procedure.

### 3.4.2 Bpost's approach

In its net cost submission, bpost argues that not only the (profitable) custom clearance fees related to the inbound flow should be considered but also the related terminal dues for the distribution in Belgium, which are less profitable or even loss-making. Thereafter, with regard to the exercise for 2018, bpost excluded the aspect of terminal dues for the (likely profitable) outbound UPU flow with the argument that other commercial players do not have to make a formal export declaration for shipments going to non-EU countries with a value lower than €1,000. As a result, bpost claims there is no advantage of the simplified customs procedure for the outbound flow for bpost and hence it does not constitute an immaterial benefit.

We note that, apart from the formal export declaration, commercial parties shipping to countries outside the EU still need to declare their shipments to customs, irrespective of the value. This procedure is most likely more burdensome compared to the export customs procedure under the UPU Convention, which may also present a benefit to designated operators. However, this is difficult to quantify in monetary value. Furthermore, bpost argues that there is only a benefit if their profitability on these activities are higher than comparable customs clearance done by other commercial parties. The point here is that bpost has commercial customs clearance activities as well (review not part of this study), hence the UPU flows (and related profits) come in addition to bpost's

commercial activities and the comparison of profitability with commercial parties is not relevant.

It is generally noted that the losses on the terminal dues for the inbound flow are likely to be balanced by the profits made on the outbound UPU stream for developed UPU countries, hence these two flows can not be separated (as bpost argues). This is supported by bpost's answer of 2<sup>nd</sup> August 2019 to the BIPT inquiry according to which in 2018 the total worldwide margin, across all international countries and products, including outgoing and incoming items, [CONFIDENTIAL]. Due to the overall complexity of terminal dues and the developments in price setting for the coming years, the focus here is on bpost's role as customer representative for the inbound UPU flow.

Furthermore, in its net cost submission, bpost notes that “[d]espite the specific procedures, the processing of the UPU volumes requires a number of manual actions, which are not comparable to what a commercial player has to perform for the processing of its incoming volumes.” Furthermore, bpost claims that these activities require more full time employees compared to its commercial (digitalised) activities abroad in the same role.<sup>63</sup> Nevertheless, the profit of these activities is on top of bpost's other commercial activities and related to its status as USP. Despite manual actions, bpost's 2018 figures still show that its customs clearance of the inbound UPU flow is a profitable business. In addition, the simplified customs procedures afforded to bpost might enable a faster procedure, which could represent another benefit when handling international inbound postal items from non-EU countries. However, no further information on this aspect has been provided by bpost thus far. Also, member countries of the UPU and designated operators are exempt from liability for customs declarations under the UPU convention; the completion of customs declarations is the responsibility of the sender alone, however, designated operators must take reasonable steps to inform their customers on how to comply with customs formalities.<sup>64</sup>

Overall, there is a linkage between bpost being Belgium's incumbent operator, its role as universal service provider and at the same time being its UPU representative. There is currently a limited profit on the overall terminal dues for the inbound and outbound flow, which should be reviewed together, but has been excluded for the purpose of simplifying this benefit. The focus here is on the related role as customs representative for the inbound flow, which despite its manual actions, is a profitable stream, which comes on top of other commercial activities. This constitutes a benefit to bpost which is not considered in its net cost calculation. However, this benefit was already limited in 2021

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**63** Any disadvantage that bpost may experience here should disappear as of 2021, given that the use of ITMATT has become mandatory under UPU so that the CN22/23 on inbound can be processed digitally rather than manually.

**64** Therefore, before accepting a postal item for dispatch to a foreign destination, the designated operator should reasonably ensure that the necessary customs information provided by the sender is complete and that the declared value of the item is accurate, but incurs no responsibility for this information. If these guidelines are not followed, it usually means that the postal item has to be opened and inspected at destination, resulting in delays and additional costs incurred by the destination.

and has likely changed in the years thereafter due to digitization of these streams and, above described, changes in import VAT rules. Hence, we do not expect this benefit to become substantial but it would be best to monitor the situation for the years to come.

### 3.4.3 European Commission practice in State Aid cases

The aspect of simplified customs procedure under the UPU Convention was not taken into account in any of the State Aid cases we examined.

## 3.5 Enhanced bargaining position

### 3.5.1 The basic argument

In order to better understand the arguments, we begin with a note on terminology. The literature dealing with the present subject matter does this typically under the head of 'enhanced bargaining position' that the company in question has towards the government, and up to now we also have used this term. In the present context, however, it is a misnomer. The issue is really that of 'benefits to bpost due to its close relationship with the State'. The reason for this is that the State, respectively, the government as its agent, and bpost have a common interest, and that the government has the power to act according to these common interests, thereby benefitting bpost.

The government has placed an obligation (the USO) on bpost to continue its provision of universal service.<sup>65</sup> The argument here is that the fact that bpost has to provide this universal service entails actions by the government that are of benefit to bpost. This can translate into different types of benefits, and below we discuss two examples: the strict license conditions that in the past were imposed on possible competitors and a state guarantee on loans taken out by bpost.

### 3.5.2 Two examples of benefits due to bpost's close relationship with the State

The first example is in the form of the Law of 13 December 2010: This Law on the one hand liberalised the market of postal services in the sense that whatever monopoly status bpost still had, was abolished. On the other hand, it adopted licensing conditions for entrants into the postal market. These conditions were restrictive in terms of coverage, frequency and tariffs which meant that certain hurdles had to be overcome by entrants. At the time of its adoption in 2010, the ministry responsible for the postal sector recognised that this constituted a barrier to entry but justified it as a way to avoid 'cherry picking'. This

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<sup>65</sup> Since 1 January 2019, bpost continues to provide the universal service on the basis of a management contract concluded with the State for successive five-year periods. The second management contract designating bpost as the universal service provider is applicable from 1 January 2024 to 31 December 2028.

expression suggests that new market entrants should be prevented from going solely into the most profitable areas of the market.

This legislative measure thus protected bpost from disproportionately losing market share and corresponding profits that were supposedly needed to cover losses from serving remote areas. Consequently, only very few new companies ventured into entering the market which meant that bpost could maintain a high market share ([CONFIDENTIAL]). As a stark reminder of this, the only company that had entered to compete in letter services, TBC Post, failed and stopped operations at the end of 2019. TBC had attempted to serve the entire country, however, it was unable to attract sufficient customers.<sup>66 67</sup> Since 10 November 2020, SPRL Net Express (which operates under the trade name "TBC Post") has acquired a license for letter post.

There may be reasons in addition to the universal service that are at the root of the government's privileged treatment of bpost. One may think of the government's profit motive or the pressure of the unions representing a large number not only of workers but also of voters. It is, however, frequently the case that the government refers to the universal service when it is preparing an action that is advantageous to bpost.

The second example of a benefit for bpost due to its close relationship to the Belgian State is contained in the Law of 21 January 1991 on the reform of certain economic public companies. Article 12, §2 states: "The autonomous public companies whose loans by or pursuant to the law automatically enjoy the state guarantee, have, regardless of any conflicting provision, the choice whether or not to call on the State guarantee for the loans they take out". Specifically with respect to bpost, Article 6 of the Law of 6 July 1971 on the establishment of The Post and on certain postal services stipulates: "The State guarantees the successful outcome of the transactions with regard to the funds of third parties".

According to these two stipulations in law, bpost may benefit from a state guarantee regarding the loans it has taken out. This actually means that bpost cannot go bankrupt as long as the State is solvent. This guarantee is linked to the universal service given that, as mentioned several times above, the State remains a majority owner of bpost – precisely because of the latter's role as universal service provider. Hence, this must be considered a benefit for bpost that it enjoys due to the universal service.

As noted, these are two examples, but there could be more in the future due to the close relationship of bpost with the State. Furthermore, we note from these examples that it is challenging to estimate the financial impact of these benefits, because of the many different dimensions along which these benefits may become effective. This may also be

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<sup>66</sup> In particular, local administrations refused to open its business to public tendering. "Zware schadeclaim tegen 200 Belgische gemeenten. Postbedrijf eist geld omdat het buitenspel staat bij overheidsopdrachten", Nieuwsblad, 22/07/2017: [https://www.nieuwsblad.be/cnt/dmf20170722\\_02982843](https://www.nieuwsblad.be/cnt/dmf20170722_02982843)

<sup>67</sup> But, since 10/11/2020, there is a licence for SPRL Net Express (which operates under the trade name "TBC Post").

due to the fact that other factors beside the universal service (like for example employment) may play a role as well.

### 3.5.3 European Commission practice in State Aid cases

The aspect of enhanced bargaining power was only mentioned in the 2018 State Aid case SA.47707 of Denmark. The Danish authorities concluded that Post Danmark did not benefit from enhanced bargaining power compared to other large companies. As a state-owned company Post Danmark is subject to the Utilities Directive and has to comply with the public procurement rules when contracting with suppliers (i.a. tenders are subject to competition and the tender procedure has to comply with the principles of equal treatment and transparency).<sup>68</sup>

In the 2021 Danish State Aid case (SA.57991 (2021/C) (ex 2021/NN) and SA.55918 (2020/FC)), this aspect was not considered. The EC followed the argumentation of the Danish authorities that the bargaining power should only be taken into account as an intangible benefit if it worsened or disappeared in the counterfactual scenario.<sup>69</sup> Furthermore, it was noted that Post Danmark's bargaining power was not due to the USO, but due to its size and the size of the holding (Postnord). In the view of the Commission, the interested parties had not submitted evidence to the contrary. More generally, there were even indications that any bargaining power that Post Danmark would have, could be rather an intangible disadvantage as trade unions and employees would expect that Post Danmark lived up to the highest standards concerning wages and working conditions due to its public ownership.<sup>70</sup>

## 3.6 The importance of the benefits

In this section we propose an indicative ranking of the immaterial benefits bpost enjoys in the name of the Universal Service Obligation (USO) based on their likely financial impact. We say explicitly 'in the name' of the universal service, because other reasons may also play a role. This will become apparent in the text below.

For your information, from State Aid cases where the result of the immaterial or intangible benefits found and the USO size were not kept confidential, we can see that the benefits have a substantial size. In the Greek State Aid case SA.35608 (2014/C) these benefits were determined at EUR 8.95 million in total, in the Spanish State Aid case SA.50872 (2020/NN) at about EUR 12.58 million and in Polish State Aid SA.38869 (2014/N) even at EUR 44.01 million. If we compare these amounts with the relevant revenue for postal service for these countries within the scope of the USO to get a sense of relative

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<sup>68</sup> European Commission (2018c). Recital 159 (ii).

<sup>69</sup> European Commission (2022b). Recital 306-309 and 345.

<sup>70</sup> EC (2022b). Point 346, 6) Bargaining power.

magnitude, this would result in 4.7% of the 'USO revenue' in the Greek case, 1.2% in the case of Spain and 3.1% when looking at the Polish case.<sup>71</sup>

In more recent cases of State Aid, like SA.55270 (2020/N) for Italy, the total intangible benefits were estimated for the years 2020-2022 to be between EUR 31 and 36 million yearly while considering significant cost reductions in the counterfactual scenario (which lowers the amount of intangible benefits). This corresponds with 1.1% of the total revenue of postal services within the USO scope. In the Czech Republic, case SA.55208 (2020/C) (ex 2022/NN) the total of intangible benefits amounted to roughly EUR 3 million yearly for the 2018-2022 period. This could not be expressed in a percentage as the USO related revenue for Czech Post was redacted in the relevant Commission Document. Moreover, we wish to underline that the percentages mentioned above (and thus the substantial intangible benefits they represent) were obtained in the event of a state aid case and that to date, by contrast, bpost has not yet filed a net cost claim.

- **Close relationship with the State**

The probably most important benefit results from the close relationship of bpost with the State. As described in Section 3.5, bpost has been in a position to influence government policy to its advantage, always referring in the process to the presumed danger to universal service if its demands were not met.

The basic reason for the government to have retained majority ownership in the company is to make sure that universal service continues to be provided for the indefinite future. It is, however, likely that the receipt of dividends is also one of the government's reasons.<sup>72</sup>

A particularly valuable benefit in this context is the state guarantee covering the loans bpost has taken out, practically assuring that it could not go bankrupt. While this guarantee due to being a public company may in the end not prevent distress after all, see the case of Sabena<sup>73</sup>. It is, however, unlikely that bpost would ever have to face this fate given the importance of the universal service to the community at large.

- **Enhanced corporate reputation**

The second most important benefit derives from the enhancement of bpost's corporate reputation on account of it being the universal services provider. When saying this, we are in particular aware of the fact that the obligation to provide it for the indefinite future, i.e. being the USO provider, is only a formal matter that the public hardly cares about.

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<sup>71</sup> We note that in the respective countries the scope of the USO might be different. Furthermore, the USO related revenue for these comparisons have been extracted from the Commission Decision documents on the relevant State Aid cases.

<sup>72</sup> [CONFIDENTIAL]

<sup>73</sup> Because of financial problems in which Sabena found itself, the Belgian State sold in 1995 49.5% of the shares to Swissair to help the company get back on its feet. This decision backfired. In October 2001, Swissair was forced to ground its fleet for lack of liquidity and underwent an investigation. Sabena was finally declared bankrupt on 7 November 2001.

What matters is that bpost has been delivering nationwide postal services with a certain quality for reasonable prices for more than a century.

The value of that benefit, in terms of effect on annual financial results, are the savings in advertising and other publicity expenses that bpost would otherwise need in order to help achieve the corresponding brand value and corporate reputation.

- **VAT exemption**

As benefit in third place we consider the advantage obtained through the VAT exemption. As discussed in Section 3.1, the crucial aspect here are the values of the price elasticities to be used for calculating the benefit. Depending on the level of these price elasticities, the benefit in terms of increased EBIT due to being able to have lower prices in the relevant market segments can be substantial.

In particular, the increased EBIT could more than offset the amount of (partially non-recoupable) VAT that bpost itself has to pay on purchased inputs as a consequence of the VAT exemption.

- **Enhanced advertising**

In fourth place, we place enhanced advertising. This benefit, is actually part of the savings that we mentioned bpost enjoys on account of its enhanced corporate reputation. It entails (possible) additional advertising possibilities due to bpost's large coverage and presence in the public space due to its USP role.

- **Simplified customs procedures**

Simplified customs procedures is placed last, because of the probably relatively low financial impact. Due to digitalisation of UPU streams since 2021 and described changes in import VAT rules in recent years, this benefit might have altered.

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