

## THE ROLE OF THE UNIVERSAL SERVICE ARGUMENT IN THE DEBATE ON MARKET OPENING

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### Abstrak

*Pelayanan secara global yang disebut dengan universal service merupakan layanan atau jasa yang diberikan kepada semua orang di seluruh dunia atas kepentingan informasi dan komunikasi. Pos dan telekomunikasi tentunya menjadi bagian utama dari layanan global tersebut karena surat atau dokumen dan saluran komunikasi adalah hal yang vital bagi kehidupan manusia. Dengan adanya pasar bebas yang membuat berubahnya kondisi perekonomian dunia, pos masih dilindungi oleh negara sedangkan bidang telekomunikasi diberikan kepada pihak swasta agar dapat lebih bersaing. Meskipun aturan yang berbeda diberlakukan oleh setiap negara, bidang pos tetap dikuasai oleh negara dan bidang telekomunikasi dibebaskan. Dibukanya persaingan pada bidang telekomunikasi dimaksudkan adalah tidak diberikannya subsidi atau dukungan anggaran biaya dari negara kepada bidang tersebut (dibiarkan privat atau mengalami privatisasi).*

*Kondisi perekonomian dunia yang semakin memungkinkan iklim persaingan bebas telah mendesak untuk melepaskan regulasi negara-negara di dunia untuk terus melindungi bidang pos. Oleh karena itulah, kemudian bidang pos pada akhirnya dibiarkan sebagian dimiliki oleh pihak swasta, dalam hal ini berarti pemerintah masih memberikan subsidi atau dukungan anggaran biaya tetapi hanya separuh bagian saja. Polemik akhirnya timbul dengan adanya regulasi atas bidang pos dan telekomunikasi, banyak diantaranya membicarakan tentang manfaat diberlakukannya regulasi tersebut. Dimana sebagian besar negara-negara di dunia masih melakukan berbagai macam cara subsidi pada bidang pos; mengingat pengaruh teknologi informasi yang semakin pesat sehingga pos bukan merupakan jalur utama dalam sarana pengiriman dokumen. Dan yang paling menjadi sorotan adalah pengaruh atas kualitas dan biaya yang akan dibebankan kepada pengguna jasa pos dan telekomunikasi atas regulasi tersebut.*

*Kata kunci: layanan global, pos, telekomunikasi, privatisasi, subsidi*

### INTRODUCTION

The universal service as a guarantee for the nationwide availability of certain services at reasonable rate was a key component of traditional public utilities regulation. The regulation itself was not the same in each country, but basically the two objectives of the universal services were still the most important things that must be done.

Sector reform would be necessary for making the viable model of the

universal services. There are three sector reforms which are privatization, deregulation and liberalization. Privatization refers to the degree of state ownership, deregulation to the degree of state supervision of the sector and liberalization to the openness to and actual amount of competition. Vogel-sang (2003, p 313)

In the open market system the universal service has to protect itself from the competitors in order to serve the customer in the market area. Of

course the regulation and also sector reform make the universal service have to build barriers for its market area.

Postal services and telecommunications, which are the part of the universal services, must face the same problem in the open market system. They have to let the competition grow or build barriers against entry on the market. According to the definition of the universal service, they have to serve all areas without exception. Also for both postal service and telecommunications, the open market and sector reform made them choose between being open or not open. Telecommunications became private company because they had already the infrastructure which had been built by the government from previous time, so that they can compete with the competitor. But postal service can not become a private sector, they still depend on government regulation in the service area although principally have to be universal.

Telecommunications became fully open, which means privatisation, no subsidy, no government intervention and no legal entry barriers. On the other hand, the postal service became half open, they still depend on government for subsidies and a profitable regulation in terms of open market.

Depending on the government doesn't mean that the postal service has no competitor in the market, they have competitors but which usually do not really compete with the postal service. The competitor in this case became more like a partner, partner in transportation, in reducing the cost of transport, in making special service for different categories of customers etc. We could look at the example of the US postal service which has the private sector as a competitor, they work together with the universal postal

service as a partner. Private sector here began developing specialized international courier service company to meet growing commercial needs for rapid delivery of documents and packages.

In Germany, Deutsche Bundespost, the telecommunications and Post Bank were together as one public service company. Because of the reformation Deutsche Bundespost and Post Bank are still together, but telecommunications called in Germany Deutsche Telekom, became private company. Privatization for telecommunications companies encouraged them to provide more services and also bring more profit.

In Indonesia, PT Telkom Indonesia and PT Pos Indonesia were together before. Established by the Governor of Batavia "GW Baron Van Imhoff" in August 26<sup>th</sup> 1746 in order to guarantee the letter's security especially for whom who work as a merchant in java island. As in the beginning Post Telegraph and Telephone (PTT) were as one entity, because of reformation on regulation they were separated. PT Telkom Indonesia become fully open whereas PT Pos Indonesia became half open.

### **The Difference Between Telecommunications and Postal Service**

The regulation made the postal service and the telecommunications have differences in the structure of the company in response to open market. Telecommunications became fully open, which means that it totally opened for the market, allowed for the competitor to compete in many fields of competition. The postal service became half opened, which means that half of the shares still belong to the government.

For the telecommunication, being fully opened resulted in free entrance on the market. The lack of legal entry barriers gave a freedom to the competitor to enter the market and they have the same opportunity to compete between each other. Also the telecommunications company had previously been a monopoly, but after being privatized, although the competitor use their infrastructure it doesn't mean that they always become the winner of competition, could be the competitor will give a better service than them.

In postal service, couldn't be as free as telecommunication. There is a reserve area where the government still has the monopoly. The reserve area for postal service could be for example the normal letter or the regular letter. Other services like packages or any other things except normal letter are also served by private postal service.

The private postal service such as courier companies help the postal service and will later become a partner. They share transportation and more recently, for innovative joint venture, they made also cooperative alliances, as actually they are not necessarily offering the same products but just serving in the same market.

The cost problem in telecommunications is not really a matter because they have already become private company. They have to fund themselves with their own income. There is no subsidy in their income.

Postal service still needs government subsidy, they need that subsidy in

order to maintain their ability to serve the customer in all areas as the universal service definition. The subsidy which is given to postal service doesn't fully dominate their income, because postal service is half open to the market. In this case of postal service, cross subsidization is used between profitable areas and non profitable areas in order to maintain the service cost which is higher in the non profitable area and lower in the profitable area. Without subsidy, the postal service could only serve the profitable area because non profitable area needs additional costs, such as the transportation cost.

As already explained above, the universal service gives the service wherever people stay, they can reach everywhere. The postal service gives universal service, they provide services to the customers independent of place, status of the people and time.

Telecommunications is also a part of universal service, but privatization made it more open and they can not provide services which sometimes cause deficit. The service from telecommunications depends on the location where they stand and on the competition which they face. They can not provide services universally, but locally, and actually they also provide the universal service although only for business oriented customers. Those refer to the service which they provide especially for people who afford to fulfil the requirement from the telecommunications provider wherever they are.

	Telecommunication (fully open)	Postal Service (half open)
Competition	Free entrance No legal entry barrier Exist competitors	Exist reserve area Legal entry barrier There are competitors in the private sector.
Cost	No subsidy	Need subsidy Cross subsidization
Service	Depends on the location	Universal services Have to provide service without excludability.

Source: self modificate

### **Purpose and Meaning of Universal Services**

As mentioned above, the objective of the universal services is to serve all the area as universal or nationwide services which have a reasonable rate of price, it means that the universal services should serve all the area without exception and also do the basic activities such as collecting and delivery services with a reasonable price and satisfactory quality.

The company which mainly serves the public services, for instance postal service have to give the customer the universal services which have to be characterized as explained above and also raise the differences of interpretation and point of view about the universal services. There are two arguments about the universal services:

1. The scope of universal services
2. The quality of the universal services

About the scope of the universal services, each country have difference scope of the services which they run for, but normally they serve all area even it is very far from the city, because they used the name of “universal” they have to act in a consistent way according to the meaning of the word universal itself. Of course the smaller is better, the smaller area they serve, the optimal service that they can give.

The idea of the scope for the universal services raised the problem of cost and considering also the quality of the services which are given to the customer wherever they are. Because of the area of the services, wherever the customer stays, the services have to reach the area. Because it is far from the city, of course that area is not profitable compared to the city or other profitable area which is easy to reach.

The profitable area gives the surplus for the universal services but on the contrary the non profitable area gives the losses. The surplus and the lack or losses area give the differences of income in the universal services, so from this situation appears the cross subsidization from one area which is surplus to other area which is lack or losses. They help each other by giving the surplus taken from the profit area in order to have a balancing in the service cost.

Cross subsidization in order to keep high quality service of the universal services and also to keep the reasonable price for the customer should actually avoid the deficit of the income of the universal services as previously explained, by covering the losses from the surplus one and those problems have to be considered as a problem of cost allocation which cannot be avoided and which is caused by:

1. The problem of goal formulation.

In the political process it is necessary to fix the reach, minimum quality and unit price of the universal services in a transparent way. It is especially difficult to harmonize the goal of the universal postal service at EU level, which is a point in the Green Paper of ECC. There it is mentioned the requirement of a community postal service which covers both the intra and inter state sending. The problem of transparency of goal formulation must be solved independent of the ways found for financing the deficit due to universal service.

2. The information problem  
Even when the reach, minimum quality and unit price of the universal services are given, the corresponding necessary subsidy is not yet known. An important prerequisite in order to know it is the information about the costs of providing universal service. Only a small part of this information is published.
3. The problem of incentive  
The actual cost of providing the universal service must not necessary is the minimum costs. As long as legal entry barriers hinder free entrance on the market there is the danger of waste (that is inefficiencies) due to a too large number of employees. The fact that the offer of a standardized universal service (ex. sending letters) functioned satisfactorily in most of the European countries does not necessary mean that a more cost efficient solution could not have been found. Thus the same quality of the universal service could have been maintained with either smaller subsidies or lower tariffs.

### **Possible Solution to the Problem of Universal Service**

From the political point of view, there are four possible solutions to keep the universal service in the market: Blankart (1996, p 220)

1. Reserve (monopoly) service area
2. The infrastructure fund
3. Pure subsidization
4. Open competition

#### Reserve (monopoly) service area

Reserved area in postal service refers to the service which is reserved for them. Then only postal service provides the regular letter or normal letter, no other company could provide it.

Reserved area as a legal monopoly in market systems means that the natural monopoly was legally allowed in that area. This condition refers to the government regulation of monopoly in the market system. The natural monopoly, as soon as become legal monopoly because of the government regulation in one area in case of the monopoly itself had regulated also by the government especially for that area. In the case that the monopoly in one area had not been regulated by the government, but there is monopoly in the market, still it is not a legal monopoly.

According to the EU commission, the concept of the universal service from the economic point of view is to create a bundle of reserve service for which the monopoly should be given to each postal service in every country.

1. There is cross subsidization  
Cross subsidization should be made possible between different geographical areas in the interest of the unity of tariff. So generally the best solution is the least restrictive (most general one) which is suitable

with the purposes of universal services

2. The amount of sectors monopolized has to be smaller.

The smaller number of sectors which have to be monopolized the better. Therefore the size of the reserved area is not exactly clear enough, but each country in EU should choose the best reserved area which is the smallest.

The green paper of EU also recommended as reserve area the addressed standard sending, except printed materials or merchandise. This does not include newspapers, magazines, books, express packets, etc. There are key features which are recommended by EU Green Paper (now published): Crew (1993, p 46)

1. The separation of operators and regulators.
2. The division of the reserved area (monopoly) and non-reserved area sectors.
3. No cross-subsidization of competitive services by monopoly services, and subsidies to be made explicit.
4. Minimum standards of service to be set, to encompass speed, access, liability, and other features.
5. Open access to network. This largely exists already; the interesting questions are about access to sections of the network, including pricing policy.
6. The role of regulator. A strong role is endorsed to cover the policing of the monopoly, validating compliance with standards, overseeing pricing policy, and the like.

Here one wonders how the EU will solve the problem of the “proportionality” of monopolies. One hopes that the touchlines will be visible

and comprehensible to all and well-policed by the linesmen.

The proportionality of monopolies needs to be clarified in the context of the postal sectors such as: postal network, postal services and customer needs

1. Postal network

It could be a connecting network and overlapping because letters need a network for such activities which as collection, distribution and delivery. The circulation of sending items uses different parts of the networks. For example, the mailings of large firms will not use the collection activity. Unlike for telecommunication in building a postal network there are few technical entry barriers, so a parallel service can be easily developed. For example the “Hauspost” used by the student organization in Freiburg, Germany.

2. Postal services

The key services which postal administrations provide through postal networks are: Crew (1993, p 47)

- a. Public letter service. This is generally used by individuals and small firms for both national and international traffics.
- b. Contract letter services for the large users.
- c. Public parcel service.
- d. Contract parcel services, similar to the contract letter services.
- e. Various value added services, such as registration, guaranteed over-night delivery etc.

3. Customer needs

Because of different networks and services, there are also different customer needs.

The private individual wants to have a simple universal tariff for letters across the world covering the

predictability services, value for money, accessibility and simplicity. And the large user wants to have a range tariff and speed because they prefer to save their money and get the benefit from using the quick and cheap postal services.

The regulation of the proportional reserved (monopoly) area asks to pay attention to the size of the reserved area itself. They have to minimize the area of monopoly sector in order to get the customers' satisfaction and also fulfil customers' needs. On the other hand, the benefit of the customer in the reserved area will decrease because there is imperfect competition, that is, there is no competitor in the market and only one company in the market, no other company can compete with it. There are various methods of regulation: statutory requirements, price cap, advice, guidelines, watchdog, publishing reports, self regulation Crew (1993, p 47).

Those rules must be understandable by all the players which are regulators, operators, and customers. And the general principle should be that regulation is important in the reserved (monopoly) area and should be minimized in the non reserved area. Also, regulation needs to be based on the customer needs, so there will be a case for regulation of operators providing services to small customers. In the non reserved area, such as express and international services, any regulation should apply to all operators. There are various options: Crew (1993, p 48)

1. Self regulation, trade association standards.
2. Transparency of service; for example published quality of services standards, such as transmission times and numbers of complaints

3. Licenses to be provided by the regulator.

Regulation should be as much as necessary in order to provide demonstrable customer benefit

The problem of reserve area

1. The problem of limitation:

The limitation of tariff and minimal weight of the letter or standard sending is only valid in the reserve area. The use of the proportionality principle means that one needs to check and test the existence of subsidisation in universal service; this should be done regularly due to the scope of the reserve area. The scope of service of universal service according to EU commission will hopefully become larger than the reserve area. It is not the mandatory duty of the competitor to serve the universal service; they could give it as a voluntary service to the customer.

2. The adoption of a reserve area which fits with the financial conditions:

The subsidy which is given to the universal service could be decreasing, in conditions caused by the decreasing of demand and cost control, also the profit rationalisation could be considered as a technological progress.

3. The higher demand for regulation:

The controlling organizations must ensure the scope of the reserve area will be kept as small as possible according to the proportionality principle. The reserve area needs a regulation of the market entrance which should be directed exactly at internal subsidy demand moreover controlling organization must ensure that as provider of reserve services, the postal administration of comply with their requirement (prices and quality regulation). In order to

maintain fair competition they must also check that the provider of the reserve area does not cross subsidise to non reserve areas.

4. The problem of information and incentive:

There are no active and potential competitors in the reserve area, thus the minimal cost cannot be determined. The cost behaviour, which is regulated by the post management, has to be treated as given, although there is also a high rate of inefficiency. In the reserve area incentives for cost efficiency are limited.

5. The problem of By-Pass and interventionist chain reaction:

The objective of monopoly in the reserve area is to cover the deficit from the universal service. But the monopolistically offered profitable postal services could create the by pass incentive.

On one side, it is difficult to separate between the reserved and not reserved sector, so there is a substitution potential. Thus there are incentives to use other services then the initially necessary ones as they are offered by the competition at a lower cost. Express packet, electronic post, printed things and small packet are possible substitutes for the regular postal service. For example the advanced of the electronic mailing service and the advanced of digital technology robbed the post of many holiday postcards and bulky letters full with photos.

For the internal postal network in one country, remaining is not allowed in terms of reserve area sector.

If the problem of by pass is so difficult that the subsidy necessary for universal service is not affordable anymore, and extension of reserve area can follow.

1. The infrastructure fund

The Concept of Infrastructure Fund

The basic idea is to make an assessment to the political purpose from the universal service in order to have a standardization of price and exclude legal entry barriers.

Cross subsidization between profitable area and non profitable area are not going to run again.

Free market entry in the profitable area will exclude the profit which can be gained from that area in order to subsidise (cross subsidization) non profitable areas.

Service allocation to the sector which always makes a deficit income should change their source of subsidies, meaning that they have to change from cross subsidization (internal subsidies) to explicit external subsidization.

Those subsidies are from the infrastructure fund which is raised through a tax. If the subsidy is large enough, the deficits will be covered either by the post or by a new entrant.

2. Inter Partial Network Costs

There are two cases that must be differentiated in terms of deciding the needs of subsidy:

First, each provider offers all the levels of services (e.g. big courier company), but only one company, for example postal service as the universal service, has a duty to serve non profitable area. With subsidy they can run the service although it is not profitable. The new entrant must provide the fund corresponding to the minimal subsidy calculated as the difference between additional costs and political price for the universal service.

Second, could be the case more complicated than the first one, a situation where market entry is possible even at only one level of production. The decision of minimal subsidy in one of the production levels (partial

network) really depends on the partial network cost.

The universal service usually happened in the following production levels: collection, distribution, and delivery.

Those types of production activities are dependently each other, but from management point of view separated each other and because of that could be done also by a different company and also by the customer himself, especially the collection phase.

In the case of complete market opening, the existent network would be divided in partial networks, each providing a certain service, either collection, transportation or delivery. If one of their services is unprofitable for the provider of the universal service, the new entrant will be required to provide that service. They will each calculate their subsidy need from unprofitable service and the minimal ones could be chosen through an auction.

#### Pure subsidization

The post receives a subsidy for unprofitable services in some remote areas. The necessary subsidy is calculated by the post and there is no competition. The financing is based on taxes or funds from the post or other competitors out of their profits.

The customer can be offered all the services from a single provider. The market is still free entry, but the costs implied by the infrastructure fund are avoided.

On the other hand, the true minimal costs remain unknown and the post has no incentive to increase efficiency in those remote areas. Also possible cheaper solutions (part time employees or cooperation with the shops) are excluded. The government must check that the post is correctly stating its needs and is not using the subsidy in free competition sectors.

#### Open competition

The universal service in the open market system could have a competitor. The competitor tries to behave as good as possible. In a profitable area they could provide more valuable services and of course could raise more income. The skimming milk problem of the universal service is described well in this case of open market situation. They prefer to serve in profitable areas rather than in non profitable areas. They use the profitable areas to provide a service which is specially oriented to people in that place, then they put a higher tariff for the service given to the customer compared to the customer in the other place. Non profitable areas will be left to the universal service, because the competitors don't want to waste their money to invest or to extend their service area in the places which have no profitable income. The problem of skimming milk is described as the competitor takes only the cream which rises above the milk and contains plenty of fat. We can determine this part as the best part of milk because the other part of milk only water, no vitamins and maybe contains also protein but very small part. So the competitor took the best part of the area, other parts of the milk like water belonging to the universal service. The analogy of cream and water had described the competition area between the competitor and the universal service in the market system.

#### Opinion Of The Different Interest Group

- Post management  
Monopoly is the best solution choice for post management rather than pure subsidy, infrastructure fund or free competition.
- Voters

Monopoly system is the best choice from the voters point of view. They feel more save than other solution, they do not realize that they have to support the low prices of monopoly system by the post with taxes.

- Big company  
Free competition is the best solution for big company point of view. They can build their own private network for example “hauspost” in student organization Freiburg, Germany.  
Free competiton could threaten the monopoly of the post.

### CONCLUSION

The universal service means the nation wide service availability with a reasonable price. Reformation on the market system have changed the structure of telecommunications and postal service. On the telecommunication market there is free competition without entry barrier. On the other side the market for postal services still has a reserve area for which the post has the monopoly. The competitors have a cooperation with the universal postal service for several types of services which could not be covered by the post.

The reserve area exists because the providing of universal service leads to profitable and non profitable areas. The profitable areas give subsidy to the non profitable areas. The cross subsidization covers the deficit from providing service in the unprofitable areas.

Other possible solution to the universal service problem are pure subsidization and infrastructural fund. The latter is a step towards free competition.

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