



UPU | UNIVERSAL
POSTAL
UNION

Postal Reform Guide

Focus Area 3: Universal Postal Service

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Introduction

As stated in the Constitution, the mission of the UPU is “to stimulate the lasting development of efficient and accessible universal postal services of quality in order to facilitate communication between the inhabitants of the world.” Although its expression has evolved over time alongside changing circumstances, the universal postal service has always remained at the core of the UPU, its member countries, and their postal regulations and operations.

Among the most noteworthy milestones, the 1999 UPU Congress in Beijing played a pivotal role in urging member countries to recognize the urgent need to safeguard the future of both the universal postal service and postal services more broadly. The adoption of the Beijing Postal Strategy and its elevated emphasis on universal postal services in the Union’s global agenda significantly broadened the scope of issues – from those clearly defined at the 1994 Seoul Congress – to encompass new elements that continue to shape the postal service in today’s rapidly changing world. The World Postal Strategies adopted by subsequent Universal Postal Congresses maintained the universal postal service as one of the core elements of the UPU’s action plan, with increasing importance assigned to issues involving universal postal service quality, as well as access and security.

Building on previous strategies, the UPU Strategy for 2026–2029, adopted at the 2025 Dubai Congress, identifies “leveraging the single postal territory” as one of its three key strategic pillars, with the creation of a cohesive, rules-based postal system that guarantees universal postal services forming a critical element of it. This responds to ongoing demands aligned with Article 3 of the Universal Postal Convention, which obliges member countries to ensure that users have access to quality basic postal services at affordable prices, and that such services are provided on a viable basis to guarantee their long-term sustainability.

The founders of the UPU sought to establish a single postal territory and to ensure basic postal services for all, recognizing these as a fundamental human right. As signatories to the UPU Acts, governments worldwide assume the universal service obligation to develop postal services within their territories and to maintain a global postal network accessible to all. However, as stipulated in Article 3 of the Convention, the specific modalities by which universal postal services are provided remain a sovereign decision of each country. While upholding the universal postal service as an inalienable human right, each country determines and implements its scope and service conditions in accordance with its specific national circumstances.

Focus Area 3 provides policymakers with structured guidelines for defining the scope and service standards of universal postal services, taking into account both national contexts and international obligations. This will be complemented by a global overview of universal service provision across member countries, which can serve as a reference when implementing reforms to universal postal services.

Focus Area 3 (universal postal service) – modules

Focus area 3 (universal postal service) consists of the following modules:

3A	Definition and scope of universal postal service
3B	Service standards
3C	Financing of universal service obligation

Module 3A introduces the definition of the universal postal service, along with its significance as both a fundamental human right. The scope of the universal service is also examined in the context of an evolving market and changing customer and societal needs and expectations, as well as the nexus

between the domestic universal service obligation and the treaty obligation for the provision of international postal services.

Module 3B delves into various service standards—such as access, affordability, speed, and customer satisfaction—that define the service level of the universal postal service as set out in the national regulatory framework. These service standards should take into account a balanced approach between meeting customer and societal needs and maintaining economic viability and financial sustainability in the long run.

Module 3C addresses a critical economic dimension of universal service provision: the financing of the universal service obligation. It examines different financing models—including government funding, compensation fund, reserved area models, and competitive tendering—and assesses their alignment with policy priorities and prevailing market realities.

Since 2003, the UPU IB has conducted comprehensive surveys to monitor the provision of the universal postal service, focusing on critical aspects of its concept and implementation. The most recent edition of the survey¹, completed by 63 member countries, has provided updated data that complement earlier findings. The results of this latest survey have been consolidated with those from previous editions, producing a cumulative statistical dataset that captures the evolution of member countries' responses over time. These consolidated statistics will be presented where relevant in this focus area.

¹ For more detailed information, please refer to <https://www.upu.int/en/members-centre/policies-regulation/universal-postal-service>.

Module 3A Definition and scope of universal postal service

The discussion on universal postal service begins with a clear definition based on the Universal Postal Convention. From there, the conceptual boundaries – its scope – can be derived. The scope of the universal postal service as provided in each country is established through the sovereign decisions of that country, taking into account its unique national circumstances, while bearing in mind its treaty obligations as a UPU member with respect to the provision of international postal services.

In determining this scope, it should not be overlooked that the universal postal service is a fundamental human right, that its meaning may be reinterpreted in light of developments such as the expansion of e-commerce, and that it can contribute significantly to national development.

3.A1 Definition of universal postal service

The definition of universal postal service is enshrined in Article 1.18 of the Universal Postal Convention. The importance of a clear understanding of this definition warrants a more in-depth look at each of its core elements.

Article 1.18 (Universal Postal Convention) on the definition of universal postal service

Universal postal service: the permanent provision of quality basic postal services at all points in a member country's territory, for all customers, at affordable prices

First, by definition, the universal postal service is a government obligation. Government has an obligation to protect the right of communication as a basic human right. As society has evolved, government has had to take on the responsibility for ensuring the exercise of different types of human rights, including the right to essential services or services affected with a public interest.

Secondly, again by definition, the main characteristic of such services is their universality, as services guaranteed to all members of a nation's population throughout the territory, regardless of their location, race, religion, social status, etc. Moreover, the government's obligation is a continuing obligation which cannot be allowed to lapse, given the type of rights protected thereunder. Basic human rights do not come and go. They are inalienable rights.

Furthermore, according to this definition, the universal services to be guaranteed by the government are basic services to be provided under specific conditions meeting a given standard of quality, at prices which are affordable for all segments of the population

It is important to be clear, from the outset, that the concept of universal service refers to the availability of essential postal services affording a level of postal communication promoting social cohesion and bringing together people and communities, as an integral part of the quality of life in modern society

Attempts to define and differentiate the concept of universal service or universality frequently mistakenly confuse it with considerations of profitability and geographic coverage. Thus, universal service is often considered synonymous with the notion of "loss-making services" or "service to rural or remote areas".

The concept of universal service refers to both profit-making and loss-making services and to urban service in densely populated cities as well as to service to rural, remote, sparsely populated areas. Universal postal services are made available to both individuals and businesses. Individuals benefiting from the universal postal service are entitled to enjoy the right to send as well as receive postal communications. Sending and receiving mail entails communication, whether it be social, commercial or business-related.

Applying the definition of the concept of the universal postal service to all industrialized and developing countries alike translates the notion of the universality of basic postal services meeting specific standards of quality into reality.

3.A2 Universal postal service as a basic human right

The point of departure for examining the underlying principles of the concept of universal postal service is to consider its relationship to basic human rights.

Human rights are rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. While human rights can take various forms and may be defined differently depending on context, one thing remains certain: everyone is entitled to these rights without discrimination on any grounds. These rights are universal, inalienable, and indivisible, meaning they cannot be legitimately denied, restricted, or ranked in importance.

The Universal Declaration of Human Rights, adopted by the UN General Assembly in 1948, was the first legal document to set out the fundamental human rights to be universally protected. This document, which remains the foundation of all international human rights law, contains several articles directly tied to postal services.

Article 12 of the Declaration of Human Rights, dealing with the protection of privacy rights, expressly refers to a person's right to the protection of his or her mail, as reflected in the following text.

Later on, the text of Article 19 dealing with freedom of opinion and expression also applies to postal service, establishing a person's right to receive and convey information and opinions. The complete text of this article reads as follows:

Finally, Article 25, which addresses the right to a proper standard of living, also relates to postal service in establishing a person's right to the assurance of necessary social services. The pertinent portions of the text of this article are reproduced below.

The Universal Declaration of Human Rights

Article 12

No one shall be subjected to arbitrary interference with his privacy, family, home or correspondence, nor to attacks upon his honour and reputation. Everyone has the right to the protection of the law against such interference or attacks.

Article 19

Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.

Article 25

1. Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

2. Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

Beyond the Universal Declaration of Human Rights, there are numerous global and regional agreements that address universal postal service as a basic human right. In the Americas, the American Convention on Human Rights, known as the "Pact of San José, Costa Rica," signed by area governments in November of 1969, reaffirmed the recognition of basic human rights at the global and regional level, establishing similar legal precepts.

More directly, in 1874, governments around the world agreed to join together under the aegis of the Universal Postal Union, forming a single territory to make the notion of the universality of postal service a reality, looking to lay the necessary foundation for discharging their responsibility to ensure universal communications through the provision of effective postal services.

In ratifying the Constitution of the Universal Postal Union, member countries agreed to form a single postal territory for the operation of universal services, subject to standard guidelines and regulations to ensure the consistency of such services across all UPU countries. This commitment reflects not only a functional and operational arrangement, but also the recognition of universal postal service as an enabler of fundamental human rights—supporting the rights to communication, privacy, access to information, and participation in social and economic life.

The Constitution, the Universal Postal Convention, and the international treaties signed by member countries are legally binding on all parties, securing specific commitments from their signatories. Without these obligations, the existence of a worldwide postal network—serving as the foundation for both domestic and international postal services in each country, and as a vehicle for upholding these human rights—would not have been possible.

3.A3 Government obligations and the universal postal service

The organization of society into sovereign states governed by the rule of law led to the creation of national constitutions and laws in various fields that set out the rights and obligations of individuals, as well as the duties and responsibilities of legally established governments.

As discussed in the previous section, the universal postal service is an important human right falling under the broader right to communication – encompassing various forms of communication, including postal services. There is no doubt that it belongs among the rights and obligations of individuals noted above, and that the duties and responsibilities of legally established governments include the obligation to ensure the provision of universal postal service².

Changes in the global postal environment, and the ensuing reform efforts (such as the liberalization and commercialization of postal operators and their services) have, on the one hand, driven necessary progress but, on the other, at times placed the provision of the universal postal service (as a basic human right) at risk.

In this context, the member governments of the UPU decided to incorporate more specific government obligations regarding the universal postal service into the amended Universal Postal Convention adopted by the 1999 Beijing Congress, in order to safeguard people's right to communication. The amendment, set out in Article 3 of the Convention, affirmed the principle that users have the right to a universal postal service, ensuring the permanent provision of quality basic postal services at all points within a member country's territory, at affordable prices.

Article 3 (Universal Postal Convention) on universal postal service

² To understand the concept of the universal postal service, it is important first to clarify its relationship with the universal service obligation. Although closely connected, the two terms have distinct meanings, emphases, and policy implications. Universal postal service refers to the set of basic postal services that a government commits to guaranteeing for the entire population, across its entire territory, on a continuous basis, with specified quality standards and at affordable prices.

By contrast, universal service obligation is the legal and regulatory mandate imposed on a member country and its designated postal operator to ensure that these universal postal services are actually delivered in practice.

In this sense, the universal service obligation is the binding framework that operationalizes the universal postal service. It defines the conditions under which the universal postal service must be provided, including service quality targets, geographic coverage, pricing requirements, and the financing mechanisms necessary to guarantee its sustainable provision.

1. In order to support the concept of the single postal territory of the Union, member countries shall ensure that all users/customers enjoy the right to a universal postal service involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices.
2. With this aim in view, member countries shall set forth, within the framework of their national postal legislation or by other customary means, the scope of the postal services offered and the requirement for quality and affordable prices, taking into account both the needs of the population and their national conditions.
3. Member countries shall ensure that the offers of postal services and quality standards will be achieved by the operators responsible for providing the universal postal service

These provisions explicitly establish the commitment of member governments to ensure the provision of the universal postal service. This means that the government take obligation to ensure that quality basic postal services be available on a permanent basis, at all locations within a country's territory, and at prices that are affordable.

To fulfill this commitment, member countries must define - through their national postal legislation or other customary instruments—the scope of the postal services offered, as well as the quality requirements and standards for affordable pricing. In doing so, they must take into account both the needs of the population and their specific national circumstances.

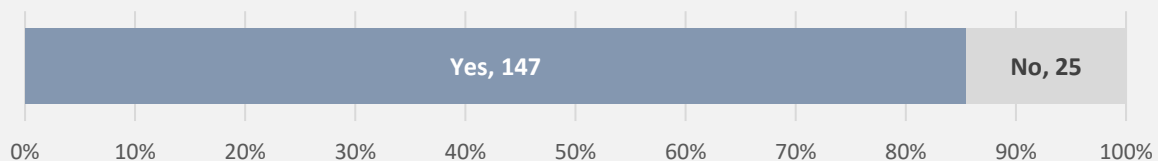
Finally, member governments must ensure that the operators responsible for providing the universal postal service - the designated operator(s) - actually offer the defined services and meet the established quality standards.

Definition of universal postal service

According to the UPU survey on the provision of the universal postal service, cumulative responses collected from member countries up to 2022 provide the following regarding the definition of universal postal service:

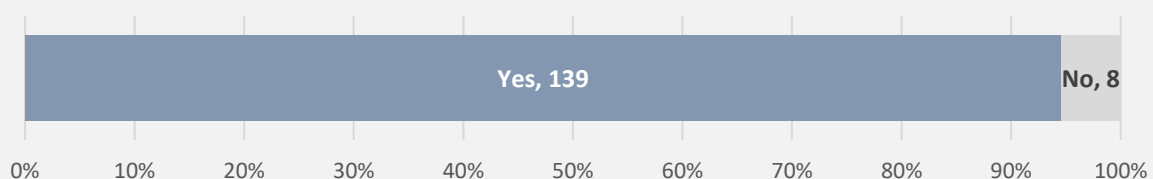
147 countries among 172 respondents (85.5%) reported that they have a definition of the universal postal service, while 25 (14.5%) stated that they do not. The share of countries with such a definition has increased since 2003, when 75 out of 94 respondents (79.8%) reported having one.

Chart X. Countries with a definition of universal postal service



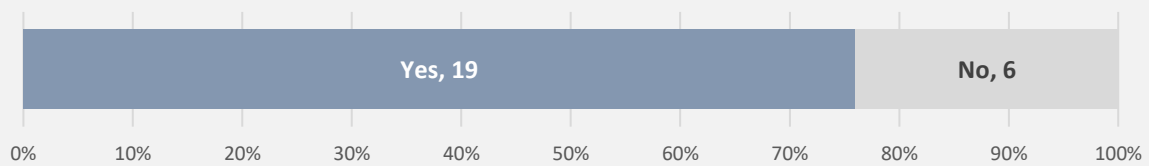
Among the 147 countries that reported having a definition of the universal postal service, 139 stated that they define it formally—through legislation, concessions, licences, manuals, or other instruments (including service charters)—most commonly by legislation.

Chart X. Countries with a formal definition of universal postal service (among those with such definition)



Among the 25 members who answered that they do not have a definition of the universal postal service, 19 indicated that they plan to establish one within a period ranging from six months to two years.

Chart X. Countries with a plan to establish a definition of universal postal service (among those without such definition)



3.A4 Scope of universal postal service

The scope defines the basic postal services that must be permanently provided to all customers at affordable prices throughout a member country's territory, including the collection, sorting, transport, and delivery of standard letter and parcel items.

3.A4.1 Defining the scope of universal postal service

When Article 1.2 of the Convention mandates that countries define the scope of services within their domestic legal systems or customary practices, it also requires them to consider the population's needs and national conditions. In doing so, it recognizes each government's sovereign discretion to establish its own scope, adapted to its social, geographic, and economic contexts. As a result, the scope of the universal service may vary from one country to another.

Nevertheless, the Convention sets a common baseline for all members. According to Article 17, certain basic services – such as accepting, handling, conveying, and delivering letter-post items, including documents, postcards, printed papers, items for the blind, and small packets, as well as parcel-post up to a specified weight – must be ensured by designated operators. While these categories constitute the baseline for defining any national universal postal service scope, these basic services are not fixed; they have been adapted, expanded, and refined over time to reflect changes in the postal environment and market needs.

Adapting, expanding, and refining basic services in Article 17 of the UPU Convention

The basic services defined in Article 17 of the Universal Postal Convention have evolved over time as they have been adapted, expanded, and refined in response to changes in the postal environment and market needs. One of the most significant developments was the inclusion of the postal parcel service as a basic service.

At the Beijing Congress in 1999, the UPU member countries resolved to make a fundamental change in the concept of basic services as defined in the Universal Postal Convention by including postal parcel service for items weighing up to 20 kilogrammes as a basic service.

This addition to the definition of basic services, which traditionally were limited to letter-mail items, reflects today's new vision of current and future postal market needs, which is being gradually shaped by new technology, globalization, stepped-up trade and the need for value-added services. In the new postal environment, which has taken on an even more definite shape in recent years, the postal parcel service is playing an increasingly important role in postal market needs and demand.

Some countries, however, may still need to take special measures to bring their postal service operations in line with their new commitment to offer parcel service as a basic postal service subject to the same service delivery conditions as letter-mail service.

From this baseline, countries may extend the scope to include additional services as part of their universal postal service, depending on national needs and capacities. Such additional services may

include the supplementary services listed in Article 18 of the Convention. In addition, universal services may cover other functions such as financial services, as is the case in many countries worldwide. Depending on local circumstances and the needs of individuals and communities, postal financial services can complement letter mail and parcel delivery, fitting naturally within the network services provided by postal administrations and often requiring no major infrastructure works or significant additional investment.

The range of services that may be considered within the scope of the universal postal service is summarized in Table X below. The key is flexibility, grounded in the principle of universality.

Table X: Service categories of the universal postal service

Core universal postal services	Basic postal services (art. 17, UPU Convention) <ul style="list-style-type: none"> – Letter-post items <ul style="list-style-type: none"> • priority items and non-priority items, up to 2 kg • letters, postcards, printed papers and small packets, up to 2 kg • items for the blind, up to 7 kg • special bags ("M bags"), up to 30 kg – Parcels <ul style="list-style-type: none"> • parcels, up to 20 kg
Mandatory supplementary services	<ul style="list-style-type: none"> – Registration service for outbound priority and airmail letter-post items – Registration service for all inbound letter-post items (including tracking) – Tracked delivery service (items containing goods)
Supplementary services including both mandatory and optional features	<ul style="list-style-type: none"> – International business reply service (IBRS): All member countries are obliged to operate the IBRS "return" service – International reply coupon (IRC) service: These coupons can be exchanged for postage in all member countries, but their sale is optional – Advice of delivery for registered letter mail, parcels and insured items: All member countries must fulfil the advice of delivery service for inbound items. However, member countries may choose whether or not to offer the advice of delivery service for outbound items
Optional supplementary services	<ul style="list-style-type: none"> – Other postal services – Postal financial services <ul style="list-style-type: none"> • payments to third parties • transfers, remittances, postal cheques, etc. – Savings, etc.

Scope of universal postal service

The UPU survey on the universal postal service, drawing on cumulative member country responses up to 2022, shows the following regarding the scope of universal postal service:

In most of the 172 respondents, universal postal service includes letter post (147 responses, 85.5%) and parcel post (119 responses, 69.2%). In 2006, when member countries were first asked to indicate the scope of their UPS, 71 (85.5%) and 58 (69.9%) out of a total of 83 respondents indicated that letter-post and parcel-post items were included in the scope of their UPS, respectively. It should be noted that, over the last 20 years, parcel post has been eliminated from the scope of the UPS in certain countries among those 58 responses.

Chart X. Countries that include letter post in the scope of universal postal service

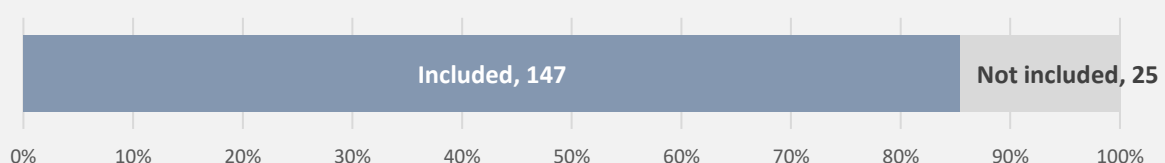
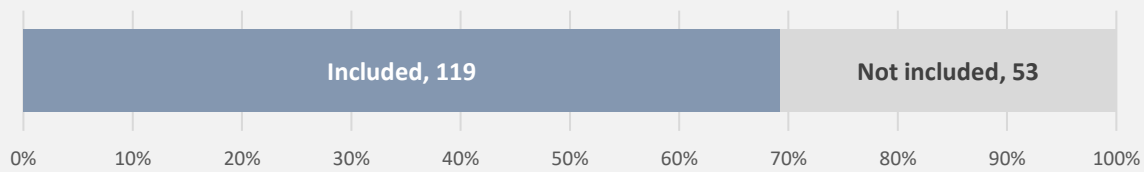


Chart X. Countries that include parcel post in the scope of universal postal service



In over 50% of the total of 172 respondents, the following four categories were part of the UPS: letter post, parcel post, financial services and non-financial services, including 14 different services and four supplementary services. Typically, the services included in or recognized as pertaining to the UPS are presented in the following table:

Table X. Countries that include parcel post in the scope of universal postal service

Category	Type or services	Most common weight limit
Letter post	Priority and non-priority	Up to 2 kg
	Books, newspapers and periodicals	Up to 2 kg
	Items for the blind	More than 2 kg
	Small packets	Up to 2 kg
	Supplementary: registered	–
Parcel post	–	Up to 20 kg

Financial services are included in the universal postal service by 69 (40.1%) of the 172 respondents to the survey, more than half of which recognize and provide postal transfer and money order services.

Other non-postal services are also included in the universal postal service in 63 countries (36.6%), more than half of which provide pension payments (36) or services on behalf of public utilities (42), such as licensing (fishing, arms, driving, etc.), transactions of identifications or certificates, bill payments (mostly taxes and fines), etc.

3.A4.2 Adapting to evolving environments

Article 3 of the Convention requires member governments to ensure the provision of the universal postal service, taking into account both the needs of the population and their national conditions. Since these needs and conditions are constantly evolving, the obligation of member governments to provide the universal postal service cannot remain static. It must instead be dynamic and responsive to changes in the environment. The following outlines two current issues regarding the scope of the universal postal service, with a focus on adapting it to changing conditions..

Redefining universal postal service in the era of E-commerce

The rapid emergence of e-commerce has transformed the global postal landscape and reshaped public demand for postal services. Whereas the postal sector once centered primarily on correspondence, its focus is now shifting toward the movement of goods. Increasingly, people rely on e-commerce in their daily lives, and a substantial share of the goods that support these transactions – particularly in rural, remote, or otherwise underserved areas – depend heavily on postal services. This evolution raises a key question: How should the concept of the universal postal service (UPS) be redefined in the era of e-commerce?

In this new environment, the scope of the UPS should be adapted to ensure universal access to economic activities, including e-commerce, thereby guaranteeing that everyone can benefit from the transformative potential of online trade through postal networks. Although demand for traditional letter-

post services has declined due to the rise of electronic alternatives, the underlying principle of universality (ensuring affordable access to services that connect businesses and citizens) remains as relevant today as when the UPU was founded. In the context of today's e-commerce-driven economy, universal postal access means enabling every citizen and business, particularly micro-, small-, and medium-sized enterprises (MSMEs), to buy and sell goods through e-commerce from anywhere to anywhere, regardless of size, geography, or distance.

Accordingly, when redefining the scope of the UPS in this context, countries should consider including a broader range of services that facilitate e-commerce transactions. A prime example is parcel delivery for goods. According to the 2022 USO survey results presented earlier, parcels are included in the national UPS scope in only 69% of countries. Given the central role e-commerce now plays in citizens' daily lives, especially in areas underserved by alternative private operators, expanding the universal postal service to include parcel services would significantly enhance citizens' ability to participate fully in essential economic activities within the digital economy.

Digital universal postal services

Other directions for the universal postal service may include embracing digital services. In an environment in which consumers and businesses increasingly communicate in a digital environment, the secure and reliable transmission of digital information may be considered a relevant attribute of the future universal postal service. In this connection, postal users increasingly favor control over their communication and deliveries (see module 1A) which could be provided for letters by means of combination of electronic and physical services, safeguarding the transmission of the content from posting through to delivery and receipt. A number of universal postal service providers already offer hybrid or digital postal services which allow a customer sending a letter by post to decide whether to send it physically or digitally. If sent digitally, the recipient can then decide whether to receive the consignment physically or digitally, which responds to the postal needs of increased control over the time and place (physical or electronic address) where they receive their communication. Hybrid and digital letter services may be key element in modernizing the universal postal service in certain countries where the universal postal service provider has undertaken sufficient degree of digital transformation (see module 4B).

These questions also weight on the financial sustainability of the universal postal service. The universal postal service could continue to devote the majority of their budget to traditional services and meet the specific obligations, but without digital transformation, it would then risk operating increased losses, until it would need financial support. Alternatively, the universal postal service provider embraces the digital shift and develops activities in potentially profitable markets, in order to continue to operate completely autonomously, like a real business. In this case, the universal service provider may need to reduce its traditional activities that generate losses for reinvestment in its digital transformation. Development of digital services appear to be a means of strategic diversification compared to the operational risk linked to the decline of its traditional activities. From this perspective, the risk generated investing in the digital sector must be weighed against the more structural risk resulting from the unfavorable development of its traditional services. Redefining the universal postal service may enable or catalyze digital transformation while continuing the provision of the universal postal service consistent with the diversification strategy pursued by the universal postal service provider.

France – hybrid universal postal service

In France, the universal service obligation was revised in 2023 by replacing the traditional priority letter (lettre rouge) service by a hybrid delivery service in 2023 in which the items are presented digitally for printing and distribution closer to the destination. Confidentiality and integrity of the mail is critical for which reasons the letters received digitally are printed in a secure location from where they are placed in an envelope and then included in the delivery round, thereby ensuring the availability of an overnight delivery service under the universal postal service. The ordinary letter service (lettre verte) remained part of the universal postal service as a fully physical service but with a standard delivery time of three working days from posting.

Narrowing the scope of universal postal service, and its minimum threshold

On the other hand, there may also be moves to narrow the scope of the universal postal service. Such directions are often driven by the fact that citizens can now access alternative services that either replace or substitute for the universal postal service – such as services provided by private operators that are equivalent to postal services, or entirely different types of services, for example, digital messaging platforms – without significant restrictions, in other words universally. In such cases, the perceived need to provide postal services as a universal service may diminish.

Another factor could be the decline in letter-post volumes, which has traditionally been a core component of the universal postal service, coupled with its decreasing profitability. As the universal provision of letter-post services becomes an increasingly heavy burden, the issue of financial support for the designated operator responsible for the universal service has emerged, and efforts to reduce the scope of the universal postal service may therefore also be presented as part of broader strategies to address this financial challenge.

Such moves may be gradual, involving adjustments to certain elements of the universal service portfolio, or they may entail more fundamental changes to the provision of the universal postal service. Among these cases of narrowing the scope, Denmark's recent measure, as outlined below, stands out as a particularly singular example.

Denmark's fundamental shift in universal postal service

In 2023, Denmark announced the discontinuation of the universal service obligation for letters, parcels, and other postal items starting in January 2024. Nationwide mail services—including letters, parcels, newspapers, and magazines—will generally be left to the market. Consequently, the USO currently granting PostNord the role will be phased out.

This decision reflects the reality that multiple service providers already operate competitively in the market and offer nationwide delivery at uniform prices—not due to regulatory requirements but for commercial reasons.

Nonetheless, the government has identified three areas requiring continued regulation: delivery of items for blind individuals, postal services to small islands and international mail. These services will be provided through public tenders, and PostNord has been temporarily appointed as the responsible operator until the tender process is completed. In September 2024, the government awarded a contract for one of those services, delivery services for blind individuals, to Dansk Avis Omdeling A/S (DAO), which submitted the most favorable bid—replacing PostNord in this role.

Although Denmark is shifting towards a market-based model, the state remains responsible for ensuring universal access. The regulatory authority will regularly monitor market performance and intervene when necessary.

In response to these changes, PostNord announced in March 2025 that it would end all letter deliveries in Denmark by the end of the year. Starting 1 January 2026, customers wishing to send letters must use another postal operator and all public mailboxes are expected to be removed by year-end. PostNord will instead focus on parcel delivery in Denmark.

Although the Danish government used the term "abolition," the actual approach seems more nuanced. Rather than eliminating the USO altogether, it is best described as the state redefining how it fulfills its obligations—no longer through a single designated operator, but via market provision supplemented by targeted regulation and state oversight. Thus, it may be interpreted as a change in implementation strategy, rather than a complete withdrawal of the state's obligation towards ensuring a universal service.

The domestic definition of the universal service scope should be clearly distinguished from a member country's obligation to ensure the continued exchange of mandatory international postal services with other member countries. Accordingly, every member country is required to ensure the provision/operation, with other member countries and their DOs, of all mandatory international postal services (both basic and supplementary) as defined in articles 17 and 18 of the Convention, regardless of any domestic decision on the scope of its universal service.

The minimum threshold of universal service should be, at the very least, some of the mandatory basic postal services set forth in article 17 and 18 of the Convention, since due inclusion of these services as part of the UPS not only ensures the accessibility/affordability of a minimum set of postal services for all users/customers of any given member country, but also supports the principle of a single postal

territory as mentioned in article 1.1 of the UPU Constitution. Article 3.1 of the Convention likewise refers to the single postal territory of the Union, stating that “in order to support the concept of the single postal territory of the Union,” it sets out the universal service obligation of member countries.

Therefore, member countries enjoy considerable latitude in what pertains to the exact definition of how comprehensive their definition and implementation of UPS may be. However, full/unrestricted elimination of the UPS by any member country is not possible under the current provisions of the Acts .

Module 3B Service conditions

Pursuant to Article 3.2 of the Convention, member countries shall set forth requirements for the quality and affordability of the universal postal service, taking into account both the needs of the population and their national conditions. Governments are therefore responsible for defining these parameters in law or regulation, while also ensuring that the conditions established are operationally and financially sustainable.

Service conditions take into account important operational and economic considerations. The operational considerations involved include facilities providing access to physical infrastructure and the postal network and standards of quality for operating processes with respect to the speed and reliability of delivery service, mail security, accountability for claims, and customer satisfaction.

The economic considerations in service conditions have to do with the price factor, or the prices which customers should be obliged to pay for service, with the premise being that such prices should cover costs. Costs are determined by the level of efficiency and by required performance standards and, in turn, significantly affect the feasibility of the sustainable financing of universal postal service and the shaping of the legal framework for service operation on the postal market.

Service conditions, as clearly stated in Article 3 of the Convention, must be adapted to the needs of the population and the national conditions of each member country. In practice, this means taking into account the specific circumstances that shape the provision of postal services. Relevant considerations may include geography, population density, income levels, regional disparities, and the degree of competition in the postal market. In addition, new features that respond to recent trends and the evolving market environment—particularly the realities of the digital era—should also be taken into account.

Lastly, it is vital that such conditions be expressed in specific, quantitative, measurable terms for purposes of monitoring and controlling the country's progress in attaining proposed targets with respect to quality and efficiency. The following sections take a separate look at different service delivery conditions.

3.B1 Access to postal services

Access refers to the availability of facilities enabling customers to use and benefit from the services provided by the postal network and its physical infrastructure.

Depending on who the customer is, access in the postal sector encompasses two distinct dimensions: **Access to the postal network by competitors:** This refers to the ability of third-party providers to use elements of the designated operator's infrastructure (i.e. sorting centres, or address databases) on fair and non-discriminatory terms, either under regulated or voluntarily agreed conditions, and

Access to the universal postal service by the public: This concerns the ability of users to reach and benefit from core postal services, regardless of their location, socio-economic status, and digital capabilities. It is this dimension of access that emphasizes the social and economic role of postal services in connecting people, facilitating commerce, and supporting inclusive growth.

The first dimension is less a matter of universal service conditions than of competition policy, as it relates primarily to preventing anti-competitive practices. It will therefore be addressed under Focus Area 2, which deals with the regulatory framework. The remaining part of this module focuses on access to the universal postal service by the public.

The physical infrastructure and operational postal network providing the universal postal service through specific facilities consist of elements such as:

- post offices or retail outlets operated directly by the postal service or by contractors;
- collection boxes;
- processing centres (mail sorting and operations centres);
- transportation systems (ground transportation, air transportation, etc.) operated directly by the postal service or by contractors;
- the mail delivery network (mail carriers, poste restante, parcel lockers and post office boxes).

The accessibility of universal postal service to the general public can be expressed in terms of its geographic and demographic coverage and the regularity of retail, mail transportation and delivery services, all of which are pivotal issues on which the government will need to make decisions specifically affecting service delivery conditions.

3.B1.1 Geographic and demographic coverage

Geographic coverage refers to physical locations (spatial distribution) of physical access points across the country where the government guarantees access to universal postal service, whereas demographic coverage refers to the targeted number of inhabitants able to exercise their right to universal postal service. Together, these dimensions reflect the extent to which postal services are accessible to the public, regardless of location or population density.

Geographic coverage is particularly important because it ensures that postal access points are physically distributed across a country in such a way that even those living in rural, remote, or hard-to-reach areas can exercise their right to postal services. It addresses the challenge of spatial inequality, making sure that distance or geographic isolation does not prevent individuals and communities from connecting to the postal network.

The government must establish the types of geopolitical and administrative subdivisions, or the localities and population thresholds, to which they can realistically extend the universal postal service. These might include:

- municipalities with over 5,000 inhabitants,
- villages with a population of over 2,000 inhabitants, or
- small hamlets with over 200 residents.

In addition to using administrative subdivisions, many countries use spatial proximity or service density criteria to define access requirements more precisely. These typically include:

- Minimum number of access points nationwide and/or in rural areas (i.e. Australia mandates at least 4,000 retail outlets, including 2,500 in rural areas);
- Population-based proximity standards: requirement that a minimum percentage of the population resides within a defined radius of a postal outlet.
- Maximum distance thresholds expressed in km or miles;
- Maximum access time criteria: For example, Switzerland requires that 90% of the population can reach a postal service point within 20 minutes by foot or public transport.

When establishing Geographic and demographic coverage targets for UPS, countries primarily consider:

- access to postal facilities within a set geographic radius;

- number of km² covered by postal service points;
- number of inhabitants served by each postal service point;
- distance of population concentrations to postal service points;
- percentage of the population covered by home delivery, P.O Boxes, community mailboxes;
- physical access for persons with disabilities;
- working days;
- operating hours.

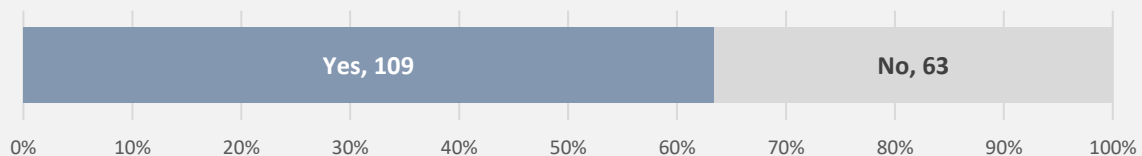
These proximity requirements are typically adapted across urban, peri-urban, and rural zones, recognizing the variability in population dispersion and infrastructure.

Geographic and demographic coverage

Based on cumulative responses from member countries up to 2022, the UPU survey on the provision of the universal postal service reveals the following regarding the geographic and demographic coverage of universal postal service:

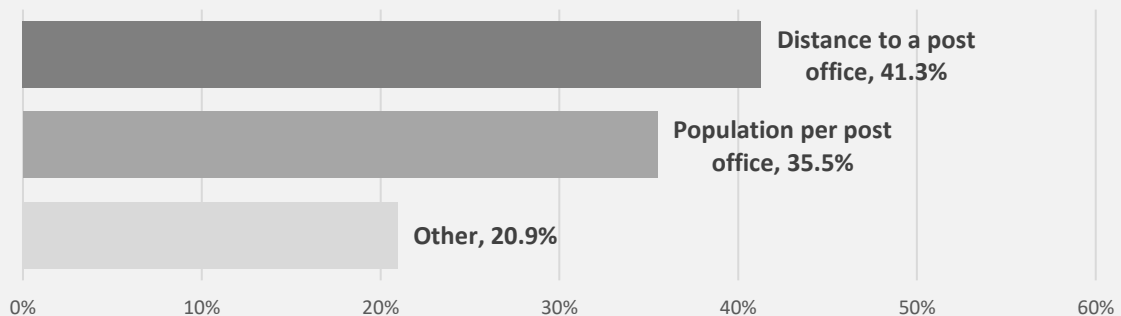
109 countries (63.4% of the 172 respondents) have standards for the geographic and demographic coverage of universal postal service.

Chart X. Countries that have standards for the geographic and demographic coverage of universal postal service



The standards of coverage are based on several elements, and countries often use multiple elements to define them. 71 countries (20.9%) determine the standard by the distance to a post office. 61 countries (35.5%) set standards based on the population per post office, and 36 (20.9%) use other criteria.

Chart X. Type of the access standard for geographic and demographic coverage



Evolving with recent trends and market environments

As visits (foot traffic) in post offices decline and operational costs rise, many postal operators have outsourced and adopted alternative models to maintain or expand geographic and demographic coverage while improving efficiency. These models include:

- Licenses or franchised outlets operated by third parties (i.e. in Australia, Ireland, Sweden, the UK, the majority of retail points are run by independent contractors. Countries like the

Netherlands and Germany have gone so far as to fully outsource all postal outlets, shifting from public postal retail branches to fully contractor-based models);

- Self-service kiosks and parcel lockers, which provide 24/7 access to core services and reduce fixed infrastructure costs (i.e. Germany's new postal law allows DHL to count such units towards its obligation to maintain 12,000 access points);
- Mobile units or community partnerships, particularly in remote or low-population areas.

These alternative models allow postal networks to scale flexibly based on usage, reduce fixed costs, and integrate with evolving e-commerce and customer expectations.

Moreover, digitalization is transforming how governments and postal operators approach geographic and demographic coverage by introducing innovative digital services. While physical access points remain essential, particularly in remote or underserved areas, digital services can supplement coverage and address gaps where physical infrastructure is impractical or financially unsustainable. Thus, by integrating digital tools with traditional networks, postal operators can expand their reach, adapt to evolving customer needs, and ensure that the principles of universal postal service are upheld in an increasingly digital world. Governments, on their part, must carefully balance these new opportunities with the need to maintain equitable and inclusive access, ensuring no one is left behind in the world where digital divide still exists.

3.B1.2 Regularity of service

This aspect of service access refers mainly to the regularity with which services are made available to the public for the mailing or receipt of postal items, specifically, how many days per week postal activities such as collection, sorting, transportation, and delivery are carried out. This is not merely a performance or quality indicator; rather it is a core element of access.

From the consumer perspective, access should be seen as multi-dimensional – not only spatial but also temporal. Seen in this way, access is not defined solely by geographic proximity or availability of delivery channels (i.e. home delivery, post office, or PUDOs), but also by how frequently citizens can send or receive items. A postal point that operates once a week, for instance, offers a fundamentally different level of access than one operating five or six days a week.

The regularity of service requires designated postal operators to maintain minimum frequencies of retail opening hours, mail collection, delivery, and transport, as defined by national laws and regulations.

- Regularity of retail service: Office hours for the mailing of postal items or the use of universal postal services. Number of days a week and number of hours a day the public has access to counter services.
- Regularity of home delivery service: Access to home delivery service. Number of days a week on which home delivery service is provided. This also includes the regularity of delivery service to post office boxes.
- Regularity of mail transportation service: Regularity of mail transportation service to and from a particular location. In the case of villages and rural areas, it is essential that mail transportation service schedules coincide with existing passenger and freight transportation schedules in such areas to make sure that postal service is a legitimate service option for local residents

Detailed technical specifications for access need to be laid down as a part of the service conditions that establish technical criteria for determining the types of service points and regularity of mailing, mail delivery, and mail transportation service required in different types of localities.

Table X. Minimum regularity of service (delivery service conditions) standards for letter-mail items (hypothetical)

Local population	Type of delivery service		Deliveries per week	
	Urban	Rural	Urban	Rural

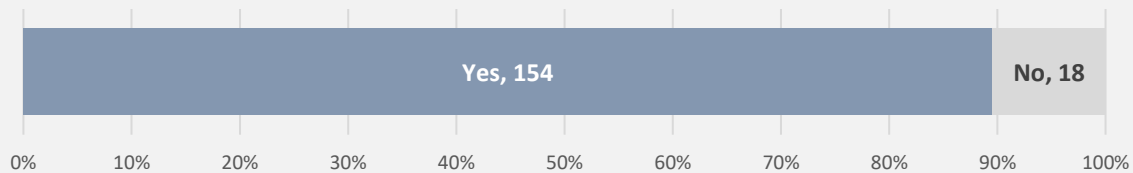
≤ 500	In-office	In-office	3	3
500 to 3,000	In-office	Community mailboxes	4	3
3,000 to 10,000	Home	Community mailboxes	5	4
10,000 to 50,000	Home	Community mailboxes	5	5
> 50,000	Home	Community mailboxes	5	5

Regularity of service

According to the UPU survey on the provision of the universal postal service, cumulative responses collected from member countries up to 2022 provide the following on the regularity of the universal postal service provision:

154 respondents (89.5%, the 172 respondents) have standards for the number of collection and delivery days per week.

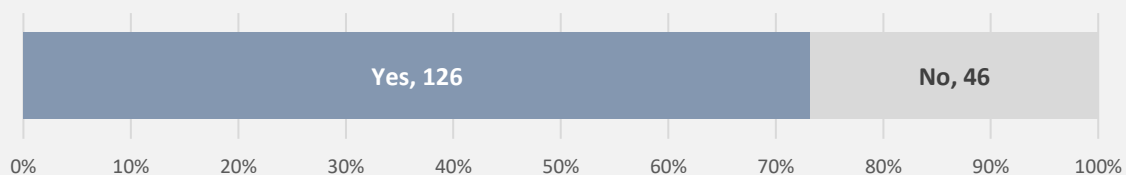
Chart X. Countries with standards for the regularity of the universal postal service provision



Among those that have regularity standards, 75 countries (48.7%), the universal service providers collect and deliver postal items at least once a working day (some even at the weekend) throughout their national territory, regardless of urban or rural areas.

In addition, 126 (73.3%) of the respondents indicated that their countries have standards for minimum opening hours.

Chart X. Countries with standards for minimum opening hours



Among those that have such standards, 100 countries (79.4%) have daily or weekly opening hours in a variety of forms, including fixed or minimum length, or a range.

Evolving with recent trends and market environments

Digitalization is altering the landscape of service regularity by introducing new ways of providing services, which can complement or, in some cases, reduce the reliance on traditional physical delivery. For example:

Online services as complementary to regular physical service: Various services, such as purchasing postage, tracking deliveries, and even managing hybrid mail, can now be accessed digitally, reducing dependency on rigid office hours or specific days for physical mail transaction. This can alleviate pressure on maintaining extensive counter services while still fulfilling the principles of regular access.

Letter-parcel shift: Digital substitution has reduced demand for frequent letter-mail delivery, while e-commerce has increased the demand for regular and timely parcel delivery. In response, postal

operators are reevaluating delivery schedules, prioritizing parcel logistics over letter mail to align with evolving consumer expectations.

Dynamic scheduling: Digital tools can help optimize regularity standards by enabling more dynamic and adaptive scheduling of mail transportation and delivery based on real-time and forecasted demand. For example, predictive analytics and digital tracking systems can identify temporal spikes in volume, such as during the end-of-year holidays season, online sales events (i.e. Black Friday), or local gifting festivals, and allow operators to temporarily increase delivery frequency to meet heightened customer expectations. Conversely, services can be adjusted during well-known low-demand periods (i.e. August in Southern Europe, national holidays, or monsoon season in parts of South Asia) to maintain operational efficiency while continuing to meet minimum access requirements.

3.B2 Speed and reliability

Speed refers to the target delivery time within which mail items that are posted or handed to the designated operator should be delivered (i.e. D+1, D+2, etc.). Reliability refers to the degree to which those targets are consistently met.

Speed and service reliability are among the quality factors that customers value the most. Timely delivery and consistency of service performance underpin user confidence and satisfaction, which are critical to the credibility and utility of the universal postal service.

More than ever, customers expect fast and dependable delivery of letters, messages, parcels, funds, and other services—all of which form part of the universal postal service. These services must therefore adhere to service standards that effectively meet and respond to evolving customer needs.

Speed and reliability are key service conditions and must be defined in measurable, time-bound terms to allow for regulatory oversight and benchmarking.

When setting national service standards, governments typically express compliance in terms of the percentage of postal items delivered within the target timeframe (i.e. 95% of domestic letters must be delivered within 2 days). These targets should be calibrated according to service category, geography, and infrastructure capabilities, while ensuring progressive increase in service reliability, operational efficiency, and user satisfaction over time. For instance, a structured set of progressive targets may look as follows:

Table X. Minimum speed and reliability (hypothetical)

Year	Delivery standard	Compliance rate (%)
2025	3 days	90% of mail volume
2026	2 days	95% of mail volume
2027	1 day	85% of mail volume
2028	1 day	95% of mail volume
2029	1 day	98% of mail volume

Evolving with recent trends and market environments

In response to shifting consumer expectations and operational realities, a number of countries are trying—or have already made—changes to the speed and reliability standards for their universal postal services. Recent reforms observed in several cases reveal a clear trend: moving away from strict next-day or daily delivery requirements toward more flexible timelines. In practice, this has involved discontinuing priority letter obligations, extending permissible delivery windows, or reducing delivery frequency for standard letters.

These adjustments are largely driven by declining mail volumes, the rising cost of maintaining daily nationwide delivery, and the need to align postal operations with evolving user behavior. Growing reliance on digital communication and surging parcel demand have further reinforced this shift.

Nevertheless, such reforms must be approached with caution to ensure that they do not undermine the fundamental purpose of the universal postal service: guaranteeing affordable and reliable access to essential communication and delivery services as a basic right. While operational efficiency and financial sustainability are important, they must be balanced against the social role of the universal postal service in fostering inclusion, cohesion, and equal opportunity. Any relaxation of service standards should therefore be carefully designed to preserve universal access, especially for vulnerable populations and underserved regions.

3.B3 Affordability

3.B3.1 Affordability as a critical enabler of universality

Affordability is a critical enabler of universality. Tariffs for basic postal services must be affordable and, in principle, cost-oriented, as stipulated respectively in Articles 3 and 15 of the Universal Postal Convention, ensuring that all individuals, regardless of income or location, can effectively access the universal postal service.

The affordability of postal services directly impacts their accessibility and, by extension, their universality. When postal services are priced within the economic reach of the general population, they foster inclusivity, which is particularly crucial for remote or underserved areas, where postal services often represent the primary means of communication and access to governmental and financial services.

Affordability also underpins the ability of small and medium-sized enterprises (SMEs) to participate in domestic and international markets. For SMEs, particularly those in developing regions, reasonably priced cost-effective postal services are critical enablers of economic diversification, job creation, and resilience.

However, ensuring countrywide affordability while maintaining quality and financial sustainability of postal services is inherently complex. While the price of a universal postal service product must be affordable to the entire population, the cost of providing it varies according to factors such as weight, distance, quantity, and delivery time.

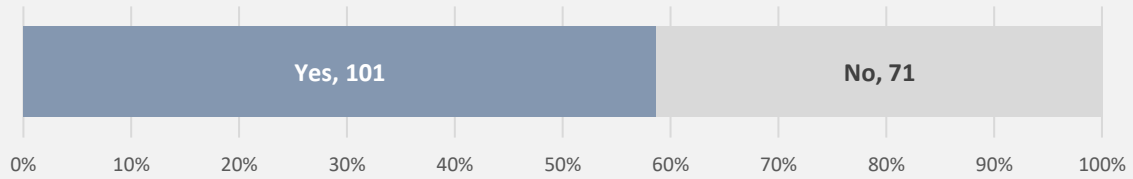
As it would be extremely complicated and impractical to charge different prices for the universal postal service based on differences in such factors, the general practice is to charge uniform prices, applying an equalization principle for basic services. Under this pricing system, service to more lucrative (lower cost) geographic areas offset the cost of service to less profitable areas, making it possible to charge uniform prices. This approach reflects not only a financial rationale, but also a political commitment to equality: ensuring that all inhabitants - whether in cities or rural and marginalized areas - receive the same treatment.

Affordability

As of 2022, cumulative responses from member countries to the UPU survey on the provision of the universal postal service show the following regarding the tariff-setting of the universal postal service:

Out of 172 respondents, 101 reported (58.7%) that they have an established tariff-setting process for the universal postal service.

Chart X. Countries with established tariff-setting of the universal postal service



In most cases, the DOs set the tariffs and the ministries responsible for the postal sector or the postal regulators approve them. In some cases, only the tariffs for reserved services are approved by the ministries or regulators. Moreover, price caps and/or floors are sometimes applied.

In addition, regarding lower tariff obligations for specific services such as newspapers, periodicals, and items for the blind, 60 out of 106³ member countries (56.6%) apply such an obligation to items for the blind, while only 29 (27.4%) do so for newspapers and periodicals.

Chart X. Countries with lower tariff obligations for items for the blind

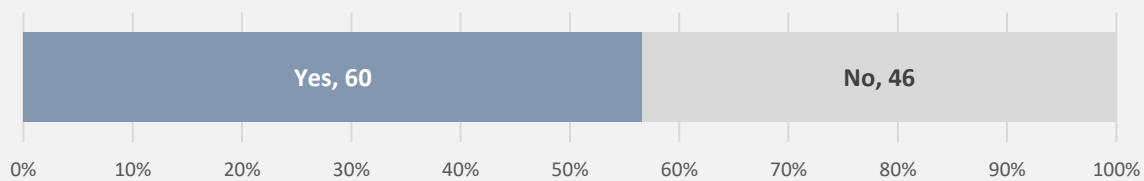
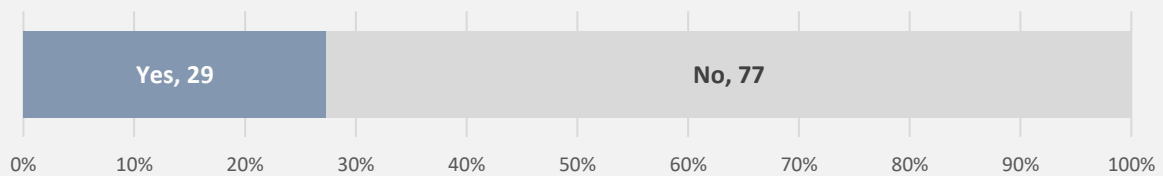


Chart X. Countries with lower tariff obligations for newspapers and periodicals



Evolving with recent trends and market environments

Digitalization has introduced new opportunities and challenges in terms of affordability of universal postal services. While it has enabled efficiencies that could lower costs for postal operators and potentially lead to more affordable services, it has also raised new concerns regarding accessibility.

- **Efficiency gains and cost reductions:** Digitalization and digital transformation allow postal operators to optimize their operations, lowering the overall cost of providing postal services. These savings can be passed on to customers, making services more affordable while maintaining their quality and sustainability.
- **Digital exclusion and affordability:** Despite the potential for cost reduction, digitalization can also create digital inequalities for certain populations. Access to internet, prerequisites for using online postal services, are unevenly distributed, particularly in rural regions and economically disadvantaged groups. As digital services become a larger component of universal postal service, ensuring that physical services remain affordable and accessible to digitally excluded populations becomes critical.

³ Since these survey questions were introduced relatively recently, in 2017, the cumulative number of participating member countries remains comparatively limited.

3.B3.2 Price control

Price control is a core regulatory tool used to preserve the affordability of the universal postal service. Beyond this, it also ensures non-discrimination in pricing and aligns tariffs with the broader public interest. By setting clear boundaries on how prices are determined, regulators can protect users from excessive charges while guaranteeing fair access to essential postal services for all segments of the population.

Left entirely to market forces, tariffs risk drifting beyond the reach of vulnerable groups or underserved regions, thereby undermining the principle of universality. Conversely, overly rigid regulation may limit postal operators' capacity to recover costs and reinvest in service quality. Price control mechanisms, therefore, play a pivotal role in keeping tariffs fair, transparent, and stable, while still granting operators the flexibility to adapt to evolving market conditions and user expectations.

Models of price control

Price control mechanisms differ in formality, flexibility, and regulatory intensity. They are structured along a continuum of regulatory intervention, but generally fall into three categories:

- **Government-set pricing:** Prices are set directly by legislation or regulatory decree. This model (present for example in China and India) ensures predictability and political oversight but may struggle to respond to cost dynamics, demand fluctuations, or inflationary pressures. It is more common in tightly regulated or state-owned postal systems.
- **Ex ante approval:** This model gives the designated operator some pricing autonomy but requires prior regulatory approval for tariffs. It is implemented in two primary forms:
 - a) **Price cap regulation:** Price caps allow prices to increase in line with inflation or other economic indices while providing flexibility for operators. Flexibility in setting prices seems to be greater for parcels than it is for letters. More advanced models may also incorporate additional variables such as:
 - **Volume changes:** Prices may increase at a level lower than inflation if volumes have grown, reflecting economies of scale that benefit postal service users. Conversely, prices may increase faster if declining volumes result in higher average costs of processing a postal item.
 - **Market conditions and service quality:** Other variations take into account market considerations, prices of transportation, fuel, or services, quality of service in which case prices can be increased if they are accompanied by improvements in service levels to the users of the postal service.
 - b) **No price cap regulation:** In this model, prices are approved ex ante but are not based on a formal price cap formula. Instead, tariff proposals are assessed case-by-case based on compliance with affordability, cost-orientation, and non-discrimination principles. This model provides more discretion to regulators but may introduce regulatory uncertainty or delays in tariff adjustments.
- **Monitored free-market pricing:** In more liberalized markets, operators set prices autonomously. However, regulators may intervene ex post to ensure that USO prices comply with basic legal requirements, such as affordability, geographical uniformity, and cost-orientation. This depends on effective ex post monitoring and transparency.

In practice, many countries adopt hybrid price control models, applying different pricing rules depending on the market segment:

- Reserved services or universal services with limited competition are typically price regulated.
- Competitive or commercial services are subject to less restrictive controls.

When designing or reforming price control frameworks, competent authorities should consider the following factors:

- **Affordability and inclusivity:** Prices must remain within reach of low-income users and small businesses, particularly in underserved areas;

- Cost recovery: tariffs must enable the designated operator to cover the cost of fulfilling the USO sustainably.
- Market dynamics: Regulation should reflect the degree of competition and allow price flexibility where justified.
- Flexibility and adaptability: Operators should be allowed to respond to market changes, including declining letter volumes, and innovations, including digitalization, while ensuring compliance with public service obligations.
- Compliance and enforcement: For any pricing mechanism to succeed, it must be accompanied by robust monitoring system and enforcement measures. These must at least include mechanisms for approving tariffs prior to their implementation; clear timelines and procedures for tariff adjustments and review cycles; and penalties for non-compliance.

3.B4 Accountability for claims, complaints, and inquiries

This aspect refers to the obligation to respond to requests for information, complaints or claims from customers in relation to the universal postal service at any point of the service network. This factor is measured and expressed as a number of events or percentage of mail volume.

Decisions will need to be made on admissible levels of claims and complaints, response times for settling claims and complaints, and targets for gradually reducing their level as part of efforts to improve service quality and customer satisfaction.

Response times for the handling and settling of claims and complaints depend on the existence of infrastructure and technology for the intake of claims at all points of the service network and for processing and responding to such claims.

Table X. Categories of customer complaints, claims and inquires, range, and median response and settlement time (hypothetical)

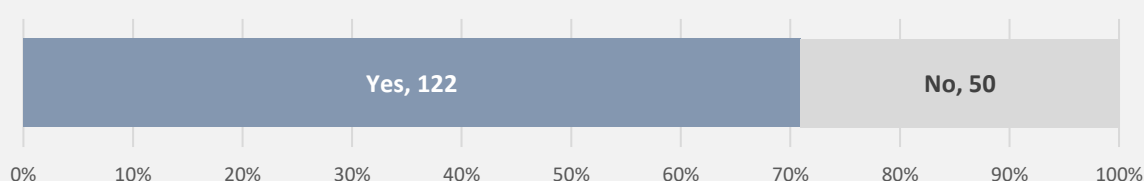
Category	Type of complaints	Range	Median for customer complaints	Median for claims and inquiries
Speed of response	Telephone	Immediate up to 30 days	Within 2 hours	Within 1 hour
	Letter	Same day up to 90 days	Within 1 week	Within 1 week
	E-mail	Immediate up to 60 days	Within 3 days	Within 1 day
Case closure time	Domestic	Same day up to 90 days	Within 2 weeks	Within 3 weeks
	International	One day up to 6 months	Within 2 months	Within 1.5 months

Treatment of customer complaints and claims

According to the UPU survey on the provision of the universal postal service, cumulative responses from member countries compiled up to 2022 show the following regarding the treatment of customer complaints and claims:

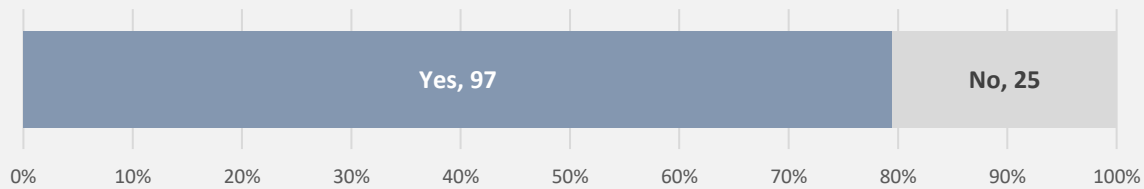
122 (70.9%) of the 172 respondents have universal postal service standards relating to the treatment of customer complaints.

Chart X. Countries with universal postal service standards relating to the treatment of customer complaints



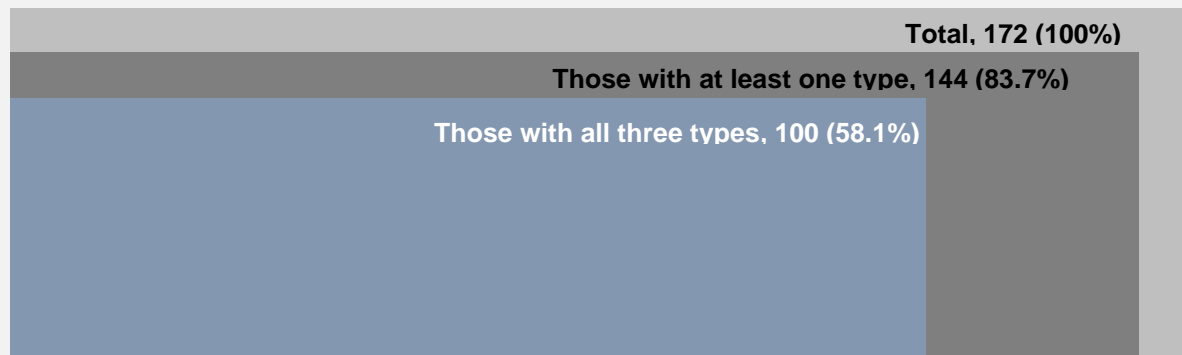
Among these 122, 97 respondents (79.5%) indicated that they measure the time taken to respond to and/or settle customer complaints.

Chart X. Countries Tracking Response and Resolution Times for Customer Complaints



The questionnaire asked respondents whether they have standards for: a) settling claims according to the amount of compensation; b) settling claims according to the time limit; and c) the time for responding to and settling inquiries. 144 countries out of the 172 respondents indicated that they have at least one of the three types of standards, and 100 respondents indicated that they have standards for all three types of claims and inquiries.

Chart X. Countries Tracking Response and Resolution Times for Customer Complaints



3.B5 Customer satisfaction

Customer satisfaction is a key indicator of how well the universal postal service (UPS) meets user expectations and fulfils its public service mandate. It reflects the combined compliance with access obligation and various service quality dimensions, including speed, reliability, security, and accountability. As such, it is central to maintaining public trust, informing service improvements, and supporting evidence-based policy and regulation.

Given the diversity of services covered by the UPS, ranging from letter post and parcels to hybrid, and in some cases financial services, customer satisfaction should be measured both on a service-by-service basis and as a whole. This disaggregated approach enables a more accurate diagnosis of performance and more targeted service improvements.

The degree of customer satisfaction is generally measured through periodic customer surveys and opinion polls, service-specific feedback mechanisms, and analysis of trends in complaints and claims. To be meaningful, satisfaction assessments should be grounded in both qualitative and quantitative tools and be:

- Representative: covering different user groups (i.e. households, SMEs, rural populations, persons with disabilities);
- Regular: allowing comparison over time and tracking of progress;

- Integrated: used not in isolation, but as part of national performance monitoring and evaluation, informing public reporting, regulatory assessments, and the review of service obligations.

In the context of digitalization and digital transformation, postal operators can use:

- real-time digital feedback tools integrated online and mobile service platforms as well as digital devices present in postal offices;
- geospatial satisfaction mapping to identify underserved regions or populations, and
- other relevant tools.

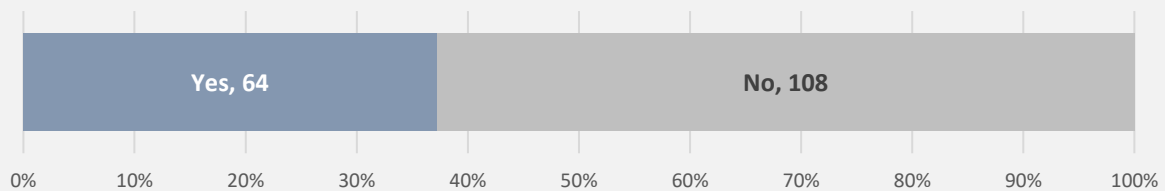
These tools complement traditional survey instruments, enhance responsiveness, and allow for a more dynamic and granular understanding of user experience.

Customer satisfaction standards

Based on cumulative responses from member countries up to 2022, the UPU survey on the provision of the universal postal service reveals the following regarding customer satisfaction standards:

Only 64 countries (have customer satisfaction standards. More than half of the 172 respondents indicate that they do not have any standards in this area.

Chart X. Countries with standards on detailed conditions for customer satisfaction standards



Among those that do, the standards were mainly measured by survey, interview, or consumer satisfaction indices.

Module 3C USO Financing

3.C1 Why USO Financing Matters

The obligation of member countries to provide a universal postal service – i.e. the universal service obligation (USO) stemming from Article 3 of the Convention – can also be interpreted as including the obligation to ensure the long-term viability of that service, so that its provision remains economically sustainable. A central challenge in safeguarding the viability of the USO in the postal sector is resolving a fundamental tension: how to guarantee affordable, nationwide access to essential universal postal services while at the same time ensuring financial sustainability in a sector confronted with declining mail volumes and intensifying competition.

Over recent decades, postal operators worldwide have experienced a rapid decline in traditional letter mail volumes, driven largely by the shift toward digital communication. As letters remain the core product of the universal service, falling volumes reduce revenues while the fixed costs of maintaining a nationwide network remain largely unchanged. This structural imbalance places continuous financial pressure on the universal service provider.

At the same time, new operators have entered the market, many of whom selectively target profitable segments – such as bulk mail or urban delivery – while leaving costly, low-density routes to the incumbent. This phenomenon, often described as “cream-skimming,” undermines the incumbent’s ability to finance universal service from its traditional revenue base. Moreover, the designated universal service provider is often required to operate under stricter cost controls, further constraining its financial flexibility.

In response, a variety of reform measures have been implemented. Efforts have been made to improve the efficiency of the designated operator to reduce the cost of providing universal postal services, and to diversify into adjacent markets so that profits from those activities could help cover the cost of the USO. Price increases were also attempted to generate more revenue, but under conditions of declining volumes and intensifying competition this has proved difficult—and from the perspective of affordability and universality, it is not always desirable.

Fundamentally, beyond these challenges, the universal postal service by its very nature requires coverage of less profitable rural and underserved regions and populations. As a result, the designated operator is inevitably burdened with significant financial costs. Even if these costs can be covered by revenue—meaning that the universal service is technically sustainable—the burden may still place the universal service provider at a competitive disadvantage, thereby making some form of mechanism to finance or compensate the USO indispensable.

Discussions on USO financing vary across countries and regions depending on local circumstances. In Europe, the debate has largely been shaped by the recognition that full market opening could significantly affect the financial viability of universal service providers, thereby underscoring the need for financing mechanisms. In many other parts of the world, the discussion has arisen more from the broader difficulties of maintaining universal postal services and the resulting financial deterioration of designated operators.

Despite the different contexts in which these debates arise, discussions on USO financing can fundamentally be distilled into two core questions: first, how much does the USO cost, and second, how should that cost be financed. The following sections will address these two questions in turn.

3.C2 Assessing the Cost of the USO

3.C2.1 Net cost as a basis for financing mechanism

Financial compensation for the USO must correspond to the “burden” imposed on the universal service provider as a result of fulfilling the obligation.

If a universal service provider (USP) receives compensation that exceeds the genuine net cost of fulfilling its obligations – i.e., overcompensation – the outcome is a distortion of competition. Excessive compensation can amount to hidden state aid, granting the USP an undue advantage over competitors and discouraging both market entry and the efficiency or innovation that healthy competition would otherwise foster. It also weakens incentives for the USP to improve efficiency, as guaranteed surplus funding reduces the pressure to control costs. In the long run, this undermines market dynamics and erodes public trust in the fairness of universal service financing mechanisms.

By contrast, undercompensation forces the designated operator to face chronic financial strain. This situation may drive cost-cutting measures that compromise service quality, particularly in rural or underserved areas where provision is most expensive. Persistent undercompensation can also reduce the USP’s capacity to invest in modernization, digital infrastructure, or service innovation, thereby weakening the universality and reliability of the service. Left unresolved, inadequate compensation risks rendering the universal service unsustainable, ultimately defeating the very purpose of establishing the USO in the first place.

The burden imposed on the universal service provider as a result of fulfilling the obligation can be calculated as the net cost of the USO. Since the provision of universal postal services not only incurs costs but also generates revenue and contributes to other aspects of the provider's overall business, the burden must be assessed as the *net* cost of activities stemming from the USO, comprehensively encompassing costs, revenues, and other relevant elements. Therefore, a comprehensive cost assessment must include:

- Fixed and variable costs, associated with infrastructure, logistics, personnel, IT systems and service delivery;
- Direct and indirect costs across service categories (letters, parcels, financial services, etc);
- Geographic cost differentials, reflecting urban vs. rural or remote area service requirements;
- Shared or common costs, especially where USO and non-USO services use the same infrastructure (i.e. delivery network, transport fleet);
- Operating, administrative, support costs and capital expenditure, related to USO fulfilment, including digital transformation.

In addition, the cost calculation process should adopt a holistic and forward-looking approach, taking into account not only the current cost of providing universal postal services, but also the anticipated costs, necessary investments for future service expansion or improvement, and other relevant elements. Table X below provides a non-exhaustive illustration of such components.

Table X. Cost factors to be considered in the calculation of the cost of USO

Cost component	Description
Total present cost of basic services (the baseline scenario for service provision)	The current cost of operating the UPS network, based on the existing geographic coverage, service frequency, and quality standards.
Total cost of the projected level of universal postal service (recommended)	This includes present costs, plus the estimated cost of adding services, extending the postal network, stepping up the frequency of service and offering a given level of quality with a specific, usually much larger, operating capacity.
Estimated value of investment and amortization costs	Based on 5- and 10-year indicative universal postal service development plans.
Calculations of prices and market value	Calculations of prices, market value and the projected share of the universal postal service operator in different postal service areas to estimate the value of future income for financing the operation and development of the universal postal service

3.C1.2 Prerequisite for net cost calculation

There are three prerequisites for the determination of the net cost of the universal postal service or USO. The starting point is a clear definition of the universal postal service provision; the second requirement is the availability of a robust cost accounting system. Finally, a solid regulatory framework is required to implement and enforce the provisions of net costing.

Prerequisite 1. Clear definition of the USO

A reliable net cost calculation begins with a clear and precise definition of what constitutes the USO. This involves identifying the exact scope of services covered – such as letters, parcels, registered items, or financial services – as well as specifying quality parameters like delivery frequency, accessibility, and affordability. The details of these components have been discussed in depth in Modules 3A and 3B.

Without a consistent and operational definition of the USO, it becomes impossible to determine which costs and revenues are attributable to the obligation and which fall outside its scope. Ambiguity in defining the USO risks inflating or understating the financial burden, ultimately undermining the accuracy of cost calculations and the legitimacy of any subsequent compensation claims.

Prerequisite 2. Robust cost accounting system

An effective cost accounting system is indispensable for producing reliable and transparent net cost calculations. Such a system must be built on sound methodologies that ensure costs and revenues are identified, classified, and allocated in accordance with established principles.

Built on the core costing principles, such as causality, objectivity, consistency, and transparency, key elements like cost objects, cost drivers, cost classification, valuation basis, and cost allocation methodologies need to be clearly defined, documented, and disclosed as necessary. In addition, a cost accounting system should be regularly audited and updated to ensure its accuracy, credibility, and alignment with both internal decision-making and regulatory requirements.

Furthermore, a robust cost accounting framework depends on sound data management systems that ensure reliable data collection, integration across IT systems, and continuous audit of data integrity. Equally, organizational capacity and skilled personnel are essential, as expertise in costing methodologies, financial analysis, and cross-departmental collaboration is necessary to translate technical data into actionable insights and maintain consistency.

A more detailed discussion of robust cost accounting systems is provided in Module 4E, which elaborates on methodologies, data management, and organizational requirements in greater depth.

Prerequisite 3. Solid regulatory framework

For net cost calculations to be credible and enforceable, they must rest on a solid regulatory foundation. A clear legal and regulatory framework should define the acceptable methodologies, oversight mechanisms, and conditions under which the calculated cost may be recognized for regulatory purposes, such as the basis for USO financing. Independent regulatory authorities play a crucial role in reviewing, validating, and approving cost calculations to ensure they are consistent with both sound economic principles and broader public policy objectives.

The framework should further establish procedures for regular audits, mechanisms for stakeholder consultation, and requirements for transparency in reporting, so that all parties can understand and verify how costs are determined. By embedding predictability, accountability, and openness, a well-designed regulatory environment ensures that net cost calculations are not only technically robust but also legitimate and trusted by policymakers, operators, and the wider market.

3.C1.3 Calculation of net cost of USO

Once the necessary prerequisites are in place and reliable data are available, the next critical step is choosing an appropriate methodology for net cost calculation. This choice is critical, since different methodologies can yield substantially different results, with important implications for regulatory decisions and the financial sustainability of the universal service provider.

The following section introduces the most commonly discussed cost calculation methods, outlining their main features, advantages, limitations and some illustrative cases⁴.

1. Fully Allocated Cost (FAC) Method

⁴ These examples are intended solely for illustrative purposes and should by no means be regarded as models of implementation. Moreover, the cases may have been adapted for explanatory purposes and should not necessarily be considered as reflecting the most recent developments.

The Fully Allocated Cost (FAC) method estimates the cost of the Universal Service Obligation (USO) by allocating all existing accounting costs—both direct and indirect—to the universal service, without considering any counterfactual scenario. This method reflects a traditional accounting perspective: it attributes costs to USO-related services according to the operator’s internal cost structure, and then identifies the total associated losses as the “net cost” of the USO.

Its main strength lies in its simplicity. The FAC method is straightforward to apply, as it relies on accounting data that operators already maintain. It provides a comprehensive overview of the financial burden linked to the USO, and for this reason, it has historically been a convenient tool for operators and regulators.

However, the FAC method is conceptually flawed. It ignores revenue-side effects, such as demand dynamics or intangible market benefits that come with being a designated universal service provider. More importantly, it fails to assess the net effect of operating with and without the USO, which is the central requirement under the EU Postal Directive. As a result, the FAC method risks inflating the calculated net costs, which can lead to excessive or unjustified compensation claims.

Although largely outdated as a regulatory tool in Europe, the FAC method still finds some use in practice. Certain operators employ it as a basis for internal planning or as a transitional mechanism when more sophisticated methodologies are not feasible.

Case Example – Fully Allocated Cost (FAC) Method

As national postal legislation requires the regulatory authority to calculate annually the cost of providing the USO, a methodology paper was issued outlining how costs and revenues should be classified and assessed.

Under this framework, the designated postal operator categorizes its products into four groups: reserved universal postal services, universal services open to competition, non-postal public services, and other commercial services. The operator employs an activity-based costing system and reports annually both directly and indirectly allocated costs and revenues per product, along with unallocated overhead costs.

The model applies the FAC method. Overhead costs are allocated to products using distribution keys defined by the regulatory framework. Profit or loss for each product is then calculated by comparing fully distributed costs with revenues. The net cost of the USO is defined as the sum of losses from all universal service products, offset by profits from reserved services. Any residual loss is considered the “unfair burden” of the USO.

A key feature of this model is its reliance on the operator’s own product-level cost and revenue accounts, combined with regulatory allocation rules for overheads. The approach assumes that all loss-making universal service products would be discontinued without the USO, and it only considers the immediate “first-round” effects on costs and revenues. Broader demand dynamics, market benefits, or long-term efficiency incentives are not taken into account. Moreover, because actual costs are used, inefficiencies may be embedded in the calculation.

For these reasons, the FAC method is widely regarded as problematic for estimating avoidable or incremental costs. Nevertheless, this case illustrates its continued use as a pragmatic, if limited, regulatory instrument.

2. Net Avoidable Cost (NAC) Method

The Net Avoidable Cost (NAC) method defines the net cost of the USO as the savings that a postal operator would achieve if it no longer had to provide unprofitable services. This approach rests on the principle of “avoidable costs.” In practice, the operator identifies loss-making routes or customer groups through an incremental cost test, then calculates the net losses—incremental costs minus incremental revenues—from these services. The underlying assumption is that a profit-maximising operator would not serve unprofitable segments in the absence of the USO.

Compared to the FAC method, NAC represents a conceptual improvement. It shifts the focus to avoidable costs rather than overall losses, which is closer to the correct regulatory perspective. It is relatively transparent, easier to apply than more advanced models, and has been widely used in other regulated industries, such as telecommunications. Historically, it has also been common in postal markets.

Nonetheless, the NAC method has significant shortcomings. It is essentially static, assuming that the market structure remains unchanged. It tends to overestimate costs because it assumes that all loss-making services would be discontinued, even though some may be strategically necessary for maintaining profitability in other market segments. Moreover, it ignores revenue-side effects such as demand elasticity and indirect impacts, and its focus on receivers rather than senders can distort results.

Because of these weaknesses, NAC has faced increasing criticism from both regulators and academics. While it remains frequently used in practice, its tendency to overstate net costs has led to the development of more advanced approaches, such as the profitability cost method.

Case Example – Net Avoidable Cost Method

National postal legislation requires the designated operator to calculate annually the so-called “infrastructure contribution,” a financial measure of the costs associated with maintaining its branch network. These costs are covered internally through cross-subsidies from the surplus of reserved services, with no external funding mechanism in place.

Traditionally, this contribution reflected the gap between revenues and costs of the relevant business unit. However, under new regulatory requirements, transfer payments were mandated to cover both variable costs and fixed costs of the essential branch network. In response, the designated operator developed a new approach to measure the universal service burden, defined as the additional costs directly attributable to the universal service obligation.

To this end, it constructed a reference scenario representing a purely commercial situation without the USO, focusing on three processes: acceptance and sales, transport to and from retail outlets, and delivery routes. The scenario sought to determine how many branches would be needed and how many households would still receive delivery in the absence of the obligation.

For the retail network, the operator assumed that only about 24% of the existing outlets would be required on a purely commercial basis, based on consultations with its main business units and external benchmarks. It was further assumed that demand from the remaining outlets would fully shift to this reduced network, so no revenue would be lost. As a result, the USO burden was attributed solely to the fixed costs of maintaining the redundant outlets, while variable costs would be reallocated to the retained ones. The cost data were drawn directly from the operator’s internal accounts.

The operator then estimated avoided transport costs from reducing the network from 2,500 to 600 outlets using an operations research model.

For delivery, it was assumed that coverage would be reduced to 70% of households, primarily those in densely populated areas, based on benchmarks from private newspaper distribution networks. The operator then estimated the average delivery time for these 70% of households, compared it with the actual delivery time, and multiplied the difference by the number of households in the remaining 30%. The resulting figure was classified as the cost of the USO.

Applying this methodology, the operator initially estimated the USO cost at about 8% of operating expenses. However, the regulator raised concerns about the credibility of the assumptions, particularly regarding the retail network benchmark. After adjustments, the universal service burden was recalculated at roughly 3% of operational costs.

In this case, the universal service burden was defined as the additional costs arising from the universal service obligation. The methodology explicitly incorporated a reference scenario for the branch network but did not take potential revenue effects into account. Instead, it assumed that all demand for mail, parcel, and financial services would shift to the remaining outlets. On this basis, the operator estimated that the total fixed costs of the redundant outlets could be considered avoidable in the reference scenario.

3. Profitability Cost Method / Commercial Approach

The profitability cost method, often called the commercial approach, defines the net cost of the USO as the difference in profitability between two scenarios: one in which the universal service provider operates under the USO, and another in which it operates on a purely commercial basis without the USO. This method therefore directly measures the profit “burden” of the obligation. By design, it incorporates both cost and revenue effects, as well as intangible and market benefits linked to the USO.

This methodology is fully consistent with the concept of net costs, which requires comparison between operating with and without the USO. Unlike the FAC or NAC methods, it provides a realistic picture of

the commercial implications of the obligation. It also explicitly recognises indirect demand effects, such as reputational benefits or increased customer trust, and allows for a nuanced assessment of how the USO interacts with broader market dynamics.

The main challenge of the profitability cost method lies in its complexity. It is data-intensive, requiring detailed financial and market information, and depends on well-defined assumptions about the counterfactual scenario. These assumptions can introduce subjectivity and require advanced modelling techniques, as well as close regulatory oversight to ensure credibility. Implementing this method can therefore be resource-heavy for both operators and regulators.

Despite these challenges, the commercial approach is now considered the most robust and widely accepted methodology. For example, regulators in some of European countries have successfully applied it in practice, demonstrating its feasibility. When implemented with strong regulatory governance, it provides the most accurate and balanced assessment of USO costs, avoiding both under- and over-compensation.

Case Example – Profitability Cost Method

As part of a public consultation on the future of the universal postal service, the national regulator estimated the potential financial burden of the USO on the designated operator. While this was not a full statutory cost assessment, the exercise aimed to simulate such an approach in order to provide indicative information and context for the consultation.

To estimate the net cost of complying with the USO, the regulator sought to assess the extent to which the operator might be financially better off without the obligation. Specifically, it estimated the profits the operator could achieve in its Reported Business—covering both USO and non-USO products such as bulk mail and access—if it were no longer required to meet the USO. The analysis also took into account the potential loss of benefits associated with being the universal service provider.

The assessment developed a set of hypothetical ‘counterfactual’ scenarios, each reflecting how the operator might act in the absence of the USO. The main variation across these scenarios was the frequency of letter delivery, as delivery days have a direct impact on network costs, which represent the largest component of variable costs. Four scenarios were modeled with delivery frequencies of three, two and a half, two, and one day(s) per week, informed by practices observed in other countries in the region. The regulator assumed no change in parcel delivery frequency, as the operator was already delivering parcels more than five days per week, exceeding the minimum USO requirement.

For each scenario, a series of assumptions was made regarding the commercial and operational choices the operator might take to maximize profitability. These included adjustments in product portfolios, pricing strategies, and the application of VAT. The regulator then estimated the net impact of these decisions. Reducing the number of delivery days generated significant cost savings, but also implied revenue losses due to reduced service levels and related pricing effects.

As a result of this exercise, the consultation presented a range of potential net costs of the USO, focusing in particular on the two-day and one-day letter delivery scenarios, which were considered the most plausible operational approaches the operator might adopt in the absence of the USO.

Again, accurate calculation of the net cost of the USO is a critical element of postal sector policy and regulation. Without a reliable estimate of the true burden, regulators risk either over-compensating operators – distorting competition – or under-compensating them, thereby undermining the provision of essential services.

At the same time, there is no single one-size-fits-all methodology that can be universally applied. Fully distributed cost, net avoided cost, and profitability-based approaches each have strengths and weaknesses. The choice of method must be shaped by national circumstances, including the structure of the postal market, the institutional capacity of the regulator, the availability of cost and revenue data, and broader policy objectives. What proves workable in one country may be inappropriate in another.

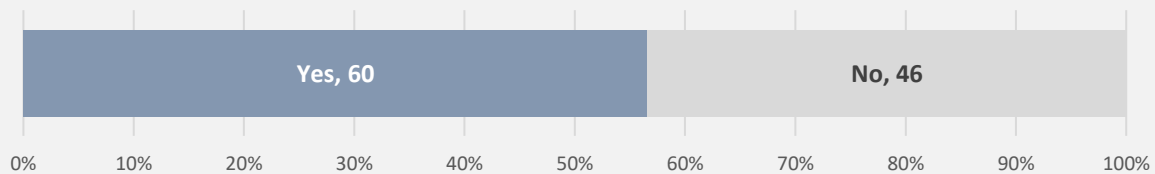
Ultimately, the decision must strike a balance between accuracy and feasibility. More sophisticated models promise greater precision, but they demand extensive data collection, complex modeling, and ongoing auditing – processes that carry significant costs. Policymakers should therefore weigh the benefits of improved accuracy against the administrative and financial resources required to achieve it.

The goal should not be methodological perfection, but rather a pragmatic and balanced approach that ensures transparency, credibility, and proportionality in the calculation of the USO's net cost.

Cost calculation of universal postal service

The UPU survey on the universal postal service, drawing on cumulative member country responses up to 2022, shows the following regarding cost calculation of universal postal service. 60 (56.6%) of the 106⁵ respondent countries have cost calculation mechanism for universal postal service.

Chart X. Countries with cost calculation mechanism for universal postal service



Most of them (36) calculate the total cost of UPS provision, which means that they are able to calculate the cost of providing the UPS in a direct and explicit way. Twenty-nine respondents said they calculate it as the difference between the actual total cost and the estimated total cost without the universal service obligation. Twenty-five countries consider the cost of the UPS as the difference between the actual total cost and the cost of non-UPS business.

3.C3 Financing Mechanisms

Once the net cost of the USO has been reliably calculated, the next regulatory challenge is determining how this burden should be financed in a manner that is fair, transparent, and sustainable.

Globally, a variety of approaches have been adopted. In some cases, the designated operator absorbs the cost internally by reallocating resources between profitable and loss-making services. In others, governments provide direct compensation from public budgets, treating universal service as a public good. A further option is the establishment of a universal service fund, where contributions from sector participants distribute the burden more evenly. Each mechanism involves trade-offs in terms of efficiency, equity, and administrative feasibility.

The choice of financing model is ultimately context-dependent and must reflect national market structures, regulatory capacity, and policy priorities. An effective mechanism should secure the continued provision of universal services, avoid market distortions, and preserve a level playing field among operators.

At the same time, financing decisions are inseparable from broader policy debates about the future of the postal sector. In particular, declining mail volumes and shifting consumer demand highlight the urgency of designing sustainable and flexible arrangements that guarantee equitable access, safeguard financial stability, maintain effective competition, and promote innovation and efficiency.

In this section, we review several common types of USO financing mechanisms and offer insights on how they may be evaluated according to specific criteria.

3.C3.1 Financing mechanisms

Reserved area

⁵ Since these survey questions were introduced relatively recently, in 2017, the cumulative number of participating member countries remains comparatively limited.

A reserved service area refers to a defined segment of the national postal market—covering specific services or products—granted exclusively to the designated operator. This exclusive franchise provides a stable and sustainable basis for financing the universal service, whose provision is guaranteed by the government.

To be effective and legally sound, the reserved area must be clearly and precisely delineated along three core dimensions, as set out in Table X: the class of service covered, the applicable weight limits, and the scope of price protection. These three core elements for delineating and establishing a reserved service area must be jointly and simultaneously incorporated into the decision that defines this model. The absence of any one of these three elements would render the delineation incomplete and compromise its effective implementation in the postal market.

Table X. Core dimensions to be defined for a reserved area

Core dimensions	Description	Key considerations
Class of service	Defines what classes of postal service are furnished solely by the designated operator. Normally includes basic postal services for letter-mail items due to their importance, volume, and availability of national market data.	Letter-mail includes both letters and printed matter, with letters covering all personal and business communications (such as bills, receipts, and documents) and printed matter including all types of printed materials. The actual number of services in the reserved area depends on national needs to secure sufficient revenues for universal service. The volume and value of these services should be quantified using national postal market data.
Item weight	Specifies weight limits of included items to avoid overstatement or understatement of the reserved area. Enables accurate valuation of the market segment reserved for the operator.	Weight limits must be clearly tied to each class of service, allowing accurate assessment of the reserved market's value. The size of the reserved area varies by the maturity of the postal market and the development level of the designated operator. More advanced operators and mature markets generally require a smaller reserved area, while less developed operators and immature markets may require a larger one.
Price protection	Ensures reserved services are safeguarded against unfair competition and predatory pricing by other operators. Requires explicit floor prices for private operators' services	Regulations should establish a specific floor price for services provided by private operators, typically set at a multiple (e.g., three, five, or ten times) of the price charged by the designated operator. This protects the exclusive rights of the designated operator and prevents private operators from encroaching on the reserved area with similar or disguised services.

Direct government subsidy

Direct government subsidy refers to a financing mechanism in which the government provides financial compensation to the designated postal operator to cover all or part of the net cost of the universal service obligation (USO). This approach is possible when universal postal service is deemed as a public service whose availability is essential for social and economic cohesion, and therefore should be funded by the government.

Under this mechanism, the government budget directly allocates funds to the designated operator based on an established calculation of the USO net cost. The transfer is typically framed as public service compensation, ensuring that the operator can maintain the required scope and quality of universal service while remaining financially sustainable. The amount and terms of support depend on the regulatory assessment of costs as well as the broader fiscal capacity of the state.

In addition to such direct transfers, governments may also provide indirect forms of support. These include tax relief or exemptions, which reduce the operator's financial burden, or state guarantees and preferential financing conditions, which lower the cost of capital for investments necessary to sustain the USO. Such measures, while less visible than direct subsidies, can effectively serve the same purpose of easing the universal service burden and ensuring continuity of provision.

Compensation Fund / Sectoral levy

Compensation fund or sectoral levies represent a collective financing model, in which market participants contribute to a central pool that compensates the universal service provider for net costs. This approach is analogous to universal service funds in telecommunications, and in the postal sector has been explored or implemented in several EU countries since 2015, with Italy being one notable example.

To be effective and workable, a compensation fund must be clearly structured along several core dimensions, as set out in Table X: the source of funds, the definition of the taxable base, the scope of contributors, the allocation of subsidies, and the administration of the fund. These dimensions must be jointly and coherently specified in the regulatory framework that establishes the mechanism.

Table X. Core dimensions to be defined for a compensation fund

Dimension	Description	Key considerations
Source of funds (How will the money be raised?)	Determines how the resources of the fund are collected, either from postal operators or directly from consumers.	Funds may be raised from operators through different forms of charges, including: <ul style="list-style-type: none"> • lump-sum contributions independent of size, • revenue- or profit-based taxes calculated as a percentage, or • unit taxes levied on each letter or parcel carried or delivered. Alternatively, funds may come from users through proportional levies added to the price of postal services.
Definition of taxable base	Specifies which revenues, units, or profits are subject to contribution. The scope of the base directly impacts how much funding is raised and who bears the burden.	Regulators must decide: <ul style="list-style-type: none"> • whether the taxable base should cover all postal services or only a defined subset, and • whether full revenues or only those earned in profitable areas are included. A base that is too narrow risks insufficient funding, while one that is too broad risks distorting competition and disproportionately taxing certain operators.
Contributors (Who should contribute?)	Identifies which market participants are obliged to contribute to the fund	In addition to deciding the source and taxable base, it is necessary to determine who should be contributing to the fund: <ul style="list-style-type: none"> • private operators (entrants), or • both universal service provider and private

		operators
Allocation of funds	Establishes how subsidies are distributed to the USP to cover the USO net cost	<p>Subsidies may be allocated as:</p> <ul style="list-style-type: none"> • lump sums, which provide stability but may reduce incentives for efficiency, or • on a variable basis linked to revenues, profits, or units delivered in high-cost areas, which improves targeting but increases administrative complexity.

Competitive tendering

Competitive tendering, sometimes referred to as “competition for the market,” involves awarding the USO through an open bidding process, either at the national level or for specific geographic regions or service components.

In all the funding mechanisms discussed above, the designation of the USP is determined exogenously by the regulatory authority and remains separate from the choice of financing instrument. By contrast, under competitive tendering, the choice of operator becomes endogenous: the provider is selected through a competitive process, applying market principles to award the contract to the party able to offer the most favorable conditions. If conducted in a genuinely competitive manner, the process may also reveal the true net cost of the USO, providing valuable transparency for both regulators and stakeholders.

Competitive tenders can be structured in different ways. One approach is a reverse auction, where potential operators submit bids indicating the level of compensation they would require to deliver the USO, with the contract awarded to the operator requesting the lowest subsidy. Another model is where the tendering authority sets the subsidy in advance, and operators compete on the extent of universal service they are willing to provide for that amount; in this case, the operator committing to the broadest coverage or highest service standard wins.

It is important to note, however, that competitive tendering, while serving as a mechanism for designating the provider, does not by itself resolve the financing question. Any tendering arrangement would still require an underlying mechanism to fund the compensation awarded to the winning bidder—whether through direct government budget transfers, a compensation fund, or another form of financing.

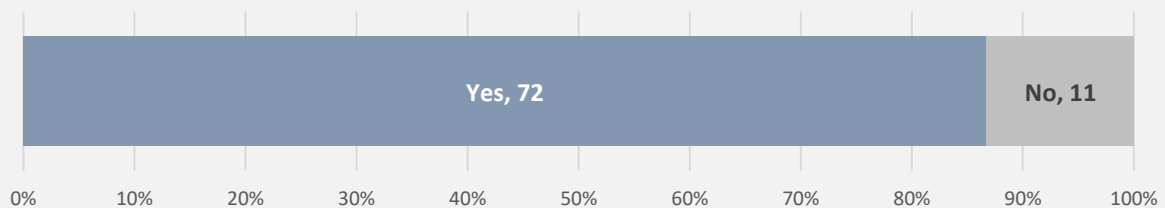
USO financing mechanism

According to the UPU survey on the provision of the universal postal service, cumulative responses collected from member countries up to 2022 provide the following insights on USO financing mechanisms:

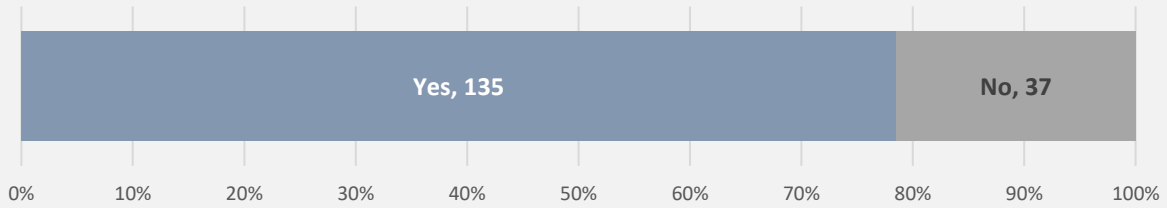
135 countries (78.5%) out of 172 respondents reported that they have a financing mechanism in place. Compared with 2006—when this question was first introduced—72 countries (86.7% of the 83 respondents at the time) indicated that they had such mechanisms, meaning that the overall share of countries with established financing arrangements has slightly decreased.

Chart X. Countries with USO financing mechanism (2006 vs. 2022)

2006

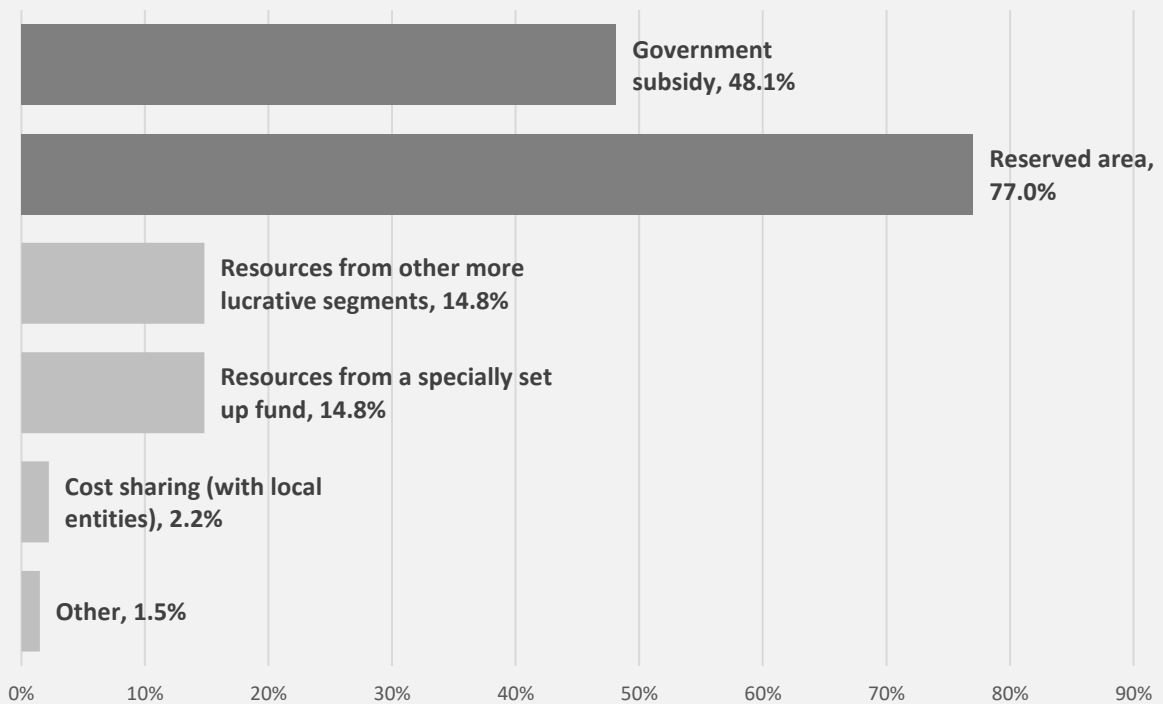


2022



Looking at the different types of financing mechanisms, as of 2022 the most common remains the reserved area, followed by government subsidies. Government subsidies now account for at least part of USO financing in 65 countries (48.1% of those with a mechanism). Meanwhile, 104 countries (77.0%) continue to rely on a reserved area.

Chart X. Types of the USO financing mechanisms



Compared with the 2006 results, when the overwhelming majority of respondents reported relying on the reserved area (95.8% of the 72 countries with a mechanism) and only 22.2% reported government subsidies, the share of countries using government subsidies has since increased significantly, while reliance on reserved areas has declined.

3.C3.2 Assessment criteria for financing mechanisms

The specific design of the universal postal service is ultimately a matter of national discretion, shaped by each country's unique circumstances and policy priorities. Decisions on the financing of the USO are likewise a sovereign responsibility, and no single mechanism can be regarded as universally superior. Nevertheless, structured assessments can inform these choices by providing a systematic basis for comparison. In this context, the effectiveness of different financing approaches can be evaluated against a set of criteria.

The effectiveness of alternative funding mechanisms for ensuring universal service—while minimizing potential distortions—can be assessed according to the following criteria:

Efficiency

Efficiency is a central criterion in assessing any financing mechanism for the universal service obligation USO. A well-designed system should minimize distortions to economic efficiency and, ideally, enhance it by ensuring that resources are allocated, utilized, and developed in a way that maximizes welfare for consumers and society as a whole. In the context of postal services, efficiency means not only that the universal service provider delivers services at the lowest sustainable cost, but also that customers can access those services at prices that reflect underlying economic realities, while preserving incentives for future improvements in service quality and innovation.

The concept of efficiency can be divided into two interrelated dimensions: allocative efficiency and productive efficiency.

- **Allocative efficiency**

Allocative efficiency refers to the alignment between the prices users pay for services and the actual costs of providing them, including an appropriate return on capital invested. A financing mechanism that supports allocative efficiency ensures that the universal service provider has the ability—and incentive—to set prices in a way that reflects the true costs of provision. This principle is straightforward in competitive markets, but in the postal sector it is complicated by the USO's requirement to maintain geographically uniform and affordable tariffs. For example, delivering a letter to a remote rural village may be significantly more costly than delivering the same item in an urban area. Yet the universal service obligation generally requires both to be priced equally, which creates an inherent tension between efficiency and universality. A financing mechanism cannot resolve this tension entirely, but it can mitigate the negative impact by ensuring that compensation for the USO burden covers the excess costs, allowing the USP to maintain uniform tariffs without facing unsustainable losses.

- **Productive efficiency**

Productive efficiency concerns the ability of the operator to provide services at the lowest possible cost, given current technology and organizational practices. A financing mechanism should encourage the universal service provider to adopt best-available technologies, optimize its use of resources, and exploit economies of scale and scope wherever possible. For instance, mechanisms that reward cost minimization or that expose the universal service provider to competitive pressure in non-USO markets can help drive productive efficiency. By contrast, mechanisms that guarantee revenue regardless of cost performance may blunt incentives to streamline operations or modernize infrastructure. Ideally, the funding design should strike a balance: ensuring sufficient compensation to maintain service quality, while still requiring the universal service provider to operate efficiently in order to maximize the value of that compensation.

Productive efficiency is not only about minimizing costs under current conditions but also about sustaining efficiency as the environment changes. The postal sector is experiencing profound shifts, with declining letter volumes and growing parcel demand driven by e-commerce. A financing mechanism should therefore encourage the universal service provider to adapt operations, adopt new technologies, and reorganize logistics networks in ways that maintain cost-effectiveness over time. If funding arrangements are too rigid and tied to outdated service models, they risk locking in inefficiencies and leaving the sector unprepared for future challenges. In this sense, ensuring productive efficiency also requires mechanisms that are sufficiently flexible to accommodate structural change and support ongoing improvements in performance.

Fair competition

Postal markets, like other network industries, are increasingly open to competition, offering potential benefits in terms of efficiency, innovation, and consumer choice. However, if the financing mechanism creates undue advantages or disadvantages for certain operators—whether the universal service provider or its competitors—it can distort the market, reduce efficiency, and ultimately harm consumers. A well-designed system should therefore allocate the USO burden in a manner that preserves a level playing field among all market participants..

The first principle of fair competition is that funding arrangements should avoid creating artificial barriers to market entry. For example, a direct government subsidy to the USP that is not clearly tied to the net costs of the USO may enable the incumbent to cross-finance commercial activities, undercutting rivals and discouraging competition. Conversely, if the burden of financing is allocated in a way that places disproportionate costs on entrants, such as requiring them to make significant contribution to a financing mechanism before achieving a certain degree of market presence, efficient entry could also be stifled. In both cases, the financing system fails to uphold the principle of fair competition.

Second, the burden of financing must be allocated on a non-discriminatory basis. Contributions to a universal service fund, for example, should depend on objective and fair measures such as revenues, volumes, or market shares. In this way, the costs of the USO are shared fairly across the sector, without favoring or penalizing particular operators

Third, fair competition requires that funding mechanisms do not encourage inefficient entry. If the level of compensation provided to the USP is set too low, it may be unable to cover the net costs of providing universal service. This situation could invite “cream-skimming,” where less efficient entrants target profitable urban or bulk mail markets, while the USP is left with unprofitable segments and insufficient compensation. Over time, this undermines the USP’s financial sustainability, potentially leading to reduced service quality or higher prices for consumers.

The dynamic nature of the postal sector must not be overlooked when designing financing mechanisms, particularly in relation to fair competition. As mail volumes decline and parcel markets expand, the risk of distortions increases if financing arrangements fail to adapt. For example, if contributions are based solely on a specific parameter—such as traditional letter volumes—new entrants in the parcel market may avoid contributing altogether, even though parcels are becoming the dominant segment. Such imbalances can tilt the playing field, shielding some operators from responsibility while placing disproportionate burdens on others. Regular review and adjustment of the funding base are therefore essential to safeguard fairness as the market continues to evolve.

Social equity

Social equity is at the heart of the USO. The very rationale for imposing such an obligation is to guarantee that essential postal services remain accessible to all citizens, regardless of where they live, how much they earn, or which demographic group they belong to. Funding mechanisms, therefore, must not only support the financial sustainability of the USO but also ensure that its underlying equity goals are preserved.

The social equity criterion concerns whether the contributions required are fair and reasonable. In other words, whether the burden is placed on market participants or on the general public, the key issue is whether this distribution aligns with principles of social equity. A mechanism that fails this test may secure financial resources, but it risks eroding the legitimacy of the USO itself by creating perceptions of unfairness.

In practice, social equity involves value judgments about which members of society are favored over others. Common benchmarks include affordability—ensuring that low-income households are not disproportionately burdened—and geographic fairness—ensuring that rural and remote areas are not disadvantaged relative to urban centers. Ultimately, an equitable funding mechanism should distribute responsibilities in a way that reflects society’s collective commitment to universal access, while avoiding undue burden on vulnerable groups.

Transparency, accountability and predictability

Transparency, accountability, and predictability are essential governance principles in the design of any USO financing mechanism. The system must function in a way that is clear, accessible, and open to scrutiny, enabling all stakeholders—governments, regulators, operators, and consumers—to understand how responsibilities are allocated and how resources are managed, while also providing the stability needed to be relied upon in the long term.

First, transparency as a governance principle requires that the rules governing the mechanism are made public, with clear information on how the net cost of the USO is calculated, who contributes to its financing, how much they contribute, and how funds are allocated to the universal service provider. This openness allows stakeholders to evaluate whether the system operates fairly and in line with established policy objectives. Transparency also means that the mechanism itself should not be overly complex: procedures must be simple and comprehensible, ensuring that not only regulators and operators but also the wider public can understand them. Excessive complexity risks undermining confidence, weakening accountability, and increasing the likelihood of disputes.

Within this principle, it is also essential to balance transparency with confidentiality. While openness is critical, certain commercially sensitive information—such as cost structures, market shares, or pricing strategies—must be protected. A well-designed system finds the right balance: it discloses enough to guarantee accountability while safeguarding legitimate business confidentiality.

Second, stakeholder confidence and accountability are closely linked to transparency. A transparent framework builds trust among operators who contribute to the mechanism, consumers who indirectly bear some of the costs, and policymakers who must justify their choices to the public. Accountability requires robust checks and balances, including regular audits, independent oversight, and clear reporting requirements. These measures ensure that funds are not misused and that the objectives of the USO are effectively achieved.

Third, certainty and predictability are vital for long-term planning and investment. Operators, especially the USP, must have confidence that financing arrangements will remain stable over time, avoiding unpredictable fluctuations caused by ad hoc political decisions. Predictability ensures that USO-related costs can be incorporated into business strategies and investment decisions, supporting continuity of service and enabling sustainable innovation.

Taken together, transparency, accountability, and predictability serve as the foundation for legitimacy, ensuring that the financing mechanism is not only effective in practice but also trusted and accepted by all stakeholders.

Practicability

Practicability concerns the feasibility of implementing and managing the financing mechanism in real-world conditions. A system that is overly complex or administratively burdensome risks undermining its objectives, even if it appears theoretically sound.

A practical financing mechanism should therefore be simple to administer, with clear rules and limited requirements for data collection and monitoring. Excessive complexity increases costs for both regulators and operators, diverts resources away from service provision, and can erode compliance.

Practicability also involves proportionality in administrative effort. The costs of running the financing mechanism—such as calculating contributions, collecting funds, and conducting audits—should not outweigh the benefits of maintaining the USO. For example, requiring very small operators to contribute may impose an administrative burden disproportionate to the revenue gained, thereby reducing efficiency and discouraging market entry.

In addition, practicability requires compatibility with existing regulatory frameworks. Financing arrangements must align with national laws, sectoral regulations, and, where relevant, international or regional rules such as state aid provisions. A mechanism that conflicts with established legal or regulatory obligations risks challenge, delay, or outright invalidation, thereby creating uncertainty and

undermining credibility. Compatibility ensures that the system can operate smoothly within the broader governance environment without requiring constant legal adjustments.

Finally, practicability requires adaptability. The mechanism should be designed in a way that allows for adjustments without wholesale reform whenever market conditions shift. Flexible structures, such as periodic reviews or adjustable contribution bases, allow the system to remain workable under evolving circumstances while avoiding the pitfalls of rigidity.

In essence, practicability ensures that the financing mechanism is not only legally compliant and theoretically robust but also manageable, cost-effective, and capable of functioning smoothly within the everyday realities of the postal market.

3.C3.3 Assessment of financing mechanisms

The assessment of USO financing mechanisms requires a balanced evaluation of their strengths and weaknesses across multiple criteria.

This analysis focuses on four principal mechanisms introduced in Section 3.C3.1 that have been most widely discussed and applied internationally: reserved areas, direct government subsidies, sectoral compensation funds, and competitive tendering. The evaluation applies a set of agreed criteria – including efficiency, fair competition, social equity, and transparency and practicability, as outlined in Section 3.C3.2 – to assess both the practical operation and the broader policy implications of each financing model.

The aim is not to deliver a definitive judgment, as no single model is applied uniformly across countries, nor can any be considered universally optimal. Each mechanism involves trade-offs across the criteria, shaped by national institutional, fiscal, and market conditions.

Accordingly, the objective is to provide a structured comparison that draws out the distinctive features of each mechanism and clarifies the circumstances under which they may be most effective.

Reserved area

Strengths

The strengths of this mechanism are its stability and relative simplicity. Because financing is embedded in market structure, the system avoids the need for elaborate net-cost calculations, regulatory oversight, or external fund management. For decades, reserved areas ensured that operators could maintain geographically uniform tariffs and sustain nationwide networks, thus reinforcing social equity goals.

From a practicability perspective, it is straightforward to administer, with low administrative burden on regulators and operators alike. Furthermore, during periods of robust letter volumes, the reserved area provided a predictable and sufficient revenue stream, enhancing both financial sustainability and service continuity.

Weaknesses

Nonetheless, significant weaknesses are evident, especially in the contemporary postal landscape. In terms of efficiency, reserved areas limit allocative efficiency by keeping monopoly prices above competitive levels, and they weaken productive efficiency by shielding incumbents from competitive pressures to innovate or cut costs.

With the sharp decline of letter mail, their revenue base is shrinking, undermining predictability and long-term sustainability. Reserved areas also create severe distortions to fair competition, acting as legal barriers to entry and limiting consumer choice.

Transparency is low, as the magnitude of the compensation for USO is implicit and rarely disclosed to regulators or the public. Finally, reserved areas have become increasingly incompatible with liberalized markets, international trade agreements, and consumer expectations for competition-driven service improvements.

Direct government subsidy

Strengths

The strengths of direct subsidies lie primarily in efficiency and equity. When designed properly, subsidies can reflect the actual net costs of the USO, thereby preserving allocative efficiency and allowing operators to maintain uniform tariffs without financial losses.

Because the funding comes from general taxation, the burden is spread across the population, supporting social equity and avoiding regressive effects on specific user groups.

From the perspective of fair competition, direct subsidies can also be more neutral, since they do not require competitors to finance a rival's obligations. Transparency and accountability are reinforced under state aid frameworks, as the use of public funds inevitably subjects subsidies to multiple layers of control. Governments and regulators typically require rigorous cost assessments, independent audits, and public reporting to justify the allocation of taxpayer resources.

Weaknesses

On the other hand, several weaknesses accompany this model. The most significant is its political vulnerability: subsidies are subject to annual budgetary negotiations, which often makes them less predictable in practice. This instability can seriously undermine the operator's ability to plan long-term investments or modernization projects. In countries with limited fiscal capacity or pressing budgetary priorities, subsidies may be neither politically nor financially feasible. Furthermore, taxpayers may resist financing what is perceived as the responsibility of an incumbent operator, leading to public debate and political opposition.

From an efficiency standpoint, subsidies may reduce incentives for productive efficiency, since guaranteed external funding can blunt cost discipline and create risks of complacency. If subsidies are not tightly ring-fenced and strictly linked to net costs, they may enable incumbents to cross-subsidize commercial activities, distorting competition.

Compensation Fund / Sectoral levy

Strengths

The key strength of this model is its fairness and neutrality. Because the costs of the USO are distributed across the sector, no single operator or taxpayer group bears the full burden. This supports social equity by ensuring that the costs of maintaining universal service are shared proportionally among all those who benefit from market participation.

Properly designed, a levy system also preserves fair competition by applying contributions in a transparent, non-discriminatory manner. Transparency is a further strength, as contribution levels and fund allocations can be published and audited. Predictability is achievable through clear rules and regular review mechanisms that adjust contributions to reflect market evolution, especially the growing dominance of parcel services.

Weaknesses

At the same time, weaknesses are significant. Efficiency may be reduced because levies raise costs across the sector and are often passed on to consumers, lowering allocative efficiency and potentially harming demand. Productive efficiency can also suffer if reduced margins discourage investment and innovation.

In practice, the design of levy systems often leads to distortions: if contributions are based only on letter volumes, new entrants focusing on parcels may avoid obligations, leaving incumbents disproportionately burdened. Conversely, if small entrants are required to contribute before achieving scale, efficient entry may be discouraged.

Practicability is a recurrent challenge: calculating net costs, enforcing contributions, and auditing funds require high regulatory capacity and robust data systems, which many postal regulators lack. Moreover, in some cases, the actual size of the fund collected falls short of the net USO cost, making the system difficult to operate effectively in practice. Disputes over methodology are frequent, leading to legal uncertainty and delays in disbursement. If levies are set too high, they may destabilize fragile markets or accelerate volume decline by increasing end-user prices.

Competitive tendering

Strengths

The strengths of tendering are most evident in terms of efficiency and transparency. By exposing USO provision to competitive bidding, the model encourages operators to reveal true costs and design efficient delivery solutions, thereby supporting allocative and productive efficiency. It provides incentives for bidders to innovate in order to minimize costs and win contracts, potentially driving modernization and service improvements.

From a competition perspective, tendering opens opportunities for alternative operators to contest the provision of services, ensuring a level playing field. Transparency is enhanced through public procurement rules, which set clear criteria, disclose bid outcomes, and establish accountability mechanisms. Predictability is achieved through long-term contracts that guarantee compensation for a defined period, supporting investment and stability.

Weaknesses

Nevertheless, this mechanism is not without significant challenges. Practicability is a major concern: tendering requires sophisticated regulatory capacity to design tenders, evaluate bids, and enforce performance standards. This can be administratively burdensome and costly, particularly in countries with limited institutional capacity. The risk of “winner’s curse” is real: operators may underbid to win contracts, only to find the terms unsustainable, leading to service disruption or renegotiation.

Social equity may be compromised if bidders reduce costs by scaling back service quality or frequency, especially in rural or remote areas. Frequent retendering, while intended to maintain competitive pressure, can undermine stability for consumers and employees. Finally, allocative efficiency can be undermined if bids reflect strategic positioning rather than genuine cost structures, creating risks of market manipulation or collusion.

3.C3.4 Implications of financing mechanisms under different contexts

As emphasized in Section 3.C3.3, there is no single financing mechanism that can be applied uniformly across all countries or contexts. Each model—whether reserved areas, direct subsidies, sectoral levies, or competitive tendering—functions differently depending on its specific design, which in turn reflects the institutional, economic, and social circumstances of the country. In other words, the choice of financing mechanism for the USO cannot be separated from the broader context in which the obligation is fulfilled.

Building on the assessment of each financing model, the following section takes a step further by examining and illustrating their implications under specific contextual conditions. This analysis, however, has clear limitations. Each context is presented as a broad illustrative situation and cannot capture the full range of detailed circumstances that policymakers encounter when choosing and designing a financing mechanism. Rather, the exercise should be viewed as an example of how a

structured approach can be applied to different contexts, highlighting the types of considerations that may shape policy choices in practice.

Undercapitalized or inefficient operator

A designated operator struggles with persistent financial weakness, outdated infrastructure, or management inefficiencies. Such operators often lack the capital needed for modernization and may face structural deficits as letter volumes decline. In these cases, the financing mechanism determines whether inefficiency is perpetuated through protection or subsidy, or whether external discipline is introduced to encourage reform.

Table X. Implications of financing mechanisms for undercapitalized or inefficient operators

Financing mechanism	Implications
Reserved area	By shielding the USP through exclusive rights, a reserved area can generate immediate revenue without requiring restructuring. This “protective cushion” may prevent bankruptcy in the short run. However, it entrenches inefficiency by removing competitive pressure and discouraging modernization. In practice, it risks locking the operator into outdated cost structures, especially as mail volumes decline. Policymakers may see it as a stopgap, but not a sustainable solution.
Direct government subsidy	Subsidies provide lifeline financing, but unless tied to performance conditions (e.g., restructuring plans, cost audits, service benchmarks) they risk institutionalizing inefficiency. Governments may face criticism for “bailing out” an operator that fails to modernize. On the other hand, targeted subsidies can be used strategically to fund digital transformation or fleet modernization
Compensation fund (sectoral levy)	This spreads the burden to competitors, which may be politically easier than taxpayer subsidies. Yet, rivals will object to financing an operator that is visibly inefficient, creating legitimacy and compliance problems. If governance of the fund is weak, disputes over cost attribution may paralyze the scheme.
Competitive tendering	Tenders can exert a disciplinary effect on the incumbent, compelling it to reform or risk exclusion. The downside, however, is that if no credible alternative operator exists—as is often the case in rural or fragile markets—the tender may fail, or services may be disrupted due to a ‘winner’s curse.

Mature, technologically advanced operator

An operator has already undergone modernization, invested in automation and digitalization, and developed diversified revenue streams such as parcels and logistics. Such an operator can generally sustain a large portion of the USO internally. Here, the financing mechanism mainly affects how residual high-cost obligations—such as serving remote regions—are addressed, and how accountability and transparency are maintained in a competitive environment.

Table X. Implications of financing mechanisms for mature, technologically advanced operators

Financing mechanism	Implications
Reserved area	In this context, a reserved area may act as an unnecessary privilege. It risks being seen as anti-competitive rent protection rather than a legitimate funding mechanism. For advanced operators that can leverage parcels, digitalization, and efficiency gains, a reserved area may offer little additional value and could even slow innovation.
Direct government subsidy	Here, subsidies can shift from covering operational deficits to targeted support for universal access in high-cost regions (mountainous, islands). Governments can justify

	them as a social equity measure, not as general support. This preserves efficiency while still guaranteeing inclusivity.
Compensation fund (sectoral levy)	For advanced operators, the fund can legitimize compensation by showing net costs transparently. It also signals that the USP is efficient yet still burdened with unavoidable costs. With strong institutional capacity, funds can be calibrated to include both letter and parcel markets, ensuring fairness.
Competitive tendering	A strong operator is likely to win most tenders, but the process itself reinforces accountability and transparency. It also prevents complacency, since the operator must demonstrate cost discipline to retain contracts. For governments, tendering with a mature operator in place is a “trust but verify” mechanism.

High-market liberalization and competition

This context applies where postal markets are open to multiple players across letters, parcels, and ancillary services, often under strong regulatory oversight. Liberalization increases competitive pressures but also risks “cream-skimming,” where rivals target profitable urban or business segments, leaving the incumbent with costly universal obligations. Financing mechanisms in this scenario must balance neutrality, prevent market distortions, and ensure the USO is sustained without undermining fair competition.

Table X. Implications of financing mechanisms for *high-market liberalization and competition*

Financing mechanism	Implications
Reserved area	Reserved areas have increasingly become politically and legally untenable, as they stand in tension with liberalization principles. They also risk infringing upon international trade commitments and may give rise to disputes, both domestically and internationally. Moreover, granting monopoly rights undermines competitive neutrality and erodes consumer trust.
Direct government subsidy	Subsidies are acceptable provided they comply with applicable rules—for example, EU frameworks require demonstration of net cost, proportionality, and transparency. Excessive subsidies, however, risk litigation from competitors on the grounds of market distortion. If carefully designed, subsidies can preserve neutrality by avoiding direct levies on competitors while ensuring fair compensation for the USO.
Compensation fund (sectoral levy)	Acceptable under liberalization, compensation funds distribute costs fairly across all market participants, thereby maintaining a level playing field. The main challenge, however, lies in the technical design: defining the levy base - whether letters, parcels, revenues, or traffic - is complex in an increasingly diversified sector. Exemptions or loopholes, such as digital-only players being excluded, can distort contributions and ultimately undermine the legitimacy of the system.
Competitive tendering	Tendering thrives in liberalized markets. It provides a competition for the market rather than in the market, reconciling universal service with open entry. If designed transparently, it strengthens confidence in both regulators and consumers. Risks include underbidding or strategic collusion, but strong procurement rules can mitigate these.

Low public funding availability and competing priorities

In countries facing fiscal constraints, public resources available for USO are scarce and often overshadowed by higher-priority spending needs such as healthcare or infrastructure. Under such conditions, financing mechanisms are judged by their ability to sustain the USO without significant reliance on government budgets. However, shifting the burden onto consumers or market participants raises equity and affordability concerns.

Table X. Implications of financing mechanisms for low public funding availability and competing priorities

Financing mechanism	Implications
Reserved area	Attractive because it requires no direct fiscal outlay, this mechanism nonetheless faces significant risks. With shrinking letter volumes, it may fail to generate sufficient resources, leaving the USO underfunded while still constraining competition. It also shifts costs to users, which may be regressive in equity terms.
Direct government subsidy	Politically and fiscally difficult. In countries facing austerity or competing demands (healthcare, infrastructure), postal subsidies are a low priority. Even small subsidies may face political backlash.
Compensation fund (sectoral levy)	Provides an alternative that bypasses the treasury. Yet, it effectively shifts the burden onto market participants and ultimately consumers. This may raise affordability issues, particularly for vulnerable groups, unless exemptions or progressive contribution designs are built in.
Competitive tendering	Offers governments the chance to minimize financing needs by selecting the most efficient bidder. In low-budget environments, it allows services to continue with limited fiscal exposure. However, it requires a credible regulatory and contract enforcement framework, without which tenders risk collapse or service degradation.

Advanced economies

This context captures environments with strong fiscal capacity, robust regulatory institutions, and generally high standards of infrastructure. In such settings, policymakers can choose among several financing options, but mechanisms must align with principles of transparency, competition, and efficiency. The challenge is less about basic sustainability and more about fine-tuning financing models to maintain legitimacy and adapt to changing user demands.

Table X. Implications of financing mechanisms for advanced economies

Financing mechanism	Implications
Reserved area	In most advanced economies, reserved areas have already been abolished or significantly reduced. Continuing them risks reputational damage, as they appear inconsistent with modern competitive principles.
Direct government subsidy	Politically more feasible where states have greater fiscal capacity. Subsidies can be positioned as part of broader welfare policies, ensuring universal access to communication infrastructure, similar to broadband or transport.
Compensation fund (sectoral levy)	Particularly suited to advanced economies with strong institutional capacity. Regulators can manage complex data, audits, and distribution fairly. Funds can also evolve dynamically, adapting to structural shifts (e.g., declining mail, growing parcels).
Competitive tendering	Works well in advanced economies, where multiple capable operators exist and procurement law is strong. It can enhance efficiency and consumer trust by demonstrating that USO provision is not simply granted but earned.

High public expectations (coverage, quality)

Users and policymakers expect not only universal access but also high service quality—such as frequent deliveries, next-day service, and digital integration. Meeting these expectations requires stable

and sufficient financing. Mechanisms in this context must be carefully designed to sustain quality benchmarks and coverage obligations, with strong oversight to ensure that resources are translated into tangible improvements.

Table X. Implications of financing mechanisms for high public expectations (coverage, quality)

Financing mechanism	Implications
Reserved area	Historically effective in guaranteeing nationwide access, but today it risks being seen as outdated. As service expectations expand (next-day delivery, digital integration), the reserved area cannot guarantee quality.
Direct government subsidy	Strong tool for meeting high expectations if subsidies are conditional on quality benchmarks (delivery frequency, coverage, reliability). This enhances public legitimacy and aligns funding with social objectives.
Compensation fund (sectoral levy)	Provides sustainable financing to maintain quality, but requires robust governance. If funds are delayed or misallocated, the public quickly perceives a decline in standards. Strong accountability measures are crucial.
Competitive tendering	Can deliver high-quality outcomes if contracts are designed with stringent service standards, monitoring, and penalties. However, risk arises if operators cut corners to reduce costs, leading to deteriorating user experience. Public confidence depends on regulators' ability to enforce compliance.