STATE AIDS (POSTAL SERVICES): THE BRITISH POST OFFICE CASE

Subject: State aids

Industry: Postal services; related services

Parties: Post Office Ltd
Royal Mail Group plc

Source: Commission Statement IP/03/757, dated 27 May 2003

(Note. The decision described below marks the latest in a series of arrangements designed to ensure that the payments made – indirectly – to the British Post Office by way of compensation for carrying out certain social service functions are compatible with the rules on competition. As the Commission points out, since the Government loan and payments only compensate the Post Office for the net additional cost of the public tasks it is entrusted with, no real advantage is in the end conferred on it.)

The Commission has decided not to raise objections to a further series of financing measures in favour of Post Office Limited (POL), the retail subsidiary of Royal Mail Group plc. These measures complement earlier measures the Commission approved in 2002. On 12 March 2002 the Commission approved the funding of a basic postal account to credit social benefits and from which cash can be withdrawn at post office counters for those benefits holders who do not want to open an account with a bank. On 18 September 2002 the Commission approved minimum funding necessary for POL to close 3,000 urban counters no longer required under the 2000 UK Postal Services Act (2000).

POL is making losses on account of its statutory obligation to cover the entire territory of the UK. This entails the obligation to maintain counters that are structurally loss-making. In order to maintain POL as a going concern, Royal Mail Group plc, granted POL a loan.

The UK Government now wishes to compensate POL for the net public service cost of rural counter coverage. As the Government requires POL to keep open 8,600 rural post offices, it will compensate POL annually for the related net public service costs within a £150m ceiling. In addition, the Government will give POL the means to back its debt to Royal Mail Group plc, which had financed POL's balance-sheet deficits up to 31 March 2002, dispensing a total £726m in this respect. As of the financial year 2006/7, the Government will provide payment up to £574m to ensure that POL is able to meet its debts in full. Finally, the Government will provide POL with a rolling working capital loan for over-the-counter cash payments. This capital loan up to a ceiling of £1,150m in 2004/5 is meant to fund the basic postal account.

The three new measures constitute a transfer of State resources, grant an advantage to POL in the form of a loan and payments and potentially distort competition and intra-community trade. However, as long as the Government loan and payments only compensate POL for the net additional cost of the public tasks it is entrusted with, no real advantage is in the end conferred on POL.

The rural network support compensation is designed not to exceed the net additional public service cost of maintaining structurally loss-making counters. For the debt funding measure, the Government payments are the minimum necessary to keep POL going so that it can continue providing its public services. This minimum funding itself is reduced by the positive revenue contribution derived from competitive activities. A self-regulating mechanism has been designed to ensure that the rolling working capital loan is the minimum necessary to enable the provision of a basic postal account.

The Commission has verified that there are sufficient *a priori* and *a posteriori* mechanisms in place to prevent any overcompensation of the net additional cost of the public service. A system of "ring-fencing" prevents any double Government compensation. The British Government has committed itself to recovering any potential overcompensation as shown by separate accounts. As the mechanisms are in place to prevent any *a priori* over-compensation and, should such overcompensation occur, to recover it *a posteriori*, no real advantage has therefore been conferred to POL.

In the final analysis, this means that, according to the most recent Court jurisprudence, the measures do not constitute State aid. Even if they were deemed to be State aids, they would be compatible with the common market as no overcompensation is involved. The Commission has accordingly decided not to raise any objections to the measures.

Post Office Limited (POL) is the largest European retail network when measured in the number of outlets. It is an arms' length retail subsidiary of the Royal Mail Group plc. The Royal Mail Group is entirely owned by the British Government. POL provides countrywide over-the-counter access to Government and payment services. According to the British Government, POL's services are used disproportionately by those in the lower socio-economic groups, especially the aged and those living on social security. Around 90% of POL's turnover is attributable to services it provides in the public interest. ■

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