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The future of Public Enterprise: The French Post

Philippe Bance, Nathalie Rey

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Research Project: “The future of public enterprise”

CASE HISTORIES

The French Post

Summary

Philippe BANCE & Nathalie REY

CREAM University of Rouen & CEPN University of Paris 13, Sorbonne Paris Cité

La Poste, the French Post, is in France **the leader group of the postal sector**, in charge of the postal universal service, and an important financial actor. It is the first employer in France after the State, with near 267 000 employees at the end of 2012. It is, by its revenue, in the top 25 French groups. The group La Poste is multi-activity: the mail activity represents today near half of its revenue, the parcels-express activity and the banking activity in roughly equal shares, the other half of its revenue.

Before the introduction of competition in the postal sector, La Poste was an administration (inside PTT that included telecommunication) that had a monopoly on the distribution of mail in France. It is therefore the emanation of the French incumbent operator. The Act of 2010 has transformed the public administration into **a public limited liability company**. On this occasion, the fears of privatization and calling into question of public service missions were expressed. These fears also concerned the context of opening up to competition of the postal sector under the leadership of the European Union. The progressive opening up to competition since the directive of December 1997, deeply changed the conditions for the



exercise of the public postal service, questioning accessibility to the service, the density of the postal presence in rural areas and the role of the enterprise in the development of the territories. In this context of structural changes and of net contraction in activity of mail, a substantive debate was committed (marked by a “votation citoyenne” (vote of citizens)) about the evolution of the missions of public service, the transformations of the social model, the new personnel management, the role of the enterprise in territorial and social cohesion.

Since 1990s, La Poste has **an active policy of developing subsidiaries** that allowed it to escape to the principle of specification prevailing for public service companies and then to consolidate its strategy of development of a multi-trade activity. With its subsidiaries, La Poste is now one of the big four group in the postal sector in Europe with the British, German and Dutch operators. It is the second operator of the express parcel in Europe.

In the early 1990s, the mail activity accounted for two-thirds of the revenue of La Poste and the workforce of the group exceeded the 350,000 persons. The Group was difficult to balance its accounts during this decade. La Poste made **profits during the next years** without public subsidies or State aid, except for a compensation of the net cost of universal service during the 2008-12's period or a recent capital increase. This improved of financial results allowed it to propose the distribution of a dividend of 171 million EUR to its shareholders. In 2012, its revenue amounted to 21 658 million EUR, an increase of 1.5% from 2011. It remains impacted by the sharp decline in mail revenue, the continuation of the growth of the parcel-express and the increase in net banking income. Since the creation of the Postal Bank in 2006, net banking income and profits of the banking business of the group La Poste respectively increased by slightly more than 1.1 and 1.5, is an annual growth rate of over 2% and 7% in constant Euros. The fact remains that these results are weakened by low growth prospects, especially in the mail, by an increase in competition in the parcel express and in banking activities. Nevertheless, it has a proven asset: the multi-activity allows it to benefit from synergies of large and dense network to exercise public tasks. The development of its banking activities on the whole of the French territory benefits from the denser network of La Poste, and its subsidiary la Banque Postale can now compete with commercial banks.

La Poste is now a public enterprise entrusted by the law of **four missions of public service**: universal service mail and parcel; the distribution of the press; the contribution to the

development of the territory; the banking accessibility, four missions that it intends to exercise fully by adopting a logic of development and innovation focused on service to the customer and the territories. Accessibility to the postal universal service criteria are fixed by a Decree of January, 2007. With these criteria, France is one of the European countries that benefit from the wider universal service. But the lack of direct support of the universal postal service by the State or other public authorities, questioned the sustainability of funding in a context of adaptation to the competition between large foreign postal operators. The mission of press distribution which aims to contribute to the pluralism of opinions and facilitate access to information through the widest possible dissemination of the press today is characterized by an additional cost that raises the question of its funding in the coming years. The mission's contribution to the development of the territory is part of the orientation for the development law and development of territories (LOAD) of 1995, which the key concepts are “unity of the nation”, “solidarity between citizens” and “social integration of populations”. It aims to ensure equality of opportunities for citizens with equal access to public services and to reduce the differences in wealth between territorial community through an equalization of resources and modulated public aid. The denser network is characterized by the presence of 17 000 post offices. But its sustainability can be challenging because of the inadequate coverage by the public authorities of the expenses, in a more competitive environment for the operator. La Poste could initiate a reduction in the number of post offices for years to come. Finally, the Act of 2008 on the modernization of the economy gives the Banque Postale a task of banking accessibility through the “Livret A”. By allowing each resident, including the poorest, benefit at the counters of La Poste to delivery of domiciliation revenues, withdrawal of cash and issuance of payment, La Banque Postale plays an important role in the fight against Bank exclusion by his action for the greatest number access to banking services. La Poste provides since 2006 an annual report in which it specifies the proper **performance of the tasks assigned** to her and the quality of universal public service based on three points: the delivery times, the accessibility and the processing of claims. The review of these reports shows that La Poste **met or exceeded the targets** it has set and it meets the criteria set by the law.

The State and the “Caisse des Dépôts et Consignations” (a public organization) are the two shareholders of La Poste, they hold, in 2013, respectively 73.68% and 26.32% of its capital. The commitment to public ownership is **a legacy of “French style” public service.**

Corporate governance is provided by the tripartite Management Board made up of representatives of the State, personalities and representatives employees. Otherwise, the Management Board has created four specialized committees: the Audit Committee, the Strategic and Investment Committee, the Sustainable Development Committee, and the Remuneration and Governance Committee. The rules of governance in the implementation of the territorial missions are also highly institutionalized. A territorial presence of contract periodically, which stipulates the terms of use of the Equalization Fund of postal presence on the national territory. This contract is negotiated jointly by the post office and the Association of French Mayors (AMF). The mode of governance of the enterprise towards its employees has been the subject of criticism on the part of unions. It is translated by a regression of the workforce for a decade, a net contraction in the number of officials (since 2003, recruitment is done only under private status), the non-replacement of all the retirements. With respect to the governance of La Banque Postale, it is, with its dual structure consistent with its public enterprise status. The powers of direction and management assumed by the Executive Board are thus differentiated control and decision powers exercised by the Supervisory Board.

La Poste is subject to a **multilevel regulation**: the State as shareholder, Local Public Authorities and the Independent Regulatory Authority (the regulatory authority for Electronic Communications and postal, ARCEP). The multi-year contract that, in the French tradition of the post-war period, embodied the close relationship prevailing between public policy and public organizations was abandoned in favor of a contract that determines the goals including four public service and general interest missions entrusted by the State to La Poste. The latter also contributes to the structuring policies of local economic development by participating in regional climate, urban patterns and local schemes on accessibility. The independent regulatory authority, ARCEP, ensures the sectorial regulation ensuring the viability of the universal postal service as part of a gradual opening of the market to competition and by ensuring that this competition is free and undistorted. Overall, La Poste has been little affected by the decisions of ARCEP on the assessment of the cost of the universal service or the pricing of services. One wonders however if the will significantly strengthen competition and current analyses on the benefits of the universal service are not likely to change. Within the post office, its subsidiary the Banque Postale subject to banking regulation, is forced to organize its internal control from different devices and in particular those of the prudential

regulation of Basel. Tariff developments contribute to the financing of the modernization of the production apparatus of the La Poste but, unlike what has happened in other European countries during the 1990s, and notably in Germany, La Poste does not applied its monopoly position on the mail activity to increase his pension. It has not used the price of the stamp as a means of wealth accumulation, depriving themselves of resources to finance its industrial modernization. From 2003, La Poste could make a catch by increasing its rates twice then, from 2006 adopting a multi-year tariff framework contract, the price cap, under the control of the regulator (ARCEP). Finally, banking pricing which may constitute a source of financial exclusion, the Postal Bank must propose tariff for individuals below the market practices.

The public company wants to enroll in a logic of general interest driven in society by national and local public authorities, **posing as a responsible corporate citizen** by: integration of environmental concerns from the “Grenelle de l’environnement” (management automotive and real estate parks, encouraging responsible behavior, developing renewable energy, optimizing waste management); implementation of measures intended to societal (contribution to the development of new economic sectors and of small enterprises, contribution to social inclusion devices); participating in the financing of work on corporate social responsibility. It also gives this credit to corporations and local governments to finance the economy by promoting spatial planning: simple and risk-free financing; supply companies Flexible financing and not based on the sole criterion of profitability immediately. The claim of La Poste to be a responsible corporate citizen is not without its critics from unions and consumer organizations. These highlight discrepancies between rhetoric and reality, mainly because of **contradictions between**, on the one hand, **business-oriented objectives and**, secondly, **social or public service missions**: in some post offices, the pressure may include controls on employees and consumers to significantly improve financial results.

Tensions between public missions and business objectives can be found **in the framework of the postal regulation** exerted by ARCEP. The latter ensures the proper performance by La Poste of its missions (including universal service) and control tariffs of the company. Like other European operators, La Poste is facing downturn in the mail, which tends to increase the fixed costs per unit. For La Poste, the implications are, however, particularly important because of its territorial coverage obligations. These facts therefore the incentive to significantly increase its productivity gains to limit losses without degrading the quality of

service (submitted to annual audits by ARCEP) or to raise prices beyond the limits permitted by the regulator in part of a "price cap". La Poste is now using three levers to increase productivity: the restructuring of networks of post offices (under the constraint of respecting a denser network but with a risk of tension with local rural communities and some consumers), increased level of mechanization of sorting (by substantial investment) and lower labor costs (source of conflict with employees due to the reduction of personnel, wage moderation and the risk of suffering at work).

The context, however, remains for the time being that of a very low penetration by competition in the French postal market, as elsewhere in Europe generally. Direct competition therefore does not add its effects to those of the competition by substitution (which, for mail, raises the downturn). But other European postal operators, prepared to conquer profitable markets segments, could lead a price war highly destabilizing for the model of La Poste. In addition, proactive competition policies, by European authorities or by the sectorial regulator, could also change the situation.

However, one may wonder about the future trends. Sustainability of the French postal model is based on the political will to maintain its public missions in guaranteeing their funding and in entrusting its missions to a public undertaking. Can this model be a benchmark model in Europe or, on the contrary, gradually disappear with its public missions? A behavioral phenomenon of trivialization of the enterprise under the influence of competition could certainly contribute the mode of public governance loose its *raison d'être*.