

European mail markets: The long way to liberalisation

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Who is WIK-Consult?

- WIK ('Scientific institute for infrastructure and communication services')
 - Independent research institute, owned by the German government
 - ~ 35 consultants/researchers
 - 25 years of experience with economic regulation and sector policies
 - Telecommunications, postal and energy markets
- WIK-Consult is a 100% subsidiary of WIK
 - Consultancy specialised in regulated industries, founded in 2001
 - ~ 60% of revenue from customers outside Germany

Contents of presentation

**Liberalisation in
the European Union**

**Country studies of
liberalisation**

Risks and drawbacks

This presentation is about liberalization
& competition in letter/mail markets,
not parcels or express

Liberalization in the EU

The long way towards a final date

1997 / First Postal Directive (97/67/EC)

- Monopolies limited to 350 gram / 5 x Stamp
- Further liberalisation to be considered as of 2003

2002 / Second Postal Directive (2002/39/EC)

- Weight & price limits reduced as of 2003 und 2006
- 2009 suggested target date for full liberalisation

2008 / Third Postal Directive

- Oct 2006: Commission proposed confirming 2009
- Jul 2007: Parliament proposes 2011
- Oct 2007: Council agreement, 2011 (2013 for 11 MS)

Timely implementation?

Liberalization in the EU

Weight limits imply gradual, very gradual liberalisation

	Weight limit	Price limit	% of volume in weight limit
1998 – 2002	350 gram	5 x stamp	91 %
2003 – 2005	100 gram	3 x stamp	79 %
2006 – 2010	50 gram	2,5 x stamp	72 %
(– 2012)	<i>(Derogations for eleven Member States)</i>		

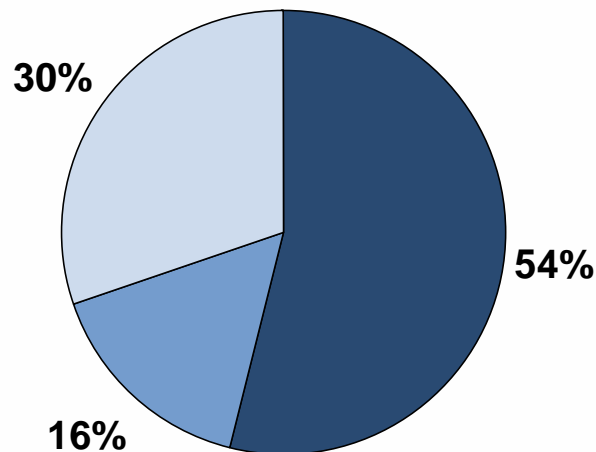
Maximum reservable area:

Member State may preserve monopolies only “to the extent necessary”.

Liberalization in the EU

More than half of all EU mail is from liberalised countries

Importance of national monopolies in EU
(Countries weighted by mail volume)



- Fully liberalized
- Monopoly for Correspondence < 50 gram
- Monopoly for all letter post < 50 gram

- Most EU countries maintained maximum permissible monopolies
- No monopoly in five countries
 - Sweden (1993)
 - Finland (1997)
 - Great Britain (2006)
 - Germany (2008)
 - Spain (local mail liberalised)
- Some countries restrict monopoly to correspondence – direct mail liberalized, e.g. Netherlands, Italy, Slovenia...
- Full liberalization before 2011 discussed in some countries, e.g. Netherlands, Slovakia

Liberalization in Sweden

The European frontrunner

Approach to market opening	<u>Full liberalisation in 1993</u>
Actual competition	<ul style="list-style-type: none">• Only one important competitor: CityMail• CityMail delivers business mail in urban areas• In 14 years, CityMail's market share rose very slowly to ~ 9% (of mail volume)• Sweden Post reacted with aggressive pricing (and prices were challenged by competition authorities)• CityMail went bankrupt twice

- Competition does not come easily in postal sector

Liberalization in Finland

De jure liberalisation

Approach to market opening	<ul style="list-style-type: none">• Full liberalisation in 1993• But restrictive licence conditions<ul style="list-style-type: none">- High quality targets imply delivery every day- „Universal service tax“ if licensees deliver only in urban areas
Actual competition	<ul style="list-style-type: none">• Practically no competition

- Competition was achieved only de jure, not de facto

Liberalization in the UK

Does downstream access promote competition?

Approach to market opening	<ul style="list-style-type: none">• January 2003: Bulk mail liberalised (> 4,000 items)• 2004: Royal Mail offered “access contracts” under pressure of its regulator• <u>January 2006: Full liberalisation</u>
Actual competition	<ul style="list-style-type: none">• Hardly any competition in end-to end delivery → Royal Mail’s market share: 99.8% in 2007/08• Successful entry by consolidators (~3% of volume in 2005/06, ~6% in 2006/07, >10% expected for FY 2007/08)• Royal Mail reacts with new pricing strategies: ‘Direct customer access’ & ‘Zonal pricing’

- Little competition in end-to-end delivery.
- Big question: Will there be any in presence of downstream access?

Liberalisation in Germany

Competition from local operators

Approach to market opening	<ul style="list-style-type: none">• Weight and price limits. Value added services liberalised, e.g. guaranteed overnight delivery, time-certain delivery• Assess mandated by regulator but not very relevant in practice due to unfavourable tariffs and conditions• <u>January 2008: Full liberalisation</u>
Actual competition	<ul style="list-style-type: none">• ~ 600 active licensed operators, mostly local• 10.4% market share (by volume) after ten years (2007)• 2006-07: Emerging nationwide operations TNT and PIN• 2008: Further success of entrants challenged by new sector-specific minimum wages and enhanced pricing flexibility for Deutsche Post

- New minimum wages shook up the market in 2008.
- Future prospects of entrants are unclear.

Liberalisation in Spain

Competition on local delivery

Approach to market opening	<ul style="list-style-type: none">• Monopoly has long related to inter-city mail only<ul style="list-style-type: none">- Local mail liberalized- Weight and price limits for inter-city mail
Actual competition	<ul style="list-style-type: none">• Various local operators in the market• Incumbent market share ~ 89 %• Emerging nationwide operation (Unipost: group of local operators – partly owned by Deutsche Post)

- Unique history of local delivery operations outside monopoly.

Liberalisation in the Netherlands

Competition for direct mail

Approach to market opening	<ul style="list-style-type: none">• Direct mail (Drukwerk) open to competition• Weight and price limits for correspondence
Actual competition	<ul style="list-style-type: none">• Entrants started off delivering unaddressed, expanded to addressed direct mail• Two important entrants<ul style="list-style-type: none">- Sandd- SelektMail (DPWN)• TNT 's market share down to ~ 88 % despite monopoly

- Two entrants operate nationwide delivery networks

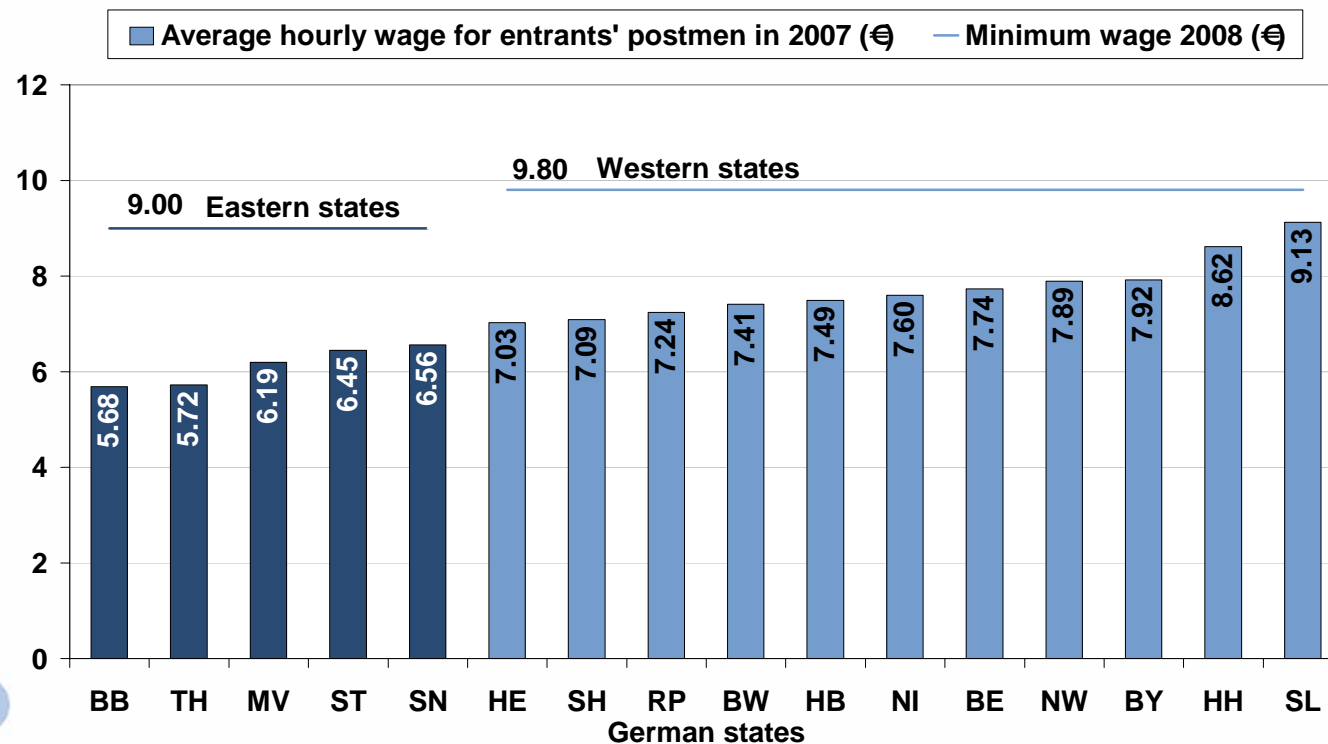
Risks and drawbacks

- Most Member States have not liberalised quicker than required by EU
- Use of licensing to forestall entrants in some countries, e.g. rigid quality requirements, “universal service taxes”
- VAT is not equally applied to postal operators in many countries
- Renaissance of protectionism even in countries that traditionally pursued pro-liberalisation policies
 - German government delayed end of monopoly from 2002 to 2007
 - Dutch government announced end of monopoly for January 2008, then delayed to July 2008, then postponed again.
 - German government introduced disproportionate minimum wages in 2008 – strong negative impact of competitors’ costs

Risks and drawbacks

The case of minimum wages in Germany

- In 2008, specific minimum wages for the postal sector were introduced (there is no general minimum wage in Germany)
- Minimum wages are well above competitors' current wage levels (chart)
- Litigation under way, unclear if minimum wage will remain valid



Conclusions

- At a general level, there is political consensus about the benefits of liberalisation
- In practical implementation, many countries seek to maintain their monopolies until the last moment, or continue protecting their incumbents using legal technicalities
- Even 'traditional advocates' of liberalisation have backed down recently

→ It has been a long way to liberalisation – and it is not done yet

→ It may take much longer for effective competition to arrive



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