

Competition and the Crisis: Trends and Challenges in EU Postal Markets

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Who is WIK-Consult?

- WIK ('Scientific institute for infrastructure and communication services')
 - Independent research institute, owned by the German government
 - ~ 40 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 of
postal markets in the
European Union**

**Country studies of
liberalisation and
competition**

**Impact of the
economic crisis on
the postal sector**

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

Liberalisation in the EU

15 years of transition to competition

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 (2008/6/EC)

- Full liberalisation by 2011
- 11 countries to liberalise by 2013 (~5% of EU vol.)

Timely implementation?

Liberalisation in the EU

Weight limits implied 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>		

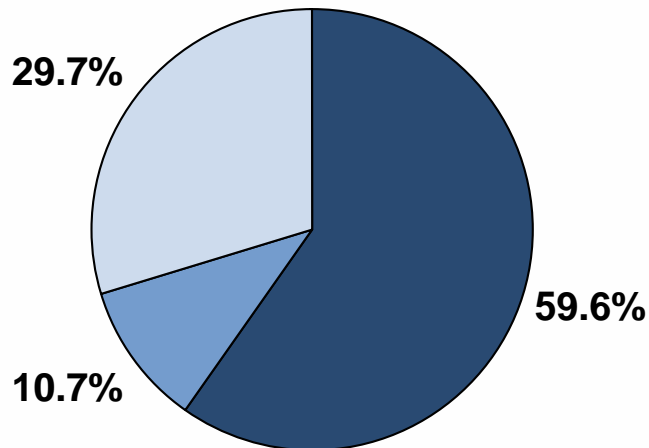
Maximum reservable area:

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

Liberalisation 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 seven countries
 - Sweden (1993)
 - Finland (1997)
 - Great Britain (2006)
 - Germany (2008)
 - Netherlands (2009)
 - Estonia (2009)
 - Spain (local mail liberalised)
- Some countries restrict monopoly to correspondence – direct mail liberalised, e.g. Italy, Spain, Slovenia...

Liberalisation 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: Bring CityMail• Bring CityMail delivers business mail in urban areas• In 15 years, CityMail's market share rose very slowly to ~10,7% (of mail volume) in 2008• Sweden Post reacted with aggressive pricing (and prices were challenged by competition authorities)• Business mail tariffs declined, stamp price increased• CityMail went bankrupt twice

- Competition does not come easily in the postal sector

Liberalisation in Finland

De jure liberalisation

Approach to market opening	<ul style="list-style-type: none">• Full liberalisation in 1997• 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• Considerable letter price increases for business customers and consumers

- No competition was achieved de facto

Liberalisation in the UK

Downstream access but no competition in delivery

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 liberalization</u>
Actual competition	<ul style="list-style-type: none">• Practically no competition in end-to-end delivery → Royal Mail’s market share: 99.9% in 2008• Successful entry by consolidators (~3% of vol. in 2005/06, ~6% in 2006/07, ~12% in 2007/08, further growth in 2009)• Royal Mail reacts with new pricing strategies: ‘Direct customer access’ & ‘Zonal pricing’

- Almost no competition in end-to-end delivery

Liberalisation in Germany

Competition from local operators

Approach to market opening	<ul style="list-style-type: none">• Weight and price limits since 1998. Value added services liberalised, e.g. guaranteed overnight delivery• <u>January 2008: Full liberalization</u> (But barriers to competition: sector-specific minimum wage and VAT exemption for universal service products)
Actual competition	<ul style="list-style-type: none">• ~ 800 licensed operators in 2008, mostly local• 8.4% combined market share in 2008 (by volume). Deutsche Post's market share slightly increased in 2008• 2006-07: Emerging nationwide operations TNT and PIN• 2008-2009: Household coverage of TNT-Holtzbrinck partnership aiming to 90%; recent hybrid mail initiative• Deutsche Post decreased business customer tariffs (2008)

- Competition did not increase with full liberalisation!

Liberalisation in the Netherlands

Competition for direct mail

Approach to market opening	<ul style="list-style-type: none">• Direct mail (Drukwerk) opened to competition in 2000• <u>April 2009: Full liberalization</u>
Actual competition	<ul style="list-style-type: none">• Entrants started off delivering unaddressed, expanded to addressed direct mail and publications• Two important entrants with 2% growth in 2008:<ul style="list-style-type: none">- Sandd (currently for sale?)- SelektMail (Deutsche Post)• Entrants adopt low cost model (two deliveries per week)• TNT's market share down to ~ 87 % in 2008 despite monopoly

- Two entrants operate nationwide delivery networks

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 liberalised- Weight and price limits for inter-city mail• Downstream access regulated since 2006
Actual competition	<ul style="list-style-type: none">• Incumbent market share ~ 89 %• Market share Unipost 10%, other local operators 1%• Main competitor is Unipost (group of local operators, 38% owned by DPWN), covers approx. 75% of territory; 2008 revenue 107 M€ and growth of 6%

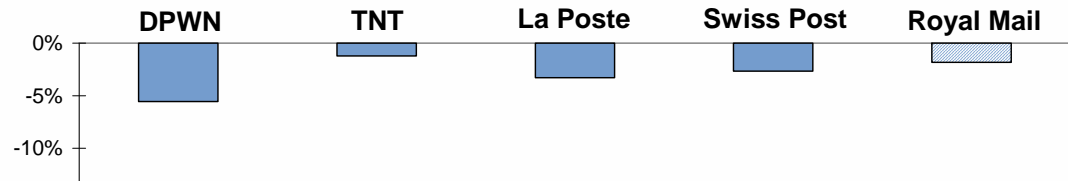
- Unique history of local delivery operations outside monopoly.

Impact of the crisis

Economic slump hits on mail volumes & margins

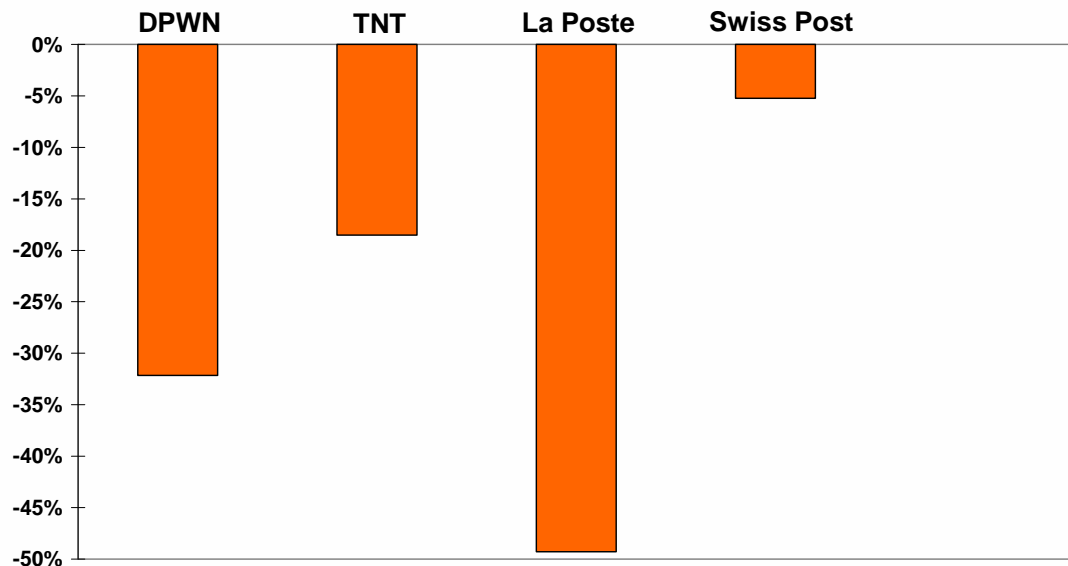
- Significant drop of incumbents' mail revenues

Change in mail revenue, HY 1/2009 on HY1/2008
for Royal Mail: FY2008/09 on FY 2007/08



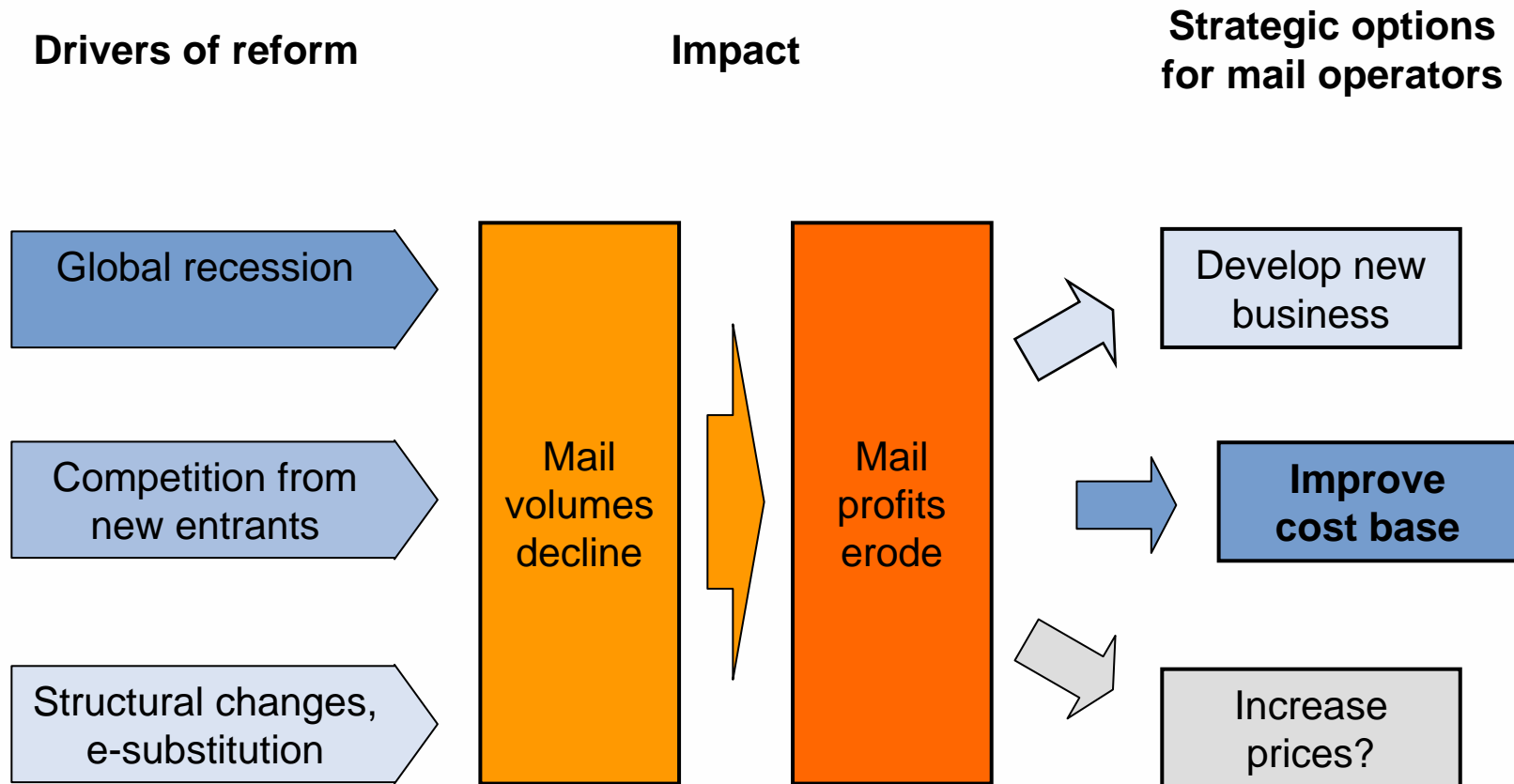
- Even more drastic drop of mail divisions' profit (EBIT)

Change in EBIT for mail division, HY 1/2009 on HY1/2008



Impact of the crisis

The crisis adds to other drivers of reform!



Impact of the crisis

First reactions of postal operators

Ambitious plans for cost saving announced by many operators, e.g. TNT (€550-600m), DPWN (€1b), La Poste (€200m)

Reduce transportation cost, e.g. outsourcing, reduce air mail transportation

Re-structure operations, e.g. DPWN pilot project (summer 2009): enhance flexibility in sorting and delivery

Difficult collective bargaining in many countries, and high risk of industrial action

Reduce labour cost, e.g. TNT: job guarantee in return for wage cut

Downsize employment

Conclusions

Global recession

Competition from
new entrants

Structural changes,
e-substitution

- Recession has similar effect on the market as other, longer term drivers of change
- Recession has accelerated need to reform, improve efficiency
- Recession puts pressure on incumbents earlier - before full liberalisation in 2011
- Chances are that incumbents will now be in a stronger position when competition arrives



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