

The Impact of Postal Liberalisation in Europe

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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 specialized in regulated industries, founded in 2001
 - ~ 60% of revenue from customers outside Germany

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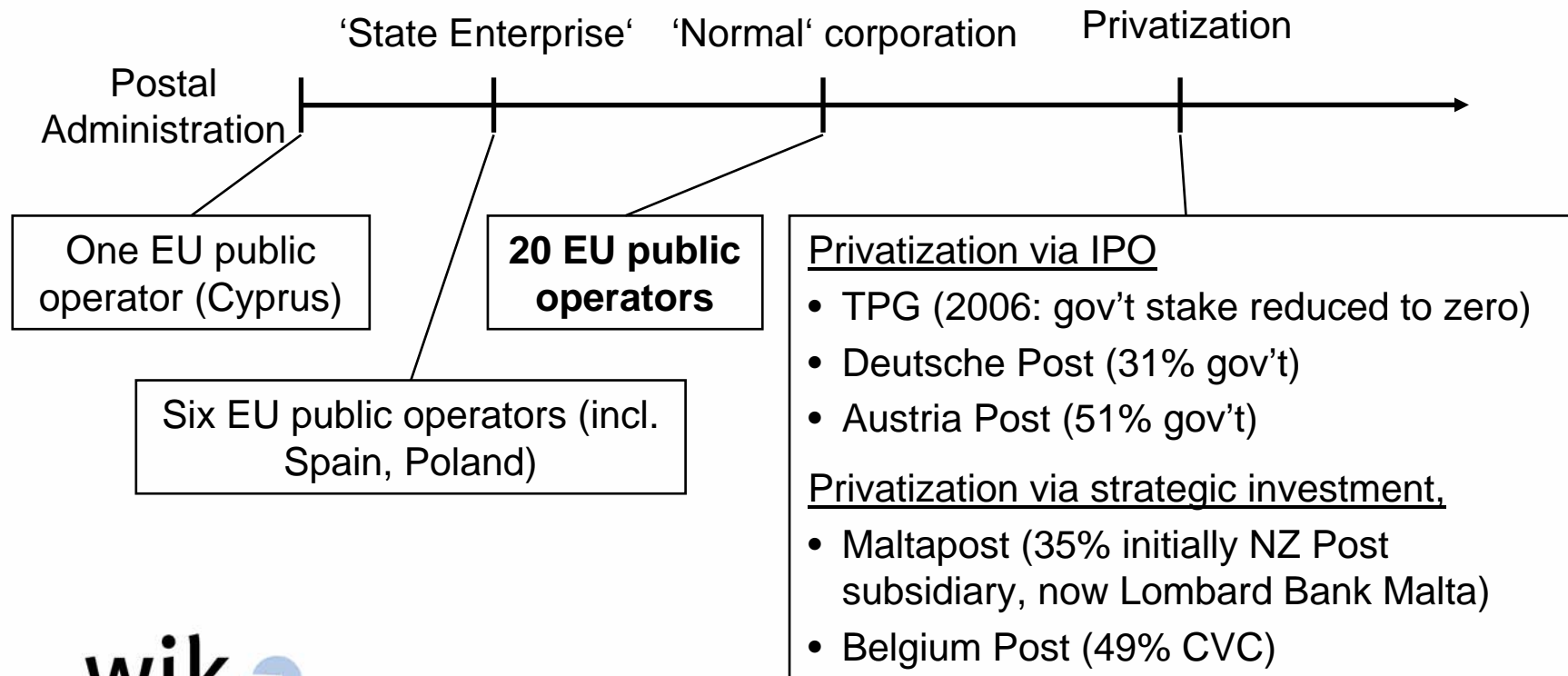
- Overview
- Case studies: Sweden, Germany, Netherlands, Spain, UK

3. Conclusions on the impact of liberalisation in Europe

1. Privatization

Clear Trend: 20 of 27 EU PPOs are Now Corporations

- Privatization:= Transform public operators and privatize equity
- Liberalisation:= Allow competition in postal markets

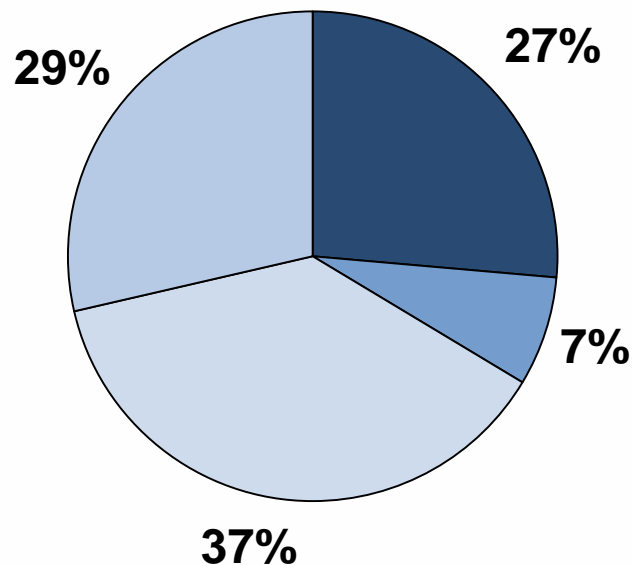


1. Privatization

All EU Public Operators Corporatized, Some Privatized



(Countries weighted by mail volume)



- Clear trend towards corporatization and privatization (but no harmonized EU policy)
- Privatized operators (government share of equity)
 - TNT Post (0% gov't)
 - Deutsche Post (<31% gov't)
 - Austria Post (51% gov't)
 - Belgian Post (51% gov't)
 - Malta Post (65% gov't)
- Incumbents gained commercial flexibility – Governments reduced direct control over postal operations

2. Liberalisation in the EU

Background: Global Objectives of EU Postal Reform

- Objective in 1990ies: Profitable, efficient and high quality postal services

“Prior to the Postal Directive [*i.e. before 1997*], postal services in the [*EU*] Member States varied widely across Member States. However, they could be characterised as being primarily delivered through **loss-making** and sometimes **inefficient** public sector monopolies providing standard commodity services of a widely **variable quality** and efficiency”.

(European Commission, COM (2002) 632 final)

2. Liberalisation in the EU

Background: Key Pillars of EU Postal Reform

- Assure basic universal postal service
- Fully open market for postal services
- Independent regulators & Impartial regulation of postal services
- Legal protections for users of postal services
- Apply competition rules to providers of postal services

2. Liberalisation 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?

2. 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>		

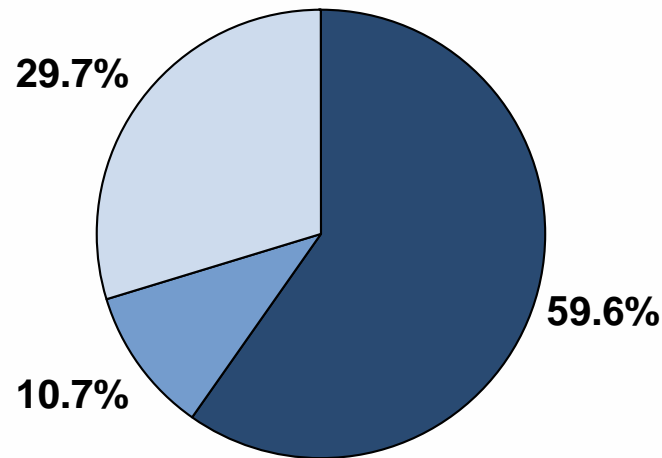
*Maximum reservable area:
Member State may preserve monopolies
only “to the extent necessary”.*

(Article 7, 2002/39/EC)

2. 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...
- Full liberalisation in 2011/13

2. Liberalisation in the EU

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

2. Liberalisation in the EU

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 liberalisation</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!

2. Liberalisation in the EU

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 liberalisation</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 and 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

2. Liberalisation in the EU

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.

2. Liberalisation in the EU

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 liberalisation</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

2. Liberalisation in the EU

Conclusions

- Most Member States have not liberalised quicker than required by EU
- Some barriers to competition remain
 - 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
 - Recent renaissance of protectionism even in some countries / slow implementation of the 3rd Postal Directive
 - Disproportionate ‘postal’ minimum wages aim at protecting incumbents

→ It has been a long way to liberalisation – to be completed soon

→ It may take much longer for effective competition to arrive

3. Impact of Liberalisation in Europe

- ... on **business customers** (~85% of total demand for letters)
 - Quality of service (routing times) improved greatly
 - Businesses start benefiting from choice of supplier
 - Price level reduced overall
- ... on **private households** (~15%)
 - Quality of service (routing times) improved greatly
 - Nationwide access maintained, improved opening hours in franchise agencies
 - Price level increased
- ... on **incumbent posts** (DOs)
 - DOs became profitable
 - DOs maintain strong dominant market position (>85%)
 - Improved efficiency due to network re-structuring
 - Enhanced commercial flexibility
- ... on **new entrants**
 - Allowed successful entry in some niche markets
 - Generally below expectations, some exits

3. Impact of Liberalisation in Europe (cont'd)

- Liberalisation has not led to much de facto competition
- Clear benefits for customers, primarily for businesses customers
- Universal service maintained, and quality of service improved
- With enhanced commercial flexibility, postal operators became more efficient, more profitable, and customer-responsive
- Universal services is a profitable business. No (additional) compensation for universal service in any EU country
- Post is not an island: Key future challenge is competition from other media, not other postal operators



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