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**REPORT FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**on the application of the Postal Directive
(Directive 97/67/EC as amended by Directive 2002/39/EC)**

{COM(2006) 595 final}

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1. INTRODUCTION AND BACKGROUND

1.1. The importance of postal services and their changing role

In 2004, postal services in the EU earned about 90 billion EUR or 0.9% of the gross domestic product (GDP). The postal sector is thus of significant importance for the economy of the European Union. Postal services are labour intensive and are also one of the principal public employers in Europe. Employment remains fairly stable with about 1.71 million persons in 2004 employed by universal service providers (USPs) according to the most recent estimation by WIK-Consult¹. However, more than 5 million jobs are related to postal activities, i.e. directly dependent on, closely related to or induced by the postal sector².

Postal services are an essential vehicle of communication and trade and they are vital for all economic and social activities. The Internal Market, and also international trade and commerce, can only function with good communication and distribution channels. Many key sectors, such as e-commerce, publishing, mail order, insurance, banking and advertising depend on the postal infrastructure. It should also be noted that postal services bring social benefits which cannot always be qualified in economic terms (e.g. by contributing to regional and social cohesion). In addition, many of the USPs have an important role in the provision of other services (e.g. financial services) to EU citizens.

Postal services are changing fast. The sector is at the crossroads of three markets which are vital to the European economy: communications, advertising and transportation/logistics. Sector boundaries are blurring and adjacent sectors – which are fully open to competition - have to be taken into account. Postal services are also strategically important as part of the wider communications and distributions market. There are a number of drivers for change within the postal sector. The five most important ones are: changing customer demand, organisational change, market opening, automation/new technologies, and electronic substitution.

Postal services are an important element of the Internal Market for Services³ and are included in the framework of the Lisbon Strategy that was fundamentally re-launched in 2005⁴ as a source for economic growth and job creation. Market opening of network industries, including the postal sector, was already explicitly mentioned in the Kok Report⁵ as an important part of the Lisbon agenda. According to the Lisbon Strategy, the Internal Market must be made fully operational⁶, while preserving the European social model an element of which is the provision of effective and high quality Services of General Economic Interest (SGEI). This is a key component of the European welfare state, it is essential for ensuring social and territorial cohesion, and it contributes to competitiveness⁷. Modern postal services continue to defy pervasive assumptions made some years ago that the sector was bound to

¹ WIK Consult, Main Developments in the Postal Sector (2002-2004), 2006.

² Pls Rambøll, Employment trends in the EU postal sector, October 2002.

³ Communication from the Commission, Internal Market Strategy – Priorities 2003-2006, COM(2003) 238 final, p. 13.

⁴ Presidency Conclusions, Brussels European Council, 22/23 March 2005.

⁵ Report from the High level group chaired by Wim Kok, Facing the challenge, 2004, p. 23.

⁶ Presidency Conclusions, Brussels European Council, 23/24 March 2006.

⁷ Communication from the Commission, Common Actions for Growth and Employment: The Community Lisbon Programme, COM(2005) 330 final.

decline due to new technologies. Postal providers have, instead, taken advantage of innovative technology in increasing productivity and offering new products. Some segments such as direct mail and home shopping have significant growth potential. At the same time, substitution (e.g. of transaction mail) is not materialising at the pace forecast some years ago. Mail is still relevant, but in order for this to continue in the future, further action seems to be required. Gains arising from the reform of the postal sector also need to be compared, as in other sectors, with the costs of not adapting to change i.e. doing nothing. Examples of such costs might be increasing substitution, less use of technological innovations, less focus on the consumer needs and in general a negative market dynamic.

1.2. Purpose and scope of the Document

The Community framework for EU postal services is set out by Directive 97/67/EC as amended by Directive 2002/39/EC (hereafter referred as “the Postal Directive”)⁸. Article 23 of Directive 2002/39 requires the Commission to report on the application of the Postal Directive to the European Parliament and Council “every two years”. It also requires that this report should include “appropriate information” on market developments including technical, social, employment and quality of service aspects.

The Commission provided its first Application Report in November 2002⁹ and a second Application Report in March 2005¹⁰. This Report provides a comprehensive assessment of the overall transposition of the Postal Directive in Member States, the application of key elements of the Directive as well as detailed market trends (including economic, technical, social, employment and quality of services aspects). This assessment is presented in this Commission Staff Working Paper. Despite the relatively short period that has elapsed since the 2005 Application Report/Staff Working Paper, some important achievements and significant changes have occurred in the postal sector. These are captured in this document and analysed from a Community perspective, but to assist comparison to the Commission's 2005 Report, the same structure has been used.

A Report from the Commission to the Council and the European Parliament on the Application of the Postal Directive summarises and pulls together the conclusions of this Commission Staff Working Paper.

Article 23 of the Postal Directive states that the Report shall be accompanied, where appropriate, by proposals to the European Parliament and the Council. Article 7 of the Postal Directive asks the Commission to finalise a prospective study assessing for each Member State the impact on the universal service of the full accomplishment of the postal internal market and to submit by 31 December 2006 a report to the European Parliament and the Council accompanied by a proposal confirming, if appropriate, the date of 2009 for the full

⁸ Directive 97/67/EC of the European Parliament and the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service; Directive 2002/39/EC of the European Parliament and of the Council of 10 June 2002 amending Directive 97/67/EC with regard to the further opening to competition of Community postal services.

⁹ Report from the Commission to the European Parliament and the Council on the Application of the Postal Directive (97/67/EC), COM (2002) 632 final.

¹⁰ Report from the Commission to the European Parliament and the Council on the Application of the Postal Directive (97/67/EC as amended by Directive 2002/39/EC), COM (2005) 102 final and SEC (2005) 388.

accomplishment of the postal internal market or determining any other step in the light of the study's conclusions.

As part of its preparation of the above mentioned proposal, the Commission launched a public consultation on postal services which took place from 9 November 2005 to 27 of January 2006¹¹. The Commission engaged an external consultancy to analyse the impact of full market opening on universal services; its final report was submitted in May 2006¹². In addition, the Commission engaged WIK-Consult with the preparation of a study on the Main Developments in the Postal Sector between 2004 and 2006¹³. Three workshops had been organised with stakeholders to contribute to the completion of the above studies¹⁴. On this basis, the Commission subsequently prepared a Prospective Study and a Proposal for a Directive amending the Postal Directive. These two documents are being submitted to the legislator at the same time as the Application Report and this Commission Staff Working Paper. The third Application Report and this Commission Staff Working Paper should be read in conjunction with the other documents.

At the same time, the Application Report and the Commission Staff Working Paper can be distinguished from the Prospective Study and the proposal for a new Directive since the Application Report reviews past developments in the postal sector ex post and assesses the implementation of the Postal Directive with a particular emphasis on the years 2004-2006 (hereafter: the "reference period"). Ex post evaluations are the counterpart of impact assessments and they examine, at regular intervals, whether EU policies and programmes have achieved their objectives¹⁵. This is of particular importance in the context of the above initiatives.

This Report confirms that postal reform in the EU is advancing well. Improvements have been made particularly as regards quality of services, customer orientation, business efficiency, and the separation of regulators from operators. The Commission believes that good results have been achieved thus far – and in particular in the last years. These results are illustrated in detail in this document.

1.3. Developments 2004-2006

The following developments need to be highlighted. First, the full legislative transposition of the Postal Directive in all 25 Member States of the Union in the wake of the 2004 enlargement has been accomplished. Second, the reserved area has been further reduced as from 1 January 2006 (to 50g). This means that an additional 7% of the European letter post by volume¹⁶ has been de jure liberalised. Third, on 1 January 2006 one Member State – the United Kingdom – fully opened up its postal market (joining the other two Member States that have de jure already fully liberalised their postal sector: SE, FI). In addition, a number of

¹¹ http://ec.europa.eu/internal_market/post/consultations_en.htm

¹² The impact on Universal service of the full market accomplishment of the postal internal market in 2009 (PricewaterhouseCoopers - May 2006), http://ec.europa.eu/internal_market/post/doc/studies/2006-impact-report_en.pdf

¹³ Main developments in the postal sector (2004-2006) - (WIK Consult GmbH - May 2006), http://ec.europa.eu/internal_market/post/doc/studies/2006-wik-final_en.pdf

¹⁴ On 5 December 2005, 21 February 2006 and 3 July 2006.

¹⁵ See already Commission Legislative and Work Programme 2006, COM (2005) 531 final.

¹⁶ WIK, Main Developments 2004-2006, p. 200.

other specific regulatory developments have taken place and these are analysed in detail under point 2 and 3 below.

The postal market has undergone a remarkable transformation in the last decade. Political and regulatory decisions play a key role in this rapidly changing environment and the link between regulatory decisions and market developments is evident. A number of new activities and elements have been added to the classic role of postal operators. Market developments are set out in detail under point 4 below.

Developments in relation to other Community measures relevant to the postal sector have continued, for example, the proposed Directive on VAT¹⁷, the White Paper on Services of General Interest¹⁸, the proposed Directive on services in the internal market¹⁹ and the Directive on Public Procurement²⁰.

1.4. Approach

The analysis contained in this Commission Staff Working Paper draws on the recent study by WIK Consult on the Main Developments in the Postal Sector (2004-2006) and builds upon a series of other studies commissioned by the Commission²¹. Also a number of other studies have been used and are quoted, where appropriate.

Different developments in terms of regulation and subsequent market change have been one of the key themes of previous application reports. This paper also closely analyses how these developments have evolved during the reference period. In order to ensure further harmonisation towards market-opening, which is the increasing trend implemented by a substantial number of Member States, further regulatory steps will be required.

While only a short period has elapsed since the 2005 Report, important regulatory developments have been taking place. These can be summarised as follows: the implementation of the Postal Directive in all 25 Member States, the follow-up of previous market opening steps by the reduction of the reserved area to 50g on 1 January 2006 and regulatory decisions to fully liberalise ahead of the 2009 deadline or the firming up of plans to do so. The document will focus on these important events, substantiate the conclusions set out in the 2005 Report, and provide further analysis on how the sector is evolving.

¹⁷ Amended Proposal for a Council Directive amending Directive 77/388/EEC as regards value added tax on services provided in the postal sector, COM (2004) 466 final.

¹⁸ White Paper on Services of General Interest COM (2004) 374, 12.05.2004; Green Paper on services of general interest, COM (2003) 270, 21.5.2003.

¹⁹ Amended Proposal for a Directive of the European Parliament and of the Council on services in the internal market, COM (2006) 160 final of 4.4.2006. Political agreement was reached in the Competitiveness Council on 29 May 2006.

²⁰ Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors.

²¹ Study on the evolution of the regulatory model for European postal services (Wik-Consult - July 2005); Study on the development of competition in the European postal sector (Ecorys - July 2005); Study on main developments in the European postal sector (WIK- July 2004); Study about the economics of postal services (NERA- July 2004); All studies are available under: http://ec.europa.eu/internal_market/post/studies_en.htm.

2. THE TRANSPOSITION OF THE POSTAL DIRECTIVE

2.1. Aims of the Community regulatory system

The aims of Community rules, as set out in the Green Paper of 1992²² and the Postal Directive, can be summarised as the maintenance and positive evolution of the universal postal service, the improvement in the quality of service and the completion of the internal market for postal services.

By combining the discipline of harmonised regulation with the stimulus of competition, the Directive seeks to promote regulatory reforms in the Member States that will result in a better, more efficient provision of universal postal services.

With the aim of achieving these objectives, and in line with the principle of subsidiarity, the first Postal Directive provided for a limited harmonisation of EU postal services²³. It established regulatory provisions including the definition of a minimum universal service, a maximum reservable area, the conditions governing the provision of non-reserved services and access to the network, tariff principles and the transparency of accounts, quality of service requirements and the harmonisation of technical standards.

These provisions, mainly focusing on principles and boundaries, established a Community framework which Member States could adapt to their national context.

The second Postal Directive's measured reduction of the maximum reservable area also pursues the original key Community objective of introducing a gradual and controlled opening of the postal market to competition²⁴.

The framework harmonisation nature of the Directive has thus provided possibilities for different developments in Member States.

2.2. The requirements of the Postal Directive

The Community framework for the regulation of the postal sector is set out in the Postal Directive. As noted above this is a framework directive which gives a considerable degree of flexibility to the Member States²⁵ and includes the following elements:

The Postal Directive- Description of key terms and requirements

- All Member States provide a universal postal service for all users²⁶ comprising of at least one delivery and collection five days a week;

²² Green Paper on the development of the single market for postal services, 11.06.1992, COM (91) 476 final.

²³ Directive 97/67/EC of the European Parliament and the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service.

²⁴ Directive 2002/39/EC of the European Parliament and of the Council of 10 June 2002 amending Directive 97/67/EC with regard to the further opening to competition of Community postal services

²⁵ Recital 10 of Directive 97/67.

²⁶ Users: any natural or legal person benefiting from universal service provision as a sender or an addressee (Art. 2 of the 97/67/EC Directive).

- Maximum part of the market reservable for the Universal Service Provider in each Member State: 100g in weight or three times the basic tariff of an item of correspondence (and 50g/ 2.5 times the basic tariff as of 2006).
- Member States may establish authorisation procedures, which may include individual licences and a compensation fund in the universal service area;
- Member States should ensure that all users are permanently provided with a postal service of specified quality throughout their territory;
- Member States must ensure that tariffs, including special tariffs, for universal services are cost-based, transparent and non –discriminatory and that cross-subsidies from the reserved area to the competitive area are limited to the fulfilment of universal service obligations.
- Member States must ensure that USPs should consistently apply transparent and separated cost accounting principles, and provide separate accounts for reserved and non-reserved universal services and non-universal services;
- The Postal Directive sets quality of service targets for cross-border mail (85% for D+3, 97% for D+5 for the fastest standard category of service) and required Member States to define, measure and enforce compatible national targets;
- Member States are to ensure that adequate consumer protection measures were in place, particularly with regard to complaints and redress procedures;
- The Postal Directive aims to promote greater inter-connectivity between postal networks through greater technical standardisation;
- Member States have to establish National Regulatory Authorities independent from the postal operators.

2.3. Transposition by Member States

Since the 2005 Report all new Member States have notified the transposition of the Postal Directive; this concerns particularly the transposition of Directive 2002/39/EC where laws, regulations and administrative provisions had to be brought into force at the latest on 31 December 2002, giving the EU15 only 6 months for transposition (for the 10 new Member States the transposition date for both Directives was the date of accession, i.e. 1 May 2004). Estonia notified its national transposition measures in spring 2006.

In the context of the above highlighted reduction of the weight limit it needs also to be recalled that according to Annex XII of the Treaty of Accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia to the European Union, Poland was granted a derogation from the second subparagraph of Article 7(1) of Directive 97/67/EC. Therefore, Poland was authorised to apply a weight limit of 350 grams for reserving services to universal service providers until 31 December 2005²⁷, which it had to reduce to 50 grams on 1 January 2006.

The pace of legislative adaptation has increased and it has to be noted that 11 new postal laws have been adopted. Eight of the recent postal laws are connected with the 2004 accession (CY, HU, LT, LV, PL, SI, SK, and EE). Three of the EU-15 countries have also adopted new postal laws or amended their postal laws recently: Austria (2005), Denmark (2004), and France (2005). The following table summarises when transposition has taken place.

²⁷ OJ of 23 September 2003, p.890.

Transposition and evolution of Member State postal laws (as of May 2006):

| MS | Date of current law | Amendments since 1997 | Directive 1997/67 transposed? | Directive 2002/39 transposed? |
|---------------|--|---|-------------------------------|-------------------------------|
| AT | 1997 | 2 | Yes | Yes |
| BE | 1991 | 5 | Yes | Yes |
| CY | 2004 | | Yes | Yes |
| CZ | 2000 | 1 | Yes | Yes |
| DE | 1997 | 4 | Yes | Yes |
| DK | 2004 | | Yes | Yes |
| EE | 2001 | 2 | Yes* | Yes* |
| ES | 1998 | | Yes | Yes |
| FI | 2001 | 2 | Yes | Yes |
| FR | 2005 | 2 | Yes | Yes |
| GR | 1998 | | Yes | Yes |
| HU | 2003 | 2 | Yes | Yes |
| IE | 2002 | 2 | Yes | Yes |
| IT | 1999 | | Yes | Yes |
| LT | 2004 | | Yes | Yes |
| LU | 2000 | 1 | Yes | Yes |
| LV | 2004 | 4 | Yes | Yes |
| MT | 2002 | 1 | Yes | Yes |
| NL | 2000 | 1 | Yes | Yes |
| PL | 2003 | 12 | Yes | Yes |
| PT | 1999 | 2 | Yes | Yes |
| SE | 1999 | 4 | Yes | Yes |
| SI | 2004 | 4 | Yes | Yes |
| SK | 2003 | 2 | Yes | Yes |
| UK | 2000 | 1 | Yes | Yes |
| Notes: | | In general, the date of the current law is indicated in relation to the basic legal act that might have been amended successively. * Legislation recently notified and currently under examination; further legislation announced. | | |
| FR: | Amendments refer to 1990 postal law. | | | |
| SI: | Date of current law is the date of the last amendment of the Postal Act. | | | |

Based on WIK, 2006

In addition to the legislation already adopted (as shown above), a number of legislative initiatives are envisaged by five Member States in the near future: Estonia is adopting further legislation in 2006; Latvia is also developing a new law for the second half of 2006; Lithuania too will amend its law in the second half of 2006 to complete the corporatisation of the public postal operator. Spain is planning a new law at the end of 2007. In 2007, the Netherlands are planning a major amendment that is likely to address downstream access, the scope of universal service, and authorisation of private operators. In addition, the Netherlands are expected to abolish the reserved area before 2009.

As far as the new Member States are concerned, a wave of new postal laws has accompanied the accession process. Given that Directive 2002/39/EC was adopted at a relatively late stage in the enlargement process and just after the new (national) laws to transpose Directive 97/67/EC had been adopted, it was understandable that during the reference period of the last Application Report (2002-2004) not all legislation had been adopted. This has now been rectified and all new Member States have communicated implementing legislation.

Clearly full legislative implementation has had a positive impact as regards, in particular, the achievement of core aims of the Directive, such as a substantial and measurable improvement of the quality of postal services²⁸ (see figure below, for more details – particularly on the development including EU10 - see section 3.8.), the establishment of a harmonised minimum level of universal service (see point 3.1. below), and the introduction of a gradual and controlled opening of the postal market to competition (see point 3.2. below). Achieving these aims is a much more straightforward task than resolving some more complex issues such as in particular licensing/authorisation, price control and accounting. The implementation by Member States of these provisions is far more varied (see points 3.3. and 3.5. below).

Infringement Proceedings Opened

A relatively small number of infringement procedures have been pursued during the reference period of this Report. These are listed in the following table. In all these cases, alignment to Community law was established before the judicial phase of the procedure foreseen in Article 226 EC-Treaty.

Infringement procedures regarding the Postal Directive (Directives 97/67/EC and 2002/39/EC) since 2004:

| Member State | Conformity issue | Status as of June 2006 |
|--------------|--|--|
| BE, ES, IT | Independence of the NRA | Closed |
| GR | licensing, independence of the NRA | Closed |
| EE | Non communication of Directive 2002/39 | Proposal to close (needs formal adoption-Dec 06) |
| FR | independence of the NRA, /Non communication of Directive 2002/39 | Closed on 20 July 2005 |

²⁸ The regulatory pressure to improve quality of postal service is crucial for the success of the internal market for postal services; it has proven successful as shown notably by the UNEX results (this is a system that monitors the quality of service for airmail letters from time of posting to when they are delivered) published twice a year by the International Post Corporation (IPC), which is a cooperative association of 23 national postal operators from North America, Europe and the Pacific.

Other issues regarding different aspects of the Postal Directive have also been discussed with Member States in recent years. These have however been solved without recourse to formal procedures. This approach often provides more rapid solutions and can help to avoid and prevent problems in the future.

As regards the two Acceding Countries, bilateral meetings as well as a workshop have taken place between the Commission services and the relevant authorities of Romania and Bulgaria. These provided the opportunity to have in depth discussions on the obligations resulting from the *acquis*. To date, Romania has transposed Directives 1997/67/EC and 2002/39/EC, Bulgaria has transposed the first Postal Directive and has recently notified the adoption of an amendment to its postal legislation that is expected to transpose Directive 2002/39/EC (currently under examination). The Candidate Countries, Turkey and Croatia with whom negotiations have started only recently, are at very different stages in the transposition of the postal *acquis*. While it can be stated that Turkey is only at the first stages of development, Croatia is quite advanced. Both have still substantial work to do and have not yet transposed the Postal Directives.

The same is true for the Former Yugoslav Republic of Macedonia²⁹, which has Candidate status, but where negotiations have not yet commenced. Through their participation in the Committee established by the Postal Directive candidate countries are closely associated with the transposition and implementation of the Directive and are in contact with Member States so that where appropriate, they can benefit from best practices. The perspective of moving to the next stage in their relationship with the Union is a powerful incentive for countries to transform themselves and to adopt EU standards and values³⁰; this also concerns in particular important network industries such as the postal services.

Transposition of the Community rules has further improved in the reference period. A series of national laws and regulations has been adopted in the framework of the 2004 enlargement as well as in EU15 countries. To sum up, the postal *acquis* has been transposed by all Member States.

2.4. Transposition of the Postal Directive by the EFTA -EEA States

The Postal Directive is part of the Agreement on the European Economic Area (EEA Agreement) and is referred to in point 5d of Annex XI to the Agreement. The Directive was incorporated into the EEA Agreement on 25 September 1998 by Decision 91/98 of the EEA Joint Committee and entered into force on 1 May 1999. Directive 2002/39/EC of 10 June 2002 amending the Postal Directive, has also been incorporated into the EEA Agreement. That was achieved through the adoption of Decision No 168/2002³¹. The compliance date was 1 August 2003. The three EEA-EFTA states, Iceland, Liechtenstein and Norway, were obliged to have the amending Directive implemented into their internal legal order by that time and to notify the EFTA Surveillance Authority (ESA) thereof.

²⁹ It has been noted that the Postal Law of the FYROM of 2002 already approximates the country's legislation to the *acquis* to some extent. - Analytical Report for the Opinion on the application from the former Yugoslav Republic of Macedonia for EU membership. – SEC (2005)1425, 57.

³⁰ Communication from the Commission - Enlargement Strategy Paper 2005, COM (2005)561 final.

³¹ OJ L 38, 13.2.2003, p. 30 and EEA Supplement No 9, 13.2.2003, p. 21.

The Directive as amended is implemented in Norway,³² Iceland³³ and Lichtenstein³⁴. The ESA has initiated a conformity assessment to evaluate the implementation of the Directive. This has been concluded without any infringement proceedings being initiated. The ESA has however been in a dialogue with Norway concerning the dual role of the Minister of Transport and Communications which is responsible for certain regulatory tasks under the Postal Directive while at the same time it is involved in the operation of Norwegian Post (Article 22 of the Postal Directive). During 2005, the ESA closed a complaint it had received which alleged an illegal re-monopolisation of postal services in Norway. The ESA has equally been in a dialogue with the Liechtenstein government concerning the requirement of Article 19 of the Postal Directive obliging Member States to ensure that transparent, simple and inexpensive procedures are drawn up for dealing with users' complaints, particularly in cases involving loss, theft, damage or non-compliance with service quality standards as well as the independence of the National Regulatory Authority (NRA).

With reference to Article 23 of the Postal Directive, the Standing Committee of the EFTA States is required to adopt a parallel application report every two years. The next report is due at the end of 2006. The report of the Standing Committee should include a contribution from the EFTA Surveillance Authority on questions within its field of competence. The EFTA Secretariat has approached the ESA with the aim of having prepared a parallel report to the forthcoming Commission's report on the application of the Postal Directive.

3. THE APPLICATION OF THE POSTAL DIRECTIVE

3.1. A quality universal service for EU citizens

Objectives set by the Directive

“All Member States shall ensure that users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users.” (Chapter 2, Article 3)
Scope of universal services (postal items up to 10/20kg for national and 20kg for cross-border postal items registered and insured items):

- One delivery and one clearance per working day at least 5 days a week (Article 3, paragraph 3)
- Density of access points taking account of the needs of users (Article 3, paragraph 2)
- Specified quality of service requirements (Chapter 6)

³² Act No 73 of 29 November 1996 relating to the provision of universal postal services (The Postal Service Act); Amendments by Acts No 5 of 9 January 1998, No 24 of 30 April 1999. Regulation No 313/2005 on accounting and cost separation for postal operators. The latter was a consequence of the identification of a lack of a cost accounting principles and accounting separation in the framework of the conformity assessment.

³³ Postal Services Act No 19/2002, as later amended by Acts No 136/2002 and No 129/2004.

³⁴ Postal Act of 18 December 1998, Law Gazette 1999 No. 35, as last amended by Act of 10 March 2004, Law Gazette 2004 No 106.

– Implementation of simple and transparent complaints and redress procedures for services within and optionally outside of postal universal services (Chapter 6)

An important objective of the Directive is to ensure the provision of a minimum universal postal service across all Member States. Whilst the Directive defines the minimum requirements to be met in all Member States, in certain exceptional locations and circumstances, NRAs may allow derogations from these requirements.

Progress to date

All Member States' USPs provide a universal postal service that is consistent with or exceeds the minimum requirements provided for in the Postal Directive. Therefore, the objective of establishing a minimum EU universal service has been fully achieved. However, since the 2002 Report, there have been substantial changes (or plans to do so) in the scope and definition of universal service obligation, notably in some Member States (NL, UK) as detailed further below. It should also be emphasised that the quality of universal postal services provided in the Member States is high and that in general the level is even higher than what had been originally foreseen in the Postal Directive³⁵. As explained in detail below, targets for quality of service (for routing time see particularly point 3.8.) and access to universal service are being achieved across the EU, and in many cases, exceeded. Some operators are innovating and introducing new ways of providing postal services, in order to enhance customer access.

Developments in the adjacent communication markets, such as internet and mobile communications have had a significant impact on the use of postal services by different users. However, available information shows that, in spite of initiatives at international, EU³⁶ and national level, the penetration of alternative means of communication still has a varied impact in different regions and segments of the population. It is for instance estimated that around 30-40% (and in some estimates, up to 50%) of the EU population still reap few or no benefits from Information and Communication Technologies (ICT) due to a number of reasons such as the absence of access to terminals and networks and different generational attitudes to technologies³⁷. This is supported by consumer surveys, which show that a vast majority of citizens still considers postal services as important in their daily lives³⁸, especially those who do not have access to a computer and/or do not have basic computer skills. This is especially true in some of the most recent Member States and will be even more relevant for the countries in the next accession waves³⁹.

³⁵ The quality of service for letters from time of posting to when they are delivered are monitored by International Post Cooperation's UNEX system. Recent figures demonstrate the high quality achieved; see particularly point 3.8.

³⁶ See for instance the Communication from the Commission on eAccessibility of 13.9.2005, COM (2005) 425 final

³⁷ Information and communication technology for an inclusive society – Frequently asked questions. Commission MEMO/06/237 of 12.06.2006

³⁸ Special Eurobarometer 65, Consumers Opinions on Services of General Interest, 2006 (to be published)

³⁹ Commission Staff Working Document, Annex to the Communication European electronic Communications Regulation and Markets 2005 (11th Report), Volume 1, p 33; SEC (2006)193; Eurobarometer survey on Services of General Interest (2006).

Faced with full market opening, discussions in some Member States are now focusing on certain aspects of the future scope of postal universal service. The most crucial point under discussion is the role of bulk mail services: whether they will be part of the universal service or not. While in Germany and Ireland this question is still under discussion, in the Netherlands it has been decided that bulk mail outside the reserved area is to be considered as being outside the universal service. In June 2005 Postcomm (UK) decided that two bulk mail products are included in Royal Mail's universal service obligation and Royal Mail's license was amended accordingly in June 2006. While Postcomm considers that there is a generic obligation for the universal service to include a bulk mail service, Royal Mail is specifically obliged to provide only two bulk mail products; but not others.⁴⁰

⁴⁰ Postcomm: The Universal Service for Bulk Mailers. A decision document. June 2005; Postcomm Royal Mail's Price and Service Quality Review 2006-2010. Licence Modifications. June 2006; <http://www.postcomm.gov.uk/universal-service/defining-the-universal-service.html>.

Compliance with delivery requirements

| MS | Deliveries per week required | Deliveries per week in practice | Exceptions from required delivery frequency (% of population) | Exceptions from delivery at the premises of the addressee (% of population) | Parcel delivery at the premises of the addressee |
|----|------------------------------|---|---|---|--|
| AT | 5 | 5 | No | Yes (1 %) | Yes |
| BE | 5 | 5 | No | No | Yes |
| CY | 5 | 5 | No | No | By charge |
| CZ | 5 | 5 | No | Yes (0.12 %) | Yes |
| DE | 6 | 6 | No | No | Yes |
| DK | 6 | 6 | Yes (0.008 %) | Yes (0.008 %) | Yes |
| EE | 5 | 6 | Yes (0.01 %) | Yes (0.005 %) | By charge |
| ES | 5 | 5 in rural areas 6 in urban areas (80 % of pop.) | No | Yes (5 %) | Yes |
| FI | 5 | 5 | Yes (0.005 %) | No | By charge |
| FR | 6 | 6 | No | No | Yes |
| GR | 5 | 5 | Yes (USP: 3 %; NRA: 7 %) | Yes (NA) | By charge |
| HU | 5 | 5 | No | Yes (1.79 %) | No |
| IE | 5 | 5 | Yes (0.02 %) | No | Yes |
| IT | 5 | 6 | No | NA | Yes |
| LT | 5 | 5 in rural areas 6 in urban areas | No | No | By charge |
| LU | 5 | 5 | No | No | Yes |
| LV | 5 | 5 in rural areas 6 in urban areas (90 % of pop.) | No | No | By charge |
| MT | 5 | 6 | No | No | Yes |
| NL | 6 | 6 | No | NA | Yes |
| PL | 5 | 5 | No | No | Yes |
| PT | 5 | 5 | No | No | By charge |
| SE | 5 | 5 | Yes (0.026 %) | Yes | By charge |
| SI | 5 | 5 in rural areas 6 in urban areas (70 % of pop.) | No | Yes (0.85 %) | Yes |
| SK | 5 | 5 | Yes (0.01 %) | Yes (0.2 %) | Yes |
| UK | 6 | 6 | Yes (0.02 %) | Yes (NA) | Yes |

Based on WIK, 2006

The requirement stipulated in Article 3(3) of the Postal Directive to ensure that at least on five days a week, save in circumstances or geographical conditions deemed exceptional by the national regulatory authorities, one delivery is assured generally and

exceeded in some Member States. Derogations are only used in relation to a very small proportion of the population of the Member States in question. Nevertheless, different complaints and discussions have highlighted that the requirement for exceptions is not always fully clear; Member State regulators should, therefore, make sure that the exceptional circumstances that may give rise to a reduced level of home delivery are clear and fully understood by mail users. The application and effects of derogations under Article 3(3) of the Postal Directive will continue to be carefully monitored in the future, as this would seem to be of particular relevance for rural, sparsely populated and ultra-peripheral areas.

Interim conclusions on universal service

Although universal service requirements vary widely within the framework set by the Directive, the basic requirements set out in Article 3 of the Postal Directive are fully respected. The flexibility granted by the Directive has given Member States the possibility to adapt universal services to national needs and expectations. The adaptation to the needs of the users seems to be of particular importance. The reference period confirms that a wide range of high quality universal postal service is available throughout the Community.

3.2. Reserved area

Specific requirements set by the Directive

Article 7 of the Postal Directive allows Member States to reserve domestic and incoming cross border correspondence for the USP, if the correspondence is:

- **Less than 100 grams and 3 x rate for lowest weight step(*) (as of 2006, the threshold is 50 g, 2.5 times the basic rate) and if it is**
- **Necessary to ensure the maintenance of the universal service.**

Two extensions of the reserved area are permitted:

- **Direct mail (to the extent necessary to ensure the universal service).**
- **Outgoing cross border (to the extent necessary to ensure the provision of universal service, “for example when certain sectors of postal activity have already been liberalised or because of the specific characteristics particular to the postal services in a Member State” – Article 7, paragraph 1, fourth subparagraph)**

* Under the Accession Treaty, Poland was allowed to maintain a reserved area for items of correspondence weighting up to 350 grams until 31 December 2005.

Directive 2002/39/EC provided for the further opening of the European Community postal services markets to competition by reducing, the weight and price limits, from 1 January 2006, to 50g and limiting the transportation charge to less than 2.5 times the basic tariff. About 72 percent of letter post items weigh less than 50 grams, and about 7 percent weigh between 50 and 100 grams⁴¹. While it has been argued that this would imply that the reduction of the weight limit for the maximum reservable area to 50 grams would have a relatively minor effect in terms of volumes, the further opening up of the market applicable from 1 January 2006 is not negligible.

⁴¹ WIK, Main Developments 2004-2006, p. 200.

Progress to date

At present, all Member States have limited their reserved areas in accordance with the Postal Directive. Three Member States have abolished the reserved area and most notably the UK has completely repealed its reserved area on 1 January 2006. Consequently, the reserved area is today either substantially narrower than the maximum limit set by the Postal Directive (the most important step in this regard seems to be the liberalisation of direct mail which forms a substantial part of the modern letter post, and eight Member States - AT, CZ, NL, SI, EE, IT, LV, and ES - have taken this step) or has even been fully abolished (in FI, SE and UK). The reserved area per se is increasingly no longer seen as being necessary for the maintenance of the universal service and economic studies⁴² as well as the practical experience in those Member States without a reserved area confirm this. The following table summarises the current state of play:

Services reserved for the USP in the Member States:

| MS | Domestic & inbound CB | Direct mail | Outgoing CB |
|--------------------------------|-----------------------|-------------|-------------|
| FI, SE, UK | Liberalised | | |
| AT, CZ, NL, SI, EE | X | | |
| IT, LV, ES | X | | X |
| BE, DE, DK, FR, IE, LT | X | X | |
| CY, GR, HU, LU, MT, PL, PT, SK | X | X | X |

NB: Reservable areas in the weight and price limits of Article 7(1) of the Postal Directive.

Based on WIK, 2006

The above table shows that the abolition of the reserved area while maintaining a high quality of universal service has been achieved in several Member States⁴³.

However, it has to be noted that the discrepancies and different speeds in the Union constitute a risk for further reform. On the one hand, there is the complete abolition of the reserved area in a number of Member States, important reductions in some others and the announced prospect of further market opening in several other Member States.

⁴² 'An assessment of the cost and benefits of Consignia's current Universal Service Provision', Postcomm – June 2001, "Analysis of costs of universal services in the postal sector", Öhrlings, Coopers & Lybrand - October 1996; Committee report of the development of the Swedish postal market, 2005 [http://www.pts.se/Archive/Documents/EN/Postmarknad_forandring_eng_sammanf_jan_05.pdf].

⁴³ The recent study of WIK Consult 2006 has even argued that if any Member State should wish to maintain a reserved area for its USP "it would seem necessary to require a very particular showing of the specific considerations which could justify such a decision."

On the other hand, there is a significant number of Member States (IT, LV, ES, CY, GR, HU, LU, PT, SK, PL and MT) that still use the possibility of reserving outgoing cross-border mail. This is, however, envisaged as an exception only in Article 7(1) of the Postal Directive. Most of these Member States – with the notable exceptions of IT, LV and ES – are in fact applying in principle all reservations permitted under the above Article of the Postal Directive.

A significant development with respect to the reserved area in the last two years has been the firming up of plans to continue market opening in Germany and the Netherlands and to proceed faster with market opening than envisaged in the Postal Directive⁴⁴. Taking these two countries into account and adding them to those who have already fully or substantially opened the market, around 60% of the EU letter post would effectively be opened up to competition by the end of 2007.

Interim conclusions on the reserved area

As far as the level of market opening is concerned, all Member States fully respect the requirements of the Postal Directive. The complete abolition of a reserved area in some Member States, the important reductions in some others and the firming up of plans in several others give a strong impetus to those still applying a reserved area to move rapidly in the same direction.

3.3. Licensing and authorisation

Specific objective set by the Directive

Article 9 of the Postal Directive permits Member States to introduce authorisations for “postal services” provided by public and private operators (postal services refer to the collection, transport, and delivery of correspondence, printed matter, and packages).

Two types of authorisations can be granted:

- * **Individual license: approval before starting activity.**
- * **General authorisation: no approval before starting activity.**

Conditions that may be imposed:

* **Within the universal service area: (1) Essential requirements (i.e. confidentiality of correspondence, security of the network as regards the transport of dangerous goods data protection, environmental protection and regional planning); (2) Universal service obligations; (3) Service conditions; (4) Respect for reserved area; (5) Contribution to compensation fund.**

- * **Outside the universal service area: Essential requirements only.**

⁴⁴ On 13 April 2006 the Dutch government presented a bill setting 1 January 2008 as the date for full market opening; this proposal delays by 9 months the original date planned for 2007. The justification given by the Dutch authorities relates this to VAT differences with Germany and the UK. The German letter monopoly is due to end on 1 January 2008 too according to recent government announcements (BMWi, Pressemitteilung BM Glos 17 May 2006).

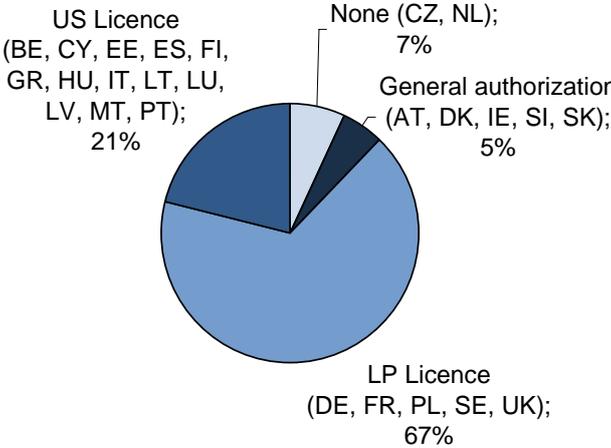
The Postal Directives allows in principle two different levels of regulatory controls depending on whether the postal activities fall outside or within the scope of the universal service. For postal activities outside the scope of the universal service, general authorisations may be introduced to the extent necessary to guarantee the “essential requirements”. For postal activities within the scope of the universal service, but outside the reserved area, authorisations or individual licences may be introduced to the extent necessary to guarantee the “essential requirements and to safeguard the universal service”. Under the Postal Directive a Member State might also refrain from establishing authorisation procedures altogether.

Progress to date

13 Member States are issuing individual licences for all universal services including parcel services, which can be considered as the strictest approach permitted by the Directive (BE, CY, EE, ES, FI, GR, HU, IT, LT, LU, LV, MT, PT). However, the largest Member States and several smaller Member States, accounting for more than three-quarters of the Community's letter post, apply less burdensome procedures. For example DE, FR, PL, SE and UK require licences for some or all letter post services within the universal service area; in five other Member States, a general authorisation procedure has been implemented (AT, DK, IE, SI, SK), and in two other Member States, no authorisation procedures are applied (CZ, NL).

The table below illustrates this situation:

Authorisation systems within the universal service area



Notes: Member States weighted by domestic letter post volume in 2004.

WIK, 2006

There has been no substantive development in terms of authorisation and licensing procedures in the reference period. However, the very different conditions being applied may be problematic from an Internal Market perspective. Therefore, some clarification in relation to possible conditions and obligations seems appropriate. This is all the more so as a possible misinterpretation of the permitted conditions could constitute a market entry barrier.

Compensation Funds

Article 9(4) of the Postal Directive states that "[I]n order to ensure that the universal service is safeguarded, where a Member State determines that the universal service obligations, as provided for by this Directive, represent an unfair financial burden for the universal service provider, it may establish a compensation fund administered for this purpose by a body independent of the beneficiary or beneficiaries. In this case, it may make the granting of authorisation subject to an obligation to make a financial contribution to that fund. [...]"

The aim of such a fund is hence to cover the uneconomic cost of the provision of the universal service obligation incurred by the USP. An authorisation or licence, for services within the scope of the universal service, may therefore be granted to an operator subject to an obligation to contribute to a universal service compensation fund. A compensation fund may only be used to finance those activities falling within the scope of the universal service.

Some Member States (BE, CY, DE, ES, GR, IT, LV, PT and SI) have made provision for setting up compensation funding arrangements to ensure universal service provision but thus far, only Italy has actually established one.

Interim conclusions on licensing and compensation funds

As regards licensing some clarification in relation to conditions and obligations might be required and appropriate. Also a review of national practices together with competent authorities of the Member States should be discussed; NRA's could play a particular role in this regard.

The practical use of compensation funds has been limited. Further consideration may be needed in the future to see how to make this optional tool more operational.

3.4. Downstream and other access issues

Specific objective set by the Directive

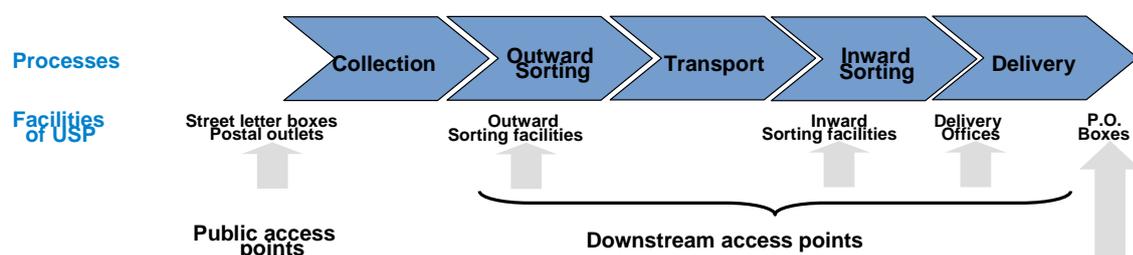
Downstream access in particular refers to access by third parties to the incumbent operator's infrastructure, particularly its sorting and delivery facilities. The Postal Directive does not impose specific access rules, although it empowers Parliament and Council, acting on a proposal from the Commission, to adopt harmonisation measures in the field of access to the public postal network, whenever necessary (Article 11 of the Postal Directive).

On the other hand, Article 15, fifth indent, of the Postal Directive already states: "whenever universal service providers apply special tariffs, for example for services for businesses, bulk mailers or consolidators of mail from different customers, they shall apply the principles of transparency and non-discrimination with regard both to the tariffs and to the associated conditions. The tariffs shall take account of the avoided costs, as compared to the standard service covering the complete range of features offered for the clearance, transport, sorting and delivery of individual postal items and, together with the associated conditions, shall apply equally both as between different third parties and as between third parties and universal service providers supplying equivalent services. Any such tariffs shall

also be available to private customers who post under similar conditions, [...]". Such special tariffs may be considered as applicable to downstream access and the principles of transparency and non-discrimination have been specifically enshrined in the Postal Directive.

It is argued that notably downstream access could help facilitate market entry for upstream consolidators (see figure below). New competitors who want to establish a delivery network could also use access for a transitional period to build up customer relationships and volumes, before being able to compete end to end with the incumbent. Using this model, consolidators and competitors, as well as major business customers could already deliver part of the value chain process before handing mail over to the incumbent.

Access to the postal supply chain:



WIK, 2006

Progress to date

Member States have different policies on whether market dominant operators (incumbents) should be obliged to provide access to third parties. Seven Member States have granted the NRA authority to require downstream access to the public postal network under appropriate circumstances (DE, DK, FR, HU, PT, SI and UK). Three NRAs report that they have used this authority to encourage access (DE, DK, and PT). Two others indicated that, once the USP has granted access to one customer, they have required the USP to give downstream access to all customers on a non-discriminatory basis (IT, LT). Determination of discounts by NRAs, court decisions obliging equal access to mailers, competitors and consolidators as well as "voluntary" agreements have all occurred in the reference period in Member States⁴⁵. Many of these decisions or agreements have focused more on pricing than on the access as such. As regards mandatory regulation of downstream access as well as the impact of the different arrangements, divergent policy positions exist and studies have highlighted the complexity of the issue⁴⁶. Whatever solutions are applied, they must accord with principles of non-discrimination and transparency in the Postal Directive.

Another important "access issue" is access to key elements of the postal infrastructure such as post office boxes, address databases (of valid physical addresses and changes of

⁴⁵ For further details see particularly WIK, Main Developments 2004-2006, case study 3.8.

⁴⁶ NERA, Economies of Postal Services (2004); WIK, The Evolution of the Regulatory Model (2005); ECORYS, Development of Competition (2005); TILEC, Light is Right (2005); WIK, Zur Konsolidierungsdiskussion im deutschen Postmarkt (2005); HWWA, Netzzugang und Wettbewerb bei Briefdiensten (2005).

address), buildings and letter boxes as well as to the determination of postal codes and to redirection and return-to-sender services. Access to such infrastructure would be of increasing importance in a multi-operator environment. In addition, some of the above access issues could constitute a barrier to market entry – which has been highlighted in the case of letter boxes in Austria⁴⁷. Here a decision has been taken by legislation (followed by a decision by the Constitutional Court). Another example is the voluntary agreement on the administering of postcodes in Sweden. This demonstrates the variety of possible approaches and the different routes taken (legislation, court decisions, and voluntary agreements). Intervention by NRAs in this area may be necessary also to assure consumer protection in a competitive environment (e.g. redirection, return-to-sender services).

Interim conclusions on access

Different solutions on downstream access can be observed in the Member States. As far as access to specific facilities is concerned, it is worth noting the roles of National Regulatory Authorities in ensuring that any such access barriers are removed.

3.5. Tariff principles

Specific objectives set by the Directive

Article 12 of the Postal Directive requires each tariff for universal service to be affordable, geared to costs, transparent, and non-discriminatory. Special tariffs with individual customers are permitted but should conform to the same principles. In particular, special tariffs must:

- * “take account of the avoided costs” and
- * apply equally between third parties and be open to private customers who use postal services under similar conditions.

Cross-subsidisation of universal services outside the reserved sector using revenues from services in the reserved sector shall be prohibited except to the extent to which it is shown to be strictly necessary in order to fulfil specific universal service obligations imposed in the competitive area.

Article 13 requires that Member States encourage their USPs to arrange that in their agreements on terminal dues for intra-Community cross-border mail, the following principles are respected: (1) terminal dues shall be fixed in relation to the costs of processing and delivering incoming cross-border mail; (2) levels of remuneration shall be related to the quality of service achieved; (3) terminal dues shall be transparent and non-discriminatory.

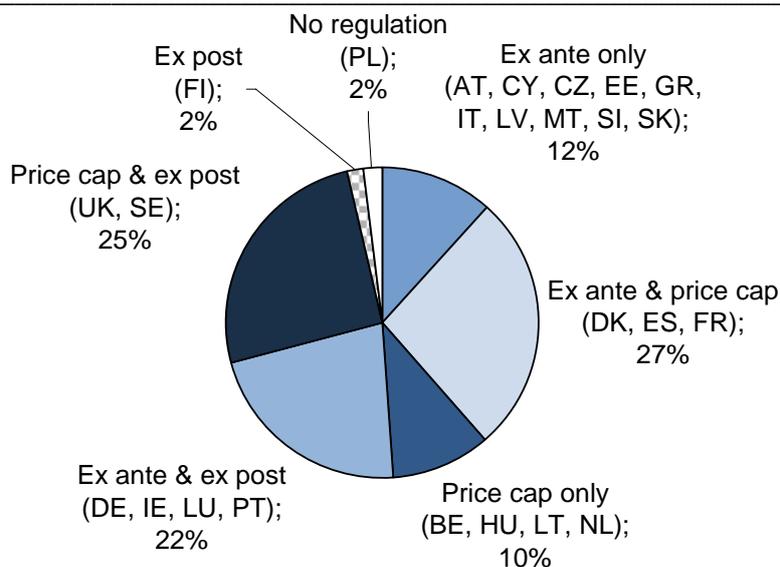
Progress to date

In principle, all Member States have adopted procedures and standards for regulating the prices of key universal services so that they comply with the general standards of the Directive.

⁴⁷ VfGH G-100/05-14 u.a. [Austrian Constitutional Court] Judgement of 25 April 2006.

The Postal Directive leaves to the Member States the choice of the appropriate forms and methods to ensure the compliance with tariff rules. Three basic procedures used by Member States are reported in the table below: "Ex ante" requiring the USP to receive specific approval of the NRA before the implementation of price changes; "price cap" permitting the USP to change prices under a pre-approved level or formula and "ex post" which allows a price change, but with the possibility for the NRA to modify the change if an investigation should reveal that the relevant standards have not been respected. It should be noted that a substantial number of Member States uses dual price control regimes.

Methods of price regulation:



Notes: MSs weighted by domestic letter post volume in 2004.

WIK, 2006

The Commission's 2005 Application Report had already observed a fragmented picture in terms of the actual degree of price control undertaken by each Member State. This is confirmed by the following table which reveals that standards or benchmarks vary as much as the underlying information requirements (on product costs and volumes) and show that only in some cases do regulators require the USPs to reduce their costs over time (i.e. improve their productivity). This requirement – which is applied in DE, IE, IT, MT, PT and SI – can be considered as more stringent as on efficient/future costs - used in CZ, DE, EE, HU, LU, PT, SI and SK. If on the other hand, no productivity increase is required and reliance is only on past costs (or based on a price index), the postal operator might have more leeway.

Principles of price regulation

| MS | Scope of price regulation | Benchmark for regulating costs | NRA determines product costs | NRA determines product volumes | NRA regulates productivity |
|----|---------------------------|--------------------------------|------------------------------|--------------------------------|----------------------------|
| AT | US | | | | |
| BE | US | Price index | No | No | No |
| CY | US (md) | Past costs | | | |
| CZ | US | Efficient costs | No | No | No |
| DE | US (md) | Efficient costs | No | Yes | Yes |
| DK | US | Price index | | | |

| MS | Scope of price regulation | Benchmark for regulating costs | NRA determines product costs | NRA determines product volumes | NRA regulates productivity |
|----|---------------------------|--------------------------------|------------------------------|--------------------------------|----------------------------|
| EE | US | Future costs | No | No | No |
| ES | US | Past costs | No | Yes | No |
| FI | US | Past costs | No | No | No |
| FR | US | Past costs | No | No | No |
| GR | US | Past costs | Yes | Yes | |
| HU | Res. servs. | Efficient costs | No | No | No |
| IE | US | Future costs | No | No | Yes |
| IT | US | | No | No | Yes |
| LT | US | Past costs | Yes | Yes | No |
| LU | Res. service. | Future costs | Yes | No | No |
| LV | US | Past costs | No | No | No |
| MT | US | | Yes | Yes | Yes |
| NL | US | Cost index | No | No | No |
| PL | US | Price index | No | No | No |
| PT | US | Future costs | Yes | Yes | Yes |
| SE | US | Past costs | No | No | No |
| SI | US | Efficient costs | No | No | Yes |
| SK | US | Future costs | Yes | Yes | No |
| UK | US | Future costs | Yes | Yes | Yes |

Notes:

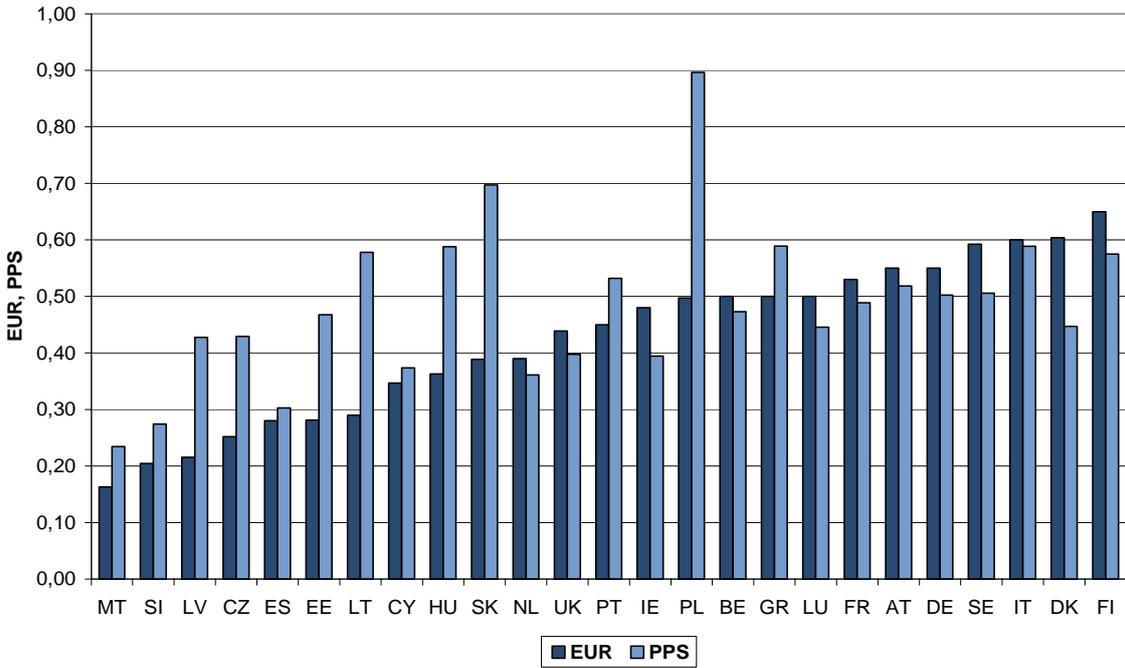
BE: Scope of price regulation concerns reserved services and universal services used by private consumers and small and midsize companies.

WIK, 2006

All Member States have adopted procedures and standards for regulating the prices of key universal services. Nevertheless, their effective implementation seems to be quite different in terms of procedures (ex ante, price cap and ex post procedures), parameters (product cost, volume and productivity increase) and scope (some Member States limiting price control to reserved, single piece or market dominant services). Putting the pricing principles of the Postal Directive and particularly the aim of affordable, transparent prices geared to costs into practice will require further attention from Member States. Price control certainly constitutes a complex issue that is not only dependent on the modalities of how it is carried out but is also dependent of the appropriate price data collection. Price control is therefore one of the issues where an enhanced administrative cooperation of NRAs could be of particular benefit.

The following table gives an overview of prices for the 20g category of letters (fastest standard category) in Euro and purchasing power parities (PPS). While the differences in absolute terms are higher, a comparison using PPS reveals much less differences. At the same time, it can be observed that prices in Euro are lower in EU10, while in PPS they are in a number of cases higher or equal to prices in EU15.

USP tariffs for 20g letter of the fastest standard category, 2005, in EURO and purchasing power standards:



Note:
 Tariffs converted to EURO using average exchange rates for 2005. Tariffs converted to purchasing power standards (PPS) using purchasing power parities (PPP) for 2005, from Eurostat. Public tariffs (20g, FSC) used for this figure include VAT for the following countries: FI (22%), Sweden (25%) and SI (20%). For those USPs that offer reduced tariffs for meeting certain requirements regarding letter format, tariffs stated in the figure are for these “standard letters”.

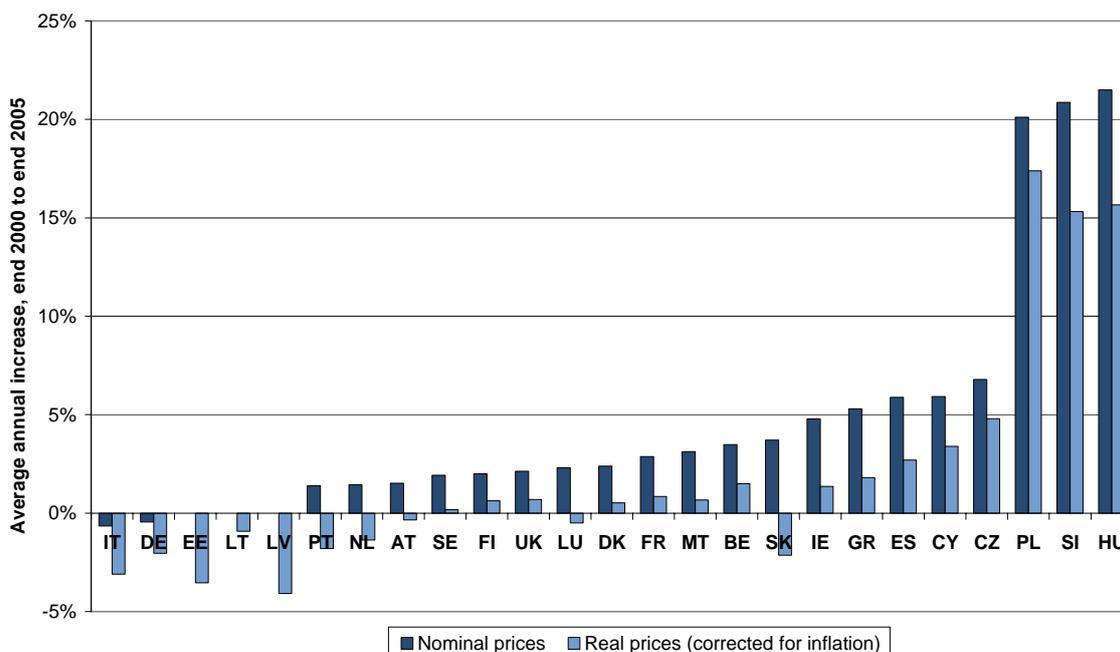
WIK, 2006

Although the tariff for a postal item in the lowest weight step transmitted by the fastest standard category of service can be considered the most basic measure for postal prices, it should be borne in mind that (a) in some Member States a second class priority service is also offered; (b) postal tariffs including VAT might not be fully comparable particularly for consumers with tariffs where no VAT applies; (c) format requirements

might be different, (d) there are different delivery frequencies. In addition, large users may enjoy substantial discounts, which would result in the reduction of the average of prices.

As the following table shows in real terms (i.e. after inflation adjustment), prices for the basic postal rate have remained largely stable, or declined slightly in most Member States. In three new Member States a sharp increase was observed.

Average annual increase of USP tariffs for 20g letter of fastest standard category, 2000-2005



WIK, 2006

For parcel services, price comparisons are significantly more complex than for letter post because there is much more variation in parcel products offered by European USPs. In absolute terms prices for a 5kg domestic parcel range between 1€ and 15€, for USP cross-border parcels, the spread is also more varied (6€ to 38€) than the price range for letters (0.30€ to 1.08€). However, the figures for parcels should be interpreted with caution as they may relate to quite different products and, here again, high public prices and significant increases in public tariffs do not necessarily indicate increasing overall price levels since decreasing tariffs for business senders may have had a net reduction effect. The variation and high prices particularly in relation to cross-border-parcels merit further attention as this is a segment closely related to an Internal Market.

According to Special Eurobarometer 2006, 12% of EU25 citizens who use postal services consider the cost of postal services to be not affordable. 99% of Greeks considered postal services to be affordable and high figures of 96% were also observed in Lithuania and the UK. However, in some Member States a higher percentage found prices excessive/non affordable: Finland (26%); Sweden (23%), Poland (22%) and France (15%).

These marked differences between the perceptions in the Member States can be explained in part by objective developments (such as recent price increases) but might

not be related to the factual price situation/evolution. In addition, the Eurobarometer focuses only on consumers, while more than 87.5% of all letters are business originated. Also it should be recalled that spending on postal services as a percentage of total household budgets are on average only 0.2%⁴⁸. [DGSANCO comment]

Pricing flexibility, discounts, and non-discrimination

Public tariffs – the price paid by the final consumers - are often at the centre of attention. Nevertheless, one should not overlook the fact that European USPs have developed a variety of product and discount schemes. Special tariffs appear to account for 40% to 90% of all correspondence in the larger Member States although discounts seem to be of 10 % or less in a number of Member States. Special tariffs are applied to nearly 100% of direct mail and to 50% to 80% of parcels. Directive 2002/39/EC requires Member States to ensure that special tariffs are not discriminatory and take into account avoided cost; Member States are also required to monitor unjustified cross-subsidies. To be able to do so, information on such special tariffs and price transparency are important and pricing practices should be carefully observed by NRAs.

Terminal Dues

Terminal dues are the remuneration postal operators pay to each other for the delivery of cross-border mail in the country of destination. The Postal Directive requires Member States to encourage their universal service providers to arrange that in their agreements on terminal dues⁴⁹ for intra-Community cross-border mail, three main principles are respected. The terminal dues are to be related to costs of processing and delivering incoming cross-border mail, to achieved quality of service, and that they shall be transparency and non-discriminatory.

On 23 October 2003, the Commission extended the exemption to the REIMS II agreement (this is an agreement between 17 European Public Postal Operators on terminal dues) until 2006⁵⁰. This Decision took into account the application of the principles contained in the Postal Directive and was taken principally on the grounds of the significant improvement of quality of services (to the benefits of all customers), due to the strict penalty system provided for in the event of poor quality.

As far as the quality of service performance of USPs from some EU10 Member States is concerned, it seems that there have been some difficulties in actual measurement as a number of UNEX end-to-end results for these countries were not available for 2005. Since January 2005, a majority of EU 10 Member States joined an agreement, called REIMS-EAST which respects the principles of REIMS II adapted to the particularities of the new Member States.

⁴⁸ Eurostrategies, *Opening in network industries supplying services of general economic interest*, 2006.

⁴⁹ Terminal dues represent the remuneration of delivery of cross boarder mail in the country of destination.

⁵⁰ Commission decision of 23 October 2003 in Case COMP/C/38.170 — REIMS II renotification. OJ L 56 of 24.02.2004.

Value Added Tax

Under the Sixth VAT Directive (Directive 77/388/EEC, Article 13) the provision of certain services by public postal services and the supply at face value of postage stamps for use for postal services are exempt from VAT. Since then the Community legal framework as regards postal services has fundamentally changed following the Postal Directive in 1997 (and amended in 2002). Meanwhile, the postal VAT exemption has remained in force

The VAT exemption is applied in a variety of ways in the Member States: first, all postal services supplied by the USP might be exempt; second, postal services under the universal service obligation might be exempt; third only the reserved services could be exempt; and fourth, all services might be subject to VAT.

Postal services exempted from VAT

| Postal services exempted from VAT | Member States | Notes |
|-------------------------------------|--|--|
| No services | FI, SE, SI | |
| Reserved services | ES, LV | ES: Restriction of VAT exemption from all postal services provided by USP to reserved services put in place in 2006. |
| Universal services | BE, CZ, DE, DK, EE, FR, GR, LT, LU, MT, NL, SK | BE: Restriction of VAT exemption from all postal services provided by USP to universal services put in place in 2005. LT: Only correspondence and direct mail are exempted from VAT. |
| All postal services provided by USP | AT, CY, HU, IE, IT, PO, PT, UK | AT: Correction to last study on main developments: All addressed items are exempted from VAT. IE: Courier services and distribution of unaddressed items are not VAT exempted because these services are not considered to be "postal". |

Based on WIK, 2006

This uneven application of the exemption and the distortions of competition occurring between former monopolies that benefit from the exemption and new operators that do not, are considered an important obstacle to achieving effective competition in the postal sector.

To counter this situation the Commission proposed⁵¹ in 2003 to remove the current VAT exemption on public postal services and postage stamps while introducing an option for Member States to apply a reduced tax rate to a wide range of postal services in order to limit the impact on prices for private customers. Despite its obvious significance for a level playing field in a liberalised market for postal services, this proposal is however still under consideration by the Council. The Commission has repeatedly urged the Council to adopt its proposal but progress has been limited.

In the meantime the Commission needs to ensure an even-handed application of the existing VAT postal exemption across the Community which should extend only to the limits of the strict discharge of the universal service obligation and not distort competition in other areas. Since not all Member States delimit the exemption correctly, the Commission has sent letters of formal notice to the UK, Germany and Sweden in April 2006⁵² about the unsatisfactory way in which the current provisions have been implemented.

Interim conclusions on tariff principles

While the Directive can be considered as having been largely transposed, the effective implementation in the Member States of the Community tariff principles seems to be quite different in terms of procedures, parameters and scope. Member States should therefore further adapt their legislative requirements and their administrative practices. Administrative cooperation as regards pricing and transparency is of particular importance. Given this importance, the whole area of pricing – including terminal dues and VAT- should be closely looked at.

3.6. Transparency of accounts

Specific objectives set by the Directive

Article 14 of the Postal Directive requires:

- Separation of USP accounts (Reserved and non-reserved services, Universal services and non-universal services).
- Cost allocation system as defined in the Directive.
- Statement of compliance by independent body.
- USPs to disclose detailed accounting data to NRA and Commission on request.

Article 15 requires the publication of USPs financial accounts after these are reviewed by an independent auditor.

⁵¹ COM (2003) 234 as amended by COM (2004) 468 Proposal for a Council Directive amending Directive 77/388/EEC as regards value added tax on services provided in the postal sector.

⁵² Commission Press Release IP/06/484 of 10 April 2006.

Progress to date

All Member States have enacted legislation that transposes substantially the accounting obligations resulting from the Postal Directive. However, uneven implementation has been noted. This has been confirmed by the WIK Consult 2006 study. Divergences have emerged and these concern in particular the level of accounting sophistication and detail, the separation of accounts, the allocation of costs as the verification and publication. Mutatis mutandis it has to be reiterated that, in practice, transparency of accounts is still only being partially implemented in most Member States. Consequently, it is difficult to offer firm conclusions on the correctness of the cost allocation under the Postal Directive.

Cooperation between National Regulatory Authorities is important in this area. It is worth noting the efforts undertaken by the European Committee for Postal Regulation (CERP) to devise guidelines for the implementation of cost allocation principles.

Interim conclusions on transparency of accounts

The Directive's goal of an open and transparent cost allocation system has yet to be fully reached and this will require greater attention from NRAs together with the Commission.

3.7. National Regulatory Authorities (NRAs)

Specific objectives set by the Directive

Article 2 (18) of the Postal Directive defines NRAs as “the body or bodies, in each Member State, to which the Member State entrusts, inter alia, the regulatory functions falling within the scope of this Directive.”

Article 22 of the Postal Directive requires each Member State to designate one or more NRAs for the postal sector that are “legally separate from and operationally independent of the postal operators”.

NRAs “shall have as a particular task ensuring compliance with the obligations arising from this Directive and shall, where appropriate, establish controls and specific procedures to ensure that the reserved services are respected”.

The independence of the NRAs is a key requirement of the Directive, although there are other issues of significant importance for effective national regulation, such as their functions, powers, and resources. The Commission believes that it is important to ensure effective independence, adequate capacity and effectiveness of the (competition and) regulatory authorities.

Progress to date

Independence of the NRA depends on a number of factors. The organisational arrangements constitute but one important element in this regard. A trend towards creating specific agencies with genuine institutional independence is evident if one compares the current state of play with the situation in the initial years of postal reform in Europe. It should be noted that in the

reference period, France created a separate and independent regulator⁵³. A further strengthening of the independence of the regulator is under active discussion in Spain and foreseen in the Austrian postal law. Currently the NRA in Austria is still attached to the Federal Ministry of Transport, Innovation and Technology, but will become part of the Austrian Regulatory Authority for Broadcasting and Telecommunications (RTR-GmbH) on 1 January 2008⁵⁴.

As in almost all other cases the Austrian NRA is also a multi-sector regulator. Apart from postal sector, most European NRAs regulate electronic communications services, broadcasting, road transport or energy and gas. This might have the effect that experiences gained in other network industries can be taken into account; at the same time it might call for an improved horizontal cooperation with their Sectoral counterparts in the other Member States. The substantial improvements in terms of independence are to be viewed as a positive development, but still further steps might be appropriate.

⁵³ LOI no 2005-516 du 20 mai 2005 relative à la régulation des activités postales, OJRF 21 mai 2005.

⁵⁴ § 25(2) of the Austrian Postal Law, (BGBl. I Nr. 2/2006).

National Regulatory Authorities for postal services

| MS | Regulator | First year |
|---------------|---|------------|
| AT | Ministry of Transport, Innovation, and Technology, Department for Postal Affairs | 1999 |
| BE | Belgian Institute for Postal Services and Telecommunications (BIPT/IBPT) | 1991 |
| CY | Office of the Commissioner for Electronic Comm. and Postal Regulation (OCECPR) | 2002 |
| CZ | Czech Telecommunication Office (CTO) | 2005 |
| DE | Federal Network Agency (BNetzA) | 1998 |
| DK | Road Safety and Transport Agency, Postal Supervisory Department | 1995 |
| EE | Estonian National Communications Board (ENCB) | 2002 |
| ES | Ministry of Development, Department for Regulation of Postal Services | 1998 |
| FI | Finnish Communications Regulatory Authority (FICORA) | 1994 |
| FR | Regulatory Authority for Electronic Communications and Postal Services (ARCEP) | 2005 |
| GR | Hellenic Telecommunications and Post Commission (EETT) | 1998 |
| HU | National Communication Authority (NHH) | 1990 |
| IE | Commission for Communication Regulation (ComReg) | 2002 |
| IT | Ministry of Communications | 1999 |
| LT | Communications Regulatory Authority (RRT) | 2002 |
| LU | Luxembourg Institute for Regulation (ILR) | 2000 |
| LV | Public Utilities Commission (SPRK) | 2001 |
| MT | Malta Communications Authority (MCA) | 2003 |
| NL | Independent Post and Telecommunications Authority (OPTA) | 1997 |
| PL | Office of Electronic Communications (UKE) | 2002 |
| PT | National Communications Authority (ANACOM) | 1981 |
| SE | National Post and Telecom Agency (PTS) | 1994 |
| SI | Post and Electronic Communications Agency (APEK) | 2002 |
| SK | Postal Regulatory Office | 2002 |
| UK | Postal Services Commission (Postcomm) | 2000 |
| Notes: | | |
| AT | From Jan. 1, 2008 the Austrian Regulatory Authority for Broadcasting and Telecommunications (RTR-GmbH) will be the national regulatory authority for postal services. | |
| CZ | Ministry of Finance regulates prices for domestic postal items, CTO other prices. | |

WIK, 2006

It has been observed that the resources of postal NRAs vary enormously between the Member States, and even between those of a comparable size. By way of example, the budget of Postcomm (UK) represents half of the total budget of all other NRAs in the EU and the NRAs of Italy and the Netherlands only have 5% of Postcomm's budget. In total Member States

spend about 37 million € and employ about 300 persons in the regulation of postal services. Equally the competencies of NRAs regarding the collection of data from the USP (including for example determining specific account formats), the basic enforcement powers (e.g. to cancel unlawful tariffs or impose fines) and other powers (such as to require downstream access) vary considerably. This suggests that benchmarking of good practice might be considered in the framework of enhanced administrative cooperation between NRAs.

Given the substantial role NRAs play in the European postal sector – and this role might be increased as markets open up – and the overall level of resources devoted to them, the imbalance illustrated above is cause for concern. A more efficient use of resources could inter alia be promoted by fostering administrative cooperation between the European NRAs as well as benchmarking.

Interim conclusions on National Regulatory Authorities

The divergences between the European NRAs in terms of information gathering, basic enforcement powers and other competencies should be addressed inter alia by fostering administrative cooperation and benchmarking.

3.8. Quality of services – Routing time

Specific objectives set by the Directive

One of the key aims of the Directive is to improve the quality of Community postal services.

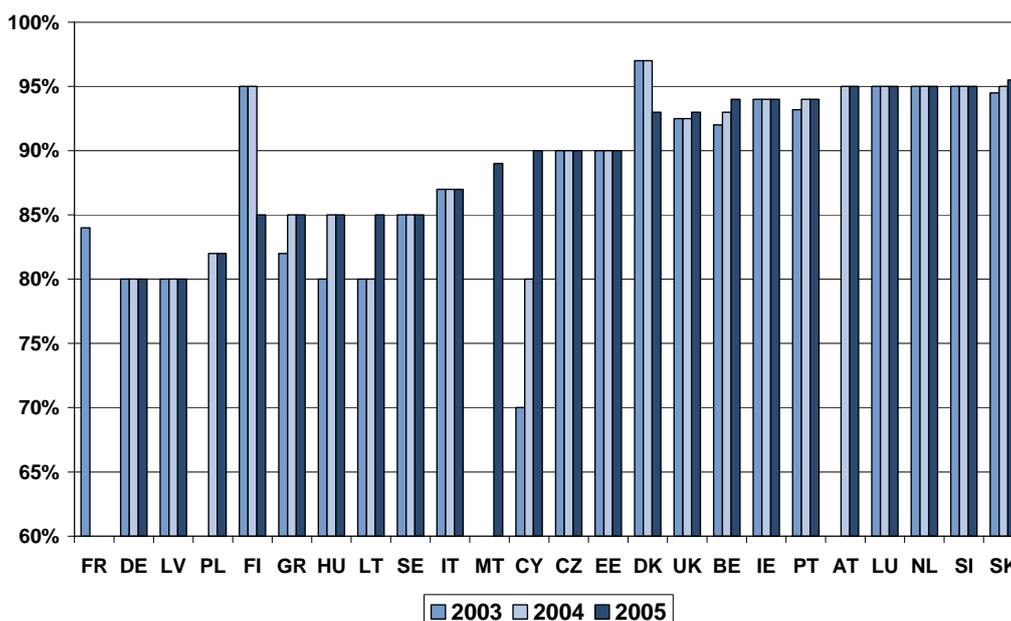
Article 16 of the Directive requires Member States to “*ensure that quality-of service standards are set and published in relation to universal service in order to guarantee a postal service of good quality*”.

Each NRA is required to monitor the performance of the USPs so that they comply with the set standards. Whilst the Directive does not prescribe penalties when quality targets are not met, each NRA is required to take corrective action.

At the national level, the Directive requires Member States to set quality of service targets for all universal services, including services for correspondence, newspapers, magazines and parcels. In reality, however, the coverage of transit time targets (understood as the most important category of service targets) varies widely across Member States. In more than half of the Member States, only one target is set for letters in the fastest standard category without distinguishing between single-piece and bulk mail.

In terms of setting the quality standards, Article 16 of the Directive states that quality standards are to “*focus, in particular, on routing times and on the regularity and reliability of service*”. Each NRA has discretion under certain circumstances such as infrastructural difficulties or geography, to allow derogations from adopted quality standards. Whilst the Directive does not prescribe the method for measuring quality standards, it does require adequate measuring of quality, and that an evaluation procedure is put in place (for details see point 3.10).

D+1 transit time targets 2003, 2004, and 2005



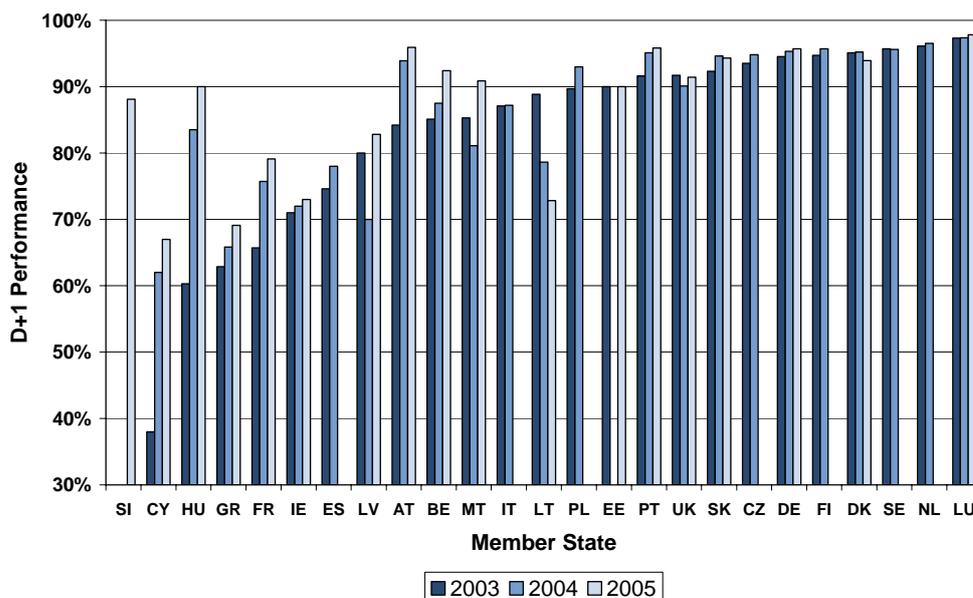
Notes:

ES: no D+1 target
 FR: target for 2006

WIK, 2006

The above table shows that quality of service (transit time) targets have been set for the fastest standard category of service in all but one Member State (ES). As noted in the 2005 Application Report, the differences in the measurement systems in the Member States suggest that some alignment in performance monitoring would allow for more comparability and transparency. Here again, further administrative cooperation might be considered.

Transit time performance D+1 (2003-2005)

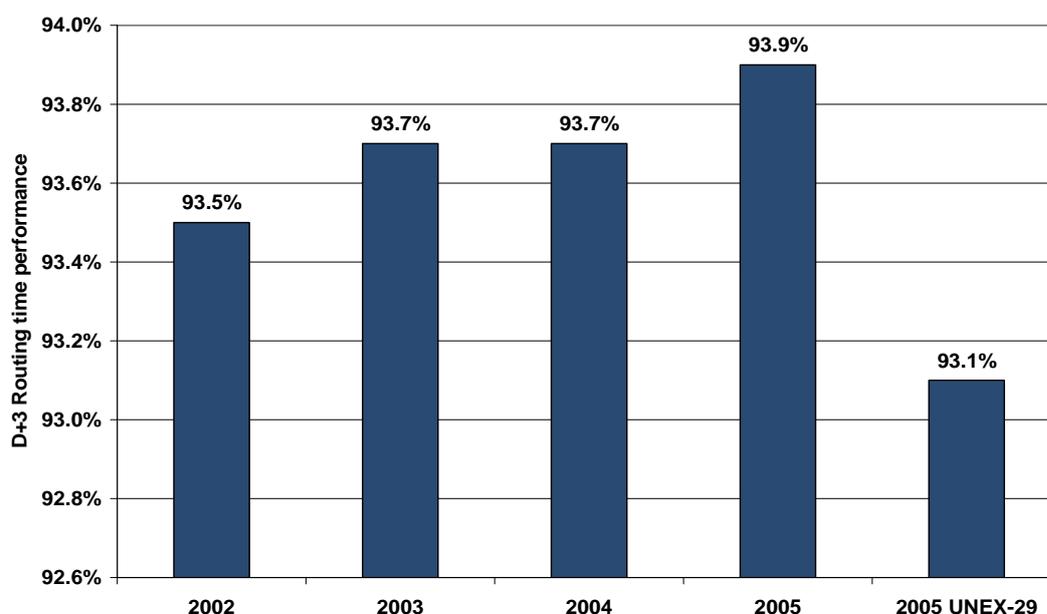


WIK, 2006

Overall transit time performance has greatly improved in the last decade and further improvements occurred during the reference period. With the exception of USPs in DK, and LT whose transit time performance decreased, all other USPs have at least maintained or improved their performance. Especially some UPSs in the new Member States have made major gains (CY, CZ, GR, HU and MT) but also AT, BE, FR and GR have improved their performance. CY has forced up its D+1 transit time target from 70 % in 2003 to 90 % in 2005.

As regards cross-border services⁵⁵ it should be pointed out that until 2004 only the USPs of the EU15 had fully implemented the UNEX⁵⁶ monitoring system which is used for systematically measuring the transit time of letters. At the beginning of 2005, this system and the UNEX-lite system (that was used by six of the new Member States) were merged into one single system: UNEX 2005. This system is able to generate much more comprehensive data across the enlarged European Union. The 306 country-to-country letter flows that have been measured and reported from 1994 to 2004 have been complemented by a selective number of additional letter flows. The UNEX 2005 system will be further extended so that it can provide full coverage by 2007.

Cross border overall performance D+3 in EU 15 and EU29



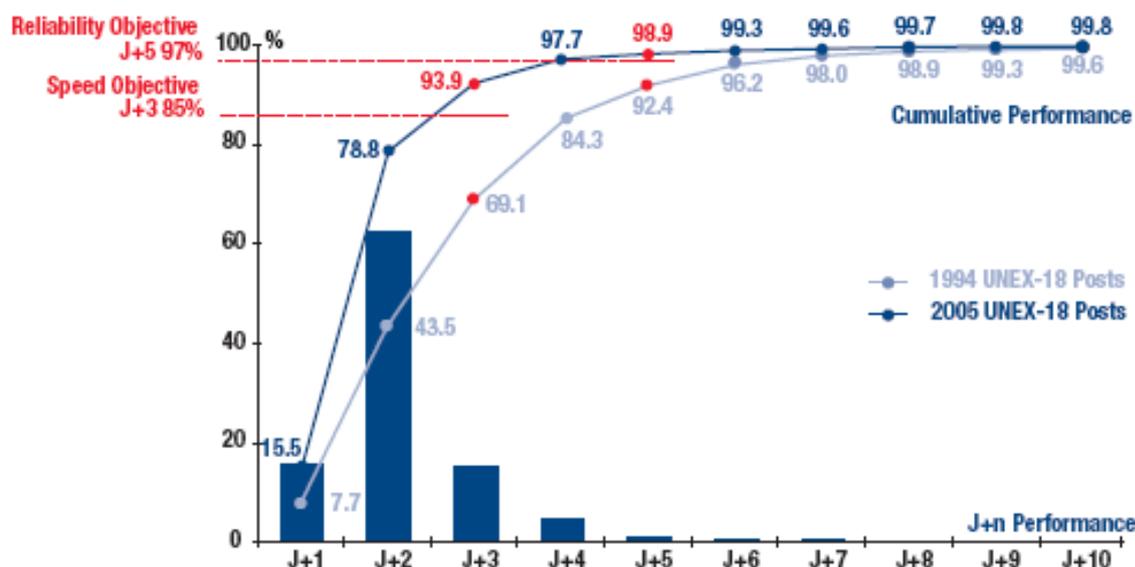
WIK, 2006 (based on IPC)⁵⁷

⁵⁵ For cross-border postal items sent by the fastest standard category, the annex of the Directive provides that 85 percent of the mail must be delivered by the third working day after posting. A second requirement is that 97 percent of such mail must be delivered by the fifth day after posting. These targets should be achieved both as an overall average and in each bilateral exchange between Member States.

⁵⁶ For more information on the UNEX system monitoring routing times see the website of the International Post Cooperation: <http://www.ipc.be/unexdac.asp>

⁵⁷ Results 2002-2005 based on UNEX-18 (AT, BE, CH, DK, FI, FR, DE, GR, IS, IE, IT, LU, MT, NL, NO, PT, SE, UK); 2005 UNEX-29 (plus CY, CZ, EE, HU, LV, LT, MT, PL, RO, SK, SI).

Europe: Distribution per Delivery Days - 2005⁵⁸



IPC, 2006

The above tables show that service among postal operators in Europe continued at a high level in 2005 and exceeded the European Union's performance objectives for delivery of 85% of intra-EU mail within three days, and 97% within five days. In fact, contrary to some expectations, enlargement did not have any negative impact on the attainment of the performance objectives set out in Annex 1 of the Postal Directive for intra-Community cross border mail. In the EU 93.1% of first class/priority international letters were delivered within three days of posting (D+3) and 98.7% within five days (D+5); i.e. the target was surpassed by 8.1% and 1.7% respectively. Average delivery time was 2.2 days. This constitutes further proof that the cross border time objectives of the Postal Directive may be demanding but are achievable.

The improvements since the implementation of Directive 97/67/EC can be demonstrated using the following figures: the performance D+3 under UNEX-18 in 1998 and under UNEX-29 in 2005. On time delivery went up from 85.6% to 93.1%. Nevertheless, it needs to be reiterated that national standards vary significantly suggesting asymmetry in the effective universal service provided at national level. This issue should be addressed in the appropriate way, such as in the framework of the Postal Directive Committee (PDC), the European Committee for Postal Regulation (CERP) or through bilateral contacts.

Recent results for EU25 have, however, revealed some shortcomings concerning the quality of bilateral flows between a number of Member States. Although it is too early to draw definitive conclusions based on the available results, this development may indicate the need for NRA's to evaluate the situation. In particular, bilateral contacts between the two countries concerned should allow policy makers to identify the reasons why this is occurring and to adopt the appropriate corrective measures or alternatively make use of the possibility of

⁵⁸ http://www.ipc.be/documents/2005_UNEX_Results.pdf- Results are for UNEX-18, i.e. EU-15 plus Switzerland, Island and Norway.

identifying exceptions particularly where situations related to infrastructure or geography may justify these.

Interim conclusions on quality of service

Quality in terms of transit time has further improved at both the national and European level. However, the differences in national standards will require some attention in the framework of the Postal Directive Committee and administrative cooperation should be improved in this regard.

3.9. Complaint and redress procedures

Specific objectives set by the Directive

Article 19 of the Postal Directive requires Member States to ensure that there are adequate consumer protection measures in place and that complaints about poor universal postal service are handled through “*transparent, simple and inexpensive procedure [...] particularly in cases involving loss, theft, damage or non-compliance with service quality standards.*”

The Directive lays down two key procedural requirements to ensure that there is clarity in complaint handling. The first is for Member States to ensure that USPs publish details on the number of complaints received and how these complaints were dealt with and resolved. The second is for Member States to ensure there is an appeal mechanism which allows complaints to be brought before “*the competent national authority*” in cases where grievances were not adequately resolved by the USP.

Progress to date

The Application Report 2005 noted that with the exception of the UK where there is a separate statutory body,⁵⁹ all other NRAs either handles customer complaints in the first instance or on appeal after attempts to deal with them by the USP has failed.

Despite the establishment of complaint procedures – which have in part also been extended to competitors – in practice there seems to be still discontent among citizens about the handling of complaints⁶⁰. It was noted in a study⁶¹, that the adoption and enforcement of the CEN standard on measurement of complaints and redress procedures⁶² would considerably contribute to improving the current situation.

Interim conclusions on complaint and redress procedures

The implementation of the provisions in the Postal Directive relating to complaint and redress has not been fully satisfactory for all consumers. Complaint and redress procedures are particularly important for end consumers and SMEs, both of which have

⁵⁹ The Consumer Council for Postal Services (Postwatch), who has the lead role in investigating complaints and for setting quality standards and complaint procedures with the USP: <http://www.postwatch.co.uk/>.

⁶⁰ According to Special Eurobarometer (2005) 53% of the respondents say that their complaints have been dealt with badly and 44% state that they have been dealt with well.

⁶¹ “Quality of services objectives, performance and measurement in relation to community universal postal service”, Wik, August 2003.

⁶² Standard EN 14012: Measurement of complaints and redress procedures.

very limited or no bargaining power and the role of NRAs is of particular importance in this regard.

3.10. Technical standards

Specific objective from the Directive

Harmonisation of technical standards is an ongoing process which in particular takes account of the interest of users. The European Committee for Standardisation (CEN) is entrusted with drawing up the technical standards applicable to the postal sector. It is within this framework that standardisation mandates issued by the Commission to CEN are carried out.

CEN has focused its work on technical harmonisation and aims to “*increase the interoperability of postal networks in Member States⁶³ and to improve the availability of services offered to users.*” The Postal Directive also requires the Postal Directive Committee to assist the Commission in developing measures on technical standardisation (Article 20, 21 of the Postal Directive).

In addition, NRAs have a responsibility for ensuring that the implementation of the mandatory technical standards (by the organisations concerned) is completed in compliance with set principles, within the regulatory deadlines and in a transparent and non-discriminatory manner.

Progress to date

As regards quality of service, CEN has adopted a number of standards, notably:

- **EN13850: Measurement of transit time of end-to-end services for single piece priority mail and first class mail.**
 - This key standard has been developed in order to provide a standardised technique that can be used throughout Europe to measure the transit time for priority and first class mail through samples representing real mail flows. It specifies conditions for independent measurements of end-to-end transit times with a unique method at the European level which is valid for both national and cross-border mail. It facilitates the full auditing of the results obtained.
- **EN14012: Measurement of complaints and redress procedures (measurement of the number of complaints and the speed with which they are handled).**
 - As noted above, this is a very important standard for consumers. It will help to ensure that information is collected, analysed, and reported in a consistent manner so that it can be used for quality control and audit purposes. It provides a classification system for complaints and some indications on minimum handling requirements for redress procedures.

Overall, 8 standards have been adopted and 32 are under development, including 7 standards proposed by the industry. CEN is currently reviewing the extension of existing standards to the new Member States.

⁶³ See Recital 36 of the Postal Directive.

The technical standard on the measurement of transit time (Standard EN 13850) has now been implemented by 19 Member States whereas in 2004 only half of all Member States had implemented it. Among those having not already implemented the technical standard, only LT and PL plan to implement it later than 2006. The implementation of Standard EN 14012 on the measurement of complaints and redress procedures has also become more generalised. In 2004, only 6 countries reported that they were implementing Standard EN 14012. This figure has now risen to 12 Member States (AT, BE, EE, DK, FI, FR, HU, MT, SE, SI, SK, UK). However, the implementation of Standard EN 14012 will need further efforts in the remaining 13 Member States. In addition, even in cases where the technical standard is implemented this does not necessarily mean that it is always applied coherently. For example, it has been observed that the standard is only partly audited by an independent organization as regards Standard EN 13850 and even less so regarding Standard EN 14012⁶⁴.

Interim conclusions on standards

In the interest of users, standards – developed by postal experts- should be more widely implemented and used. Further efforts will be needed particularly as regards the implementation of the technical standard on the measurement of complaints and redress procedures. This is even of more importance in a more open market with a growing number of postal operators.

3.11. Conclusions on regulatory developments

The transposition of Directive 97/67/EC as amended by Directive 2002/39/EC has been achieved by all Member States through a series of new primary and secondary postal legislation. To bring the European legal framework for postal services fully into effect it will, however, be necessary to go further than mere formal legislative transposition. The effective implementation of the Community postal acquis is a far more complex, long-term process which requires gradually changing legal structures and administrative practice at the national level and encouraging new attitudes and behaviour. This Report has pinpointed some issues where further improvements in the effective implementation should be made. As the basic rules have been fully implemented, the issues at stake are necessarily more complex and in some cases of a very specific technical nature (tariff control, transparency of accounts, authorisation and licensing).

The 2nd Commission's Application Report in 2005 has already stressed the particular importance and role of National Regulatory Authorities and the need for them to become more active in reviewing the separation of accounts, cost allocation, and monitoring prices of universal services by conducting investigations into the major areas of tariff policy, including special tariffs, terminal dues, and cross subsidies. In this context, the collection of information, including financial information, is of particular importance.

The principle of minimum harmonisation as set out in the Postal Directive has had the advantage of allowing a variety of approaches to regulation. While variation has facilitated a degree of emerging asymmetry (this was also observed in 2002 and 2005) and its potential implications for the internal market, this asymmetry should inter alia be tackled through reinforced administrative cooperation.

⁶⁴ CERP Implementation of CEN Quality of Services Standards (2005).

4. MARKET DEVELOPMENTS

4.1. Evolution of the postal market in a wider communications market

The postal sector has undergone a remarkable transformation in the last decade. A number of European postal companies have become pioneers. Political decisions in the 1990 have started a process that has gained its own momentum. The developments seen in the postal sector are not unique. Other sectors have already gone through equally far reaching changes. The evolution of the postal market is expected to continue and the pace of change is expected to quicken.

Most postal operators are in the process of adapting to these changes so as to be able to interact with other communication media and provide tailored solutions for e-commerce, home shopping and hybrid mail⁶⁵. They have successfully transformed themselves into industrial organisations and their business customers now represent the major part of their clientele. This is reflected in the business model which largely depends on the volumes generated by business customers. These customers now generate more than 87.5%, while the consumer to consumer flows represent only 5 to 10% of total revenues. Growth oriented strategies and the prospect of gradual market opening have inter alia resulted in postal operators entering adjacent sectors.

⁶⁵ "[This] involves the transmission of an electronic image of a document or its conversion in digital format and transmission to a distant point, where the image is printed out, enveloped and sent to the addressee." - COM (91)476 final, p.46.

Perceived degree of competition in domestic letter post (2005)

| MS | Letter post (2000) | Letter post (2005) | Items of correspondence | Direct mail (addr.) | Newspapers, magazines, periodicals | Daily newspapers | Un-addressed Items |
|----|--------------------|--------------------|-------------------------|---------------------|------------------------------------|------------------|--------------------|
| AT | ○ | ● | NA | ● | ●● | ●●● | ●● |
| BE | ◐ | ● | ◐ | ● | ●● | ●● | ●●● |
| CY | ○ | ○ | ○ | ○ | ● | ●●● | ●● |
| CZ | ● | ● | ● | ●● | ●●● | ●●● | ●●● |
| DE | ● | ● | ● | ● | NA | NA | ●● |
| DK | ◐ | ●● | NA | NA | NA | NA | ●●● |
| EE | ○ | ○ | ○ | ● | ● | ● | ●● |
| ES | ●● | ●●● | ●● | ●● | ●●● | ●●● | ●●● |
| FI | ◐ | ●●● | ●●● | NA | NA | ●●● | ●●● |
| FR | ●● | ●●● | ● | ● | ●● | ●● | ●● |
| GR | ○ | ● | ● | ● | ● | ● | ● |
| HU | ○ | ◐ | ◐ | ◐ | ◐ | ◐ | ◐ |
| IE | ○ | ○ | ○ | ○ | ●● | NA | ●●● |
| IT | ● | ◐ | ●● | ●●● | ●● | NA | ●●● |
| LT | ◐ | ●●● | ●●● | NA | ●●● | ●●● | NA |
| LU | ◐ | ● | ● | ● | ● | ◐ | ●●● |
| LV | ● | ○ | ○ | ○ | ● | ● | ●● |
| MT | ○ | ●● | ● | ● | ◐ | ◐ | ◐ |
| NL | ◐ | ◐ | ● | ◐ | ●●● | NA | ●●● |
| PL | ○ | ● | ● | ● | ●●● | ●●● | ●●● |
| PT | ● | ● | ● | ● | ● | ● | ●●● |

| MS | Letter post (2000) | Letter post (2005) | Items of correspondence | Direct mail (addr.) | Newspapers, magazines, periodicals | Daily newspapers | Un-addressed Items |
|---|--------------------|--------------------|-------------------------|---------------------|------------------------------------|------------------|--------------------|
| SE | ● | ● | ● | ● | ● | ● | ●●● |
| SI | ● | ● | ● | ● | ●● | ●●● | ●●● |
| SK | ● | ●● | ●● | ●● | ●●● | ●● | ●●● |
| UK | ○ | ● | NA | NA | NA | NA | NA |
| EU-25 | ● (0.7) | ● (1.3) | ● | ● | ●● | ●● | ●●● |
| ○ None ● Emerging ●● Substantial ●●● Intense | | | | | | | |

WIK, 2006

Meaningful competition in the letter market has, however, still to develop; this is illustrated by the above table in relation to different postal market segments. The market shares of competitors in the addressed mail delivery remain very small. Even in cases where the reserved area has been completely abolished or significantly reduced, the market share of competitors is still low. It is evident that full market opening alone does not lead automatically to competition. A series of key factors that appear to influence competition have been described and analysed by a recent study for the Commission⁶⁶. While a number of elements such as legal barriers to entry, strategic barriers to entry, absence of a level playing field and timely dispute settlement⁶⁷ can be influenced by Community and national law, regulatory and competition authorities as well as courts, other factors such as so-called natural barriers to entry cannot easily be influenced.

This leads to the conclusion that if the functioning of the Internal Market is to be attained, a plurality of actions by different actors on the Community and national level will be required.

⁶⁶ ECORYS, Development of Competition in the European postal sector, 2005; http://ec.europa.eu/internal_market/post/doc/studies/2005-ecorys-final_en.pdf ; see particularly p 17: The countries that have opened up to competition a relatively large part of the addressed mail segment show the highest share for competitor postal operators: this market share is around 7-11% for ES, 5-7% for CZ, EE, NL, SE, and 3-5% for DK and DE.

⁶⁷ For the different barriers see also: ECORYS, Development of Competition in the European postal sector, 2005; http://ec.europa.eu/internal_market/post/doc/studies/2005-ecorys-final_en.pdf ; see particularly p 17; ECORYS, Barriers to competition in the German and UK postal market Does *de jure* liberalisation lead to *de facto* liberalisation?, 2005, p 10.

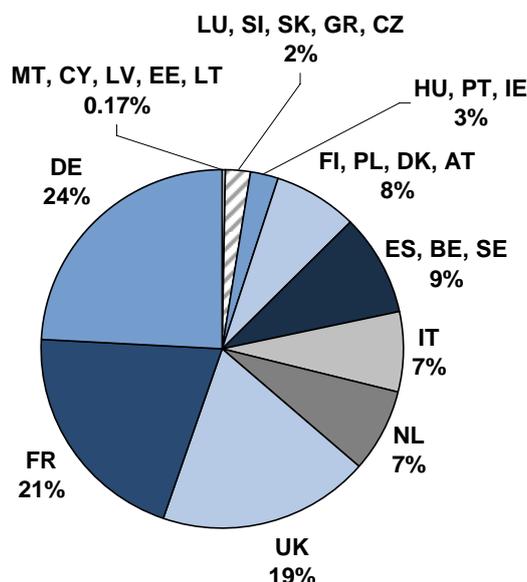
This conclusion is fully in line with the understanding that Member States have a crucial role to play and that they must take full ownership of the Internal Market⁶⁸.

Progress in the sector still remains constrained by the lack of the completion of the internal market and the failure of some postal operators to modernise. However, for those who are prepared to face up to these industrial, commercial and social challenges, there are market opportunities ahead. It is crucial for the future of the sector to develop the value of mail and promote the mail media in the wider communication market.

4.2. USPs developments

Between 2002 and 2004 the total revenues of the Community USPs increased by 3.7% per year. This is a slower growth rate than between 2000 and 2002 which is explained mainly by fewer merger and acquisitions by large operators. Total revenues of USPs in 2004 were 113 billion €, out of which 83 billion € were postal revenues and of these latter 53 billion € are generated by letter post. Letter post revenues account for about half of the USP total revenues and around 64% of their postal revenues.

USPs' letter post revenues in 2004 – 53 Billion EUR



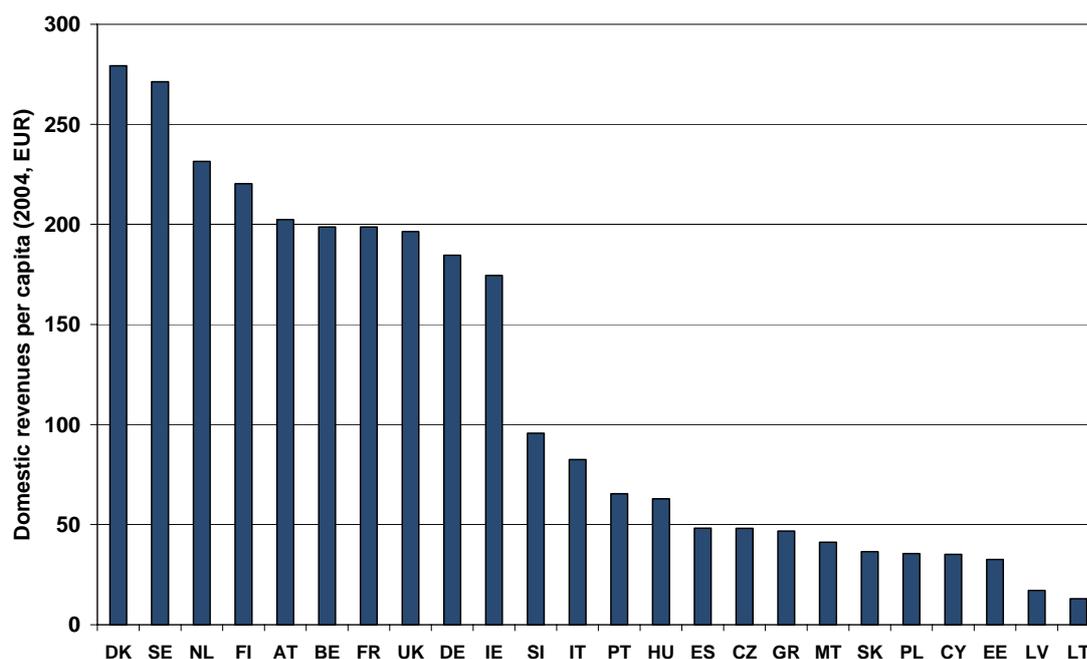
Notes: CY, GR, PL - 2003 figures, MT – 2005 figure; Letter post revenues include revenues earned by distribution of unaddressed items.

WIK, 2006

As far as letter post revenues are concerned, the five biggest USPs (DE-24%, FR-21%, UK-19%, NL, IT: each 7%) account for more than 75% of them due to their large national markets.

⁶⁸ Commissioner McCreevy, Speech on 2 February 2005 in the Legal Affairs Committee of the European Parliament; see also Communication from the Commission to the Council, the European Parliament, the European Economic and Social committee and the Committee of the Regions - Second Implementation Report of the Internal Market Strategy 2003-2006, COM(2005)0011 final.

Domestic revenues of USPs per capita (EUR, 2004)



*Notes: CY, GR, and PL - 2003 figures,
DE, FR, IT: excluding revenues from financial services;
LU – postal revenues confidential.*

WIK, 2006

The high variance in domestic postal revenues per capita is partly driven by price and volume differences, but also by different service mixes. Those USPs who are (in terms of per capita revenues) more successful often also have important stakes in parcel and logistics business. These are also Member States where the levels of income are high and the mail ordering business is important.

4.3. Mail Volumes

The overall size of the European mail market is not likely to expand significantly in the short term. In total, the domestic letter post volume rose only slightly from about 89 billion items in 2002 to 90 billion items in 2004; the three largest public operators collectively controlled 62.6% in 2004 (up from 62.2% in 2002). This again confirms the trend that there is a decoupling of growth of letter post and growth of the GDP. In other words, the growth of letter post was much weaker than the GDP growth and this is more marked in the EU10 (where average GDP growth in 2002-2004 was 4%, in the Baltic countries even 7% per year); except for LV and SI.

However, the fact that postal services continue to be a vibrant business is largely due to a number of developments – improved customer service and reach, quality of services, technology, investment and modernisation, the introduction of new products and services, and this should be borne in mind when looking to future trends.

As regards different mail segments, direct mail is certainly the segment with the most promising growth possibilities. Unaddressed direct mail achieved an average growth rate of no less than 30% per year between 2002 and 2004 and addressed direct mail grew at 6% per year while letter post increased by less than 1% per year in the same period. This is in line

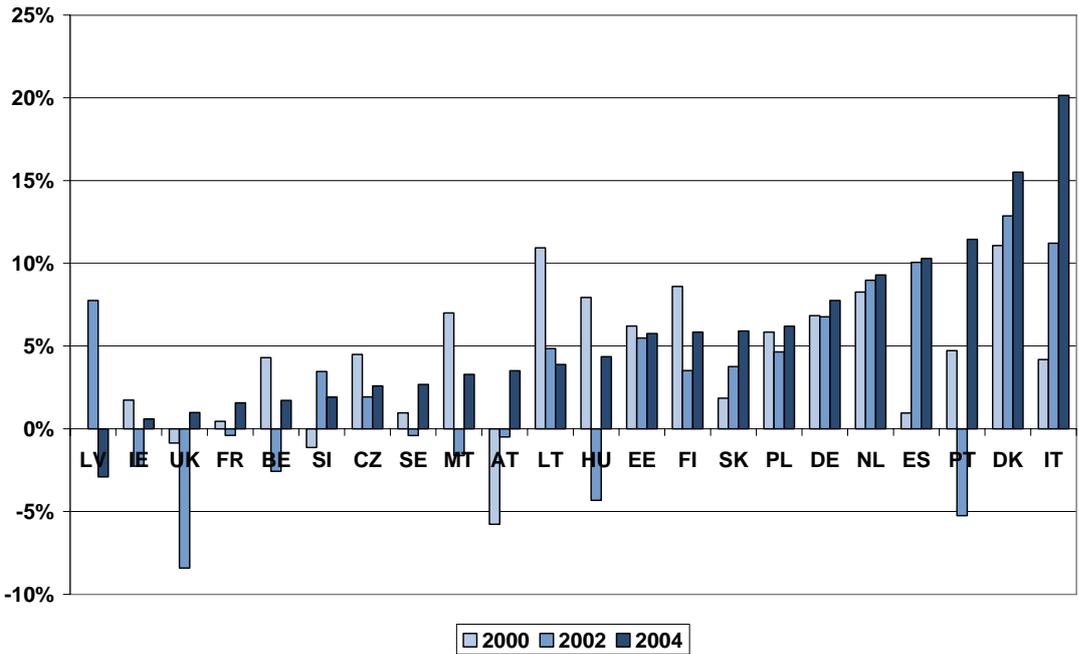
with the general trend already observed in previous years which is that mail is evolving towards a one-way distribution service rather than the traditional two way communication. The business to customers' mail flow further increased in the reference period from 60.5% to 62%. The next important mail flow is the one from business to business and accounts for 26%. In short, almost nine out of ten letters posted in the European Union originate from business senders.

Most recent data collected by WIK Consult indicate that in terms of weight distribution of mail, 21% of the volumes are above 100g, 7% between 100g and 50g, and 72% below 50g. Consequently, the reduction of the area that may be reserved from 1 January 2006 i.e. from 100g to 50g has opened up a further 7% of the letter post market.

4.4. Overall revenue and profitability growth – a generally positive trend

Growth in terms of revenue as well as in terms of profit margins has increased in the reference period. According to the available information, the profit rates achieved in the letter post business have been significantly higher than the rates in the more competitive parcel and express segment. In the letter post segment, profit margins may vary between 10% and 20%, while in the parcel and express segment profit margins might lie between 2.5% and less than 10%⁶⁹.

Profit margins of the USPs – 2000, 2002, and 2004



Notes: Profitability = (total revenues – total operating expenses)/total revenues
 IT – based on profits before amortization and depreciation; in 2004 the EBIT margin was 8.9 percent; EBIT margins for 2002 and 2000 are not available (as no financial statement by business segment is made the contribution of the postal bank and of government payments to the universal service has to be considered-EBIT might decrease to 5%)
 CY, GR, LU – confidential;
 UK: 2004 based on Annual Report 2004/2005 (margin based on group operating profit/loss including exceptional items related to operations).

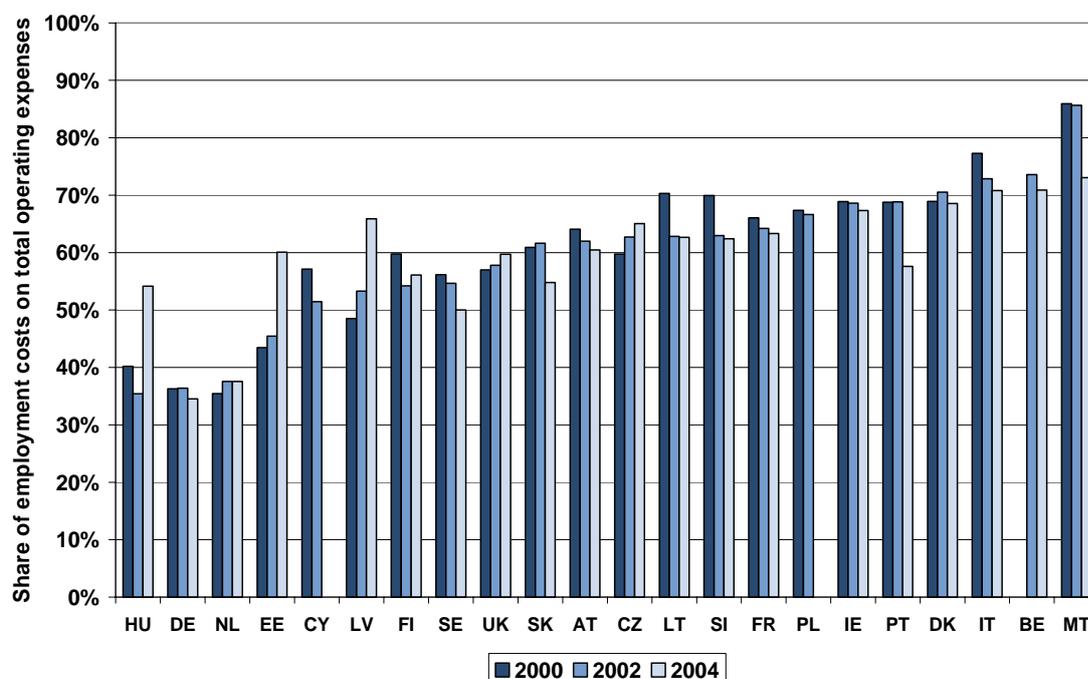
⁶⁹ See particularly figure 4.2.19 in WIK, Main Developments, 2006.

Compared to 2002, the financial position of operators has further improved in a number of Member States in 2004. This is more marked wherever restructuring has taken place. 13 USPs achieved a profit margin of over 5% (and 5 of these had profit margins of 10% or more), including IT, DE, UK, PL, NL, ES. Potential and effective early market opening often had the positive effect that these USPs had to put a lot of efforts in improving their cost efficiency. But also a significant number of USPs from new Member States have in a short period improved their situation considerably. This is inter alia due to an increase in the flexibility of their cost base.

4.5. Costs: a rather stable global picture with some variation among operators

In the period between 2000 and 2004 many USPs were able to reduce the share of employment costs as a percentage of their total overall costs. Examples include the British USP and some of the new Member States (HU, EE, LV, and CZ). As there is a noticeable variation in labour costs among USPs, further efficiency gains could be made by some postal operators.

Employment costs as percentage of total operating expenses, 2000-2004



Notes: CY, PL – 2004 missing; BE - 2002 missing; ES, GR, LU – confidential

WIK, 2006

Cost may also be divided in relation to elements of the value chain (delivery, post office network). According to a study for the Commission by NERA in 2004 on the Economics of Postal Services the situation is as follows⁷⁰: delivery costs are by far the largest component of letter mail costs, on average accounting for about 50% of total costs; followed by overhead (16%), sorting (15%), collection (12%) and transport (7%). For parcels, the delivery costs are smaller - 39%, transport increases to 21%, while other elements remain fairly stable.

⁷⁰ http://ec.europa.eu/internal_market/post/doc/studies/2004-nera-final-postal-report_en.pdf

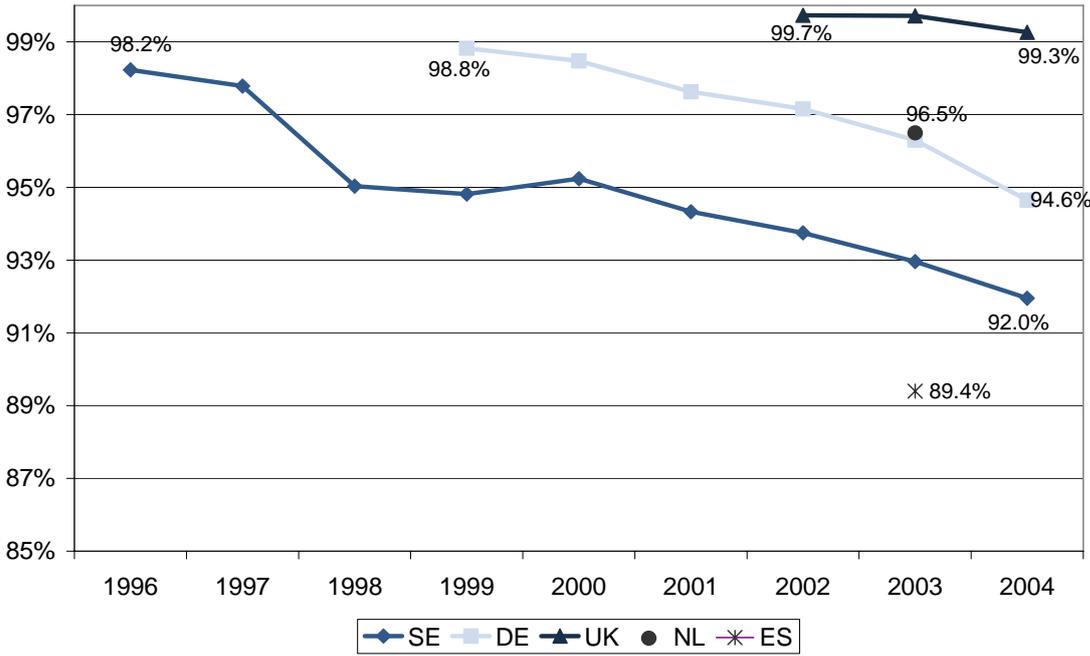
Another important cost factor may be the pension liabilities of public postal operators. The recent Study by WIK Consult 2006 concluded that generally the Member States in question have shifted the obligation for paying out pensions to retired civil servants from the USP to state institutions, while other Member States have capital funded pension systems in place. With the possible exception of the UK USP, where the pension scheme has incurred a deficit, the pension liability problem seems to have been largely resolved.

4.6. Slow development of competition in the mail market

The market shares of the competitors in addressed mail delivery are still very small. The opening up of weight categories – as stated above, the opening up of items above 50g will reduce the reserved area by a further 7% of volume. The complete opening up of letter classes with substantial market volumes (such as direct mail) is expected to be an important driver for competition.

But even where substantial parts of the markets have been opened or where full market opening has taken place, competition remains somewhat limited; this is the case in the letter post segment of postal services:

Development of USPs shares in domestic end to end letter mail volume 1996-2004 (DE, ES, NL, SE, and UK)



*Notes: DE: Mail volume share related to licensed area (1,000g) excluding G-licence (outgoing cross-border mail)
 UK: Share related to licensed area (350 g); consolidation services excluded.*

WIK, 2006

On the basis of market shares, Spain seems at present to be the Member State with the highest "competition level". In general as regards letter mail items, USPs clearly continue to be the dominant players and their market position is generally strong in the distribution of

unaddressed items. Their position is least strong in the delivery of periodicals and magazines. (See already the perceived competition under point 4.1.).

4.7. Business strategies

A new regulatory environment, modernisation and market change have required sound business strategies. Basically USPs have improved substantially their efficiencies and have at the same time tried to broaden their revenue basis, domestically (widening their product portfolio, express, logistics, financial services) or/and internationally (activities in foreign letter mail and parcel, express, logistics). Horizontal and vertical integration of USPs has been accompanied in almost all cases by a change in their legal status.

While a majority of USPs continue to be state owned, the number of state enterprises has continued to decrease. Only six are state enterprises and one is a government department (CY).

Legal status and privatization of USPs (2006)

| Legal status | | Member State |
|--|---------------------------------------|---|
| Government department | | CY |
| State enterprise | | CZ, ES, FR, GR, LU, PL |
| Public limited company | State owned | EE, FI, HU, IE, IT, LT, LV, MT, PT, SE, SI, SK, UK |
| | State dominated (>50 %) | AT (51%) BE (50% +1 share), DK (75%), MT (65%) |
| | Privatized (State owns less than 50%) | DE (45.4%) NL (10% plus golden share) |
| <p>Notes:</p> <p>DE – Shares are partly owned by the state-owned financial institute KfW (Kreditanstalt für Wiederaufbau)</p> <p>IT – The Ministry of Economy and Finance owns 65% and a government financial entity, Cassa Depositi e Prestiti, owns 35%.</p> <p>NL – The golden share is currently under consideration by the European Court of Justice⁷¹.</p> | | |

Based on WIK, 2006

Equally, the trend towards privatisation has continued and is often sought by management seeking more independence. In 2005 minority stakes in the Danish and the Belgian USP were sold; in May 2006 an initial public offering of 49% of the Austrian USP took place. The

⁷¹ C-282/04 and C-283/04; the Advocate General has delivered his opinion on 6 April 2006.

decision of private equity companies – such as CVC (which invested in the Danish and Belgian USP) – to invest in the postal industry could be seen as indication that there are positive prospects for the postal sector. In general, the mergers and acquisitions by USPs have slowed down since 2004. This confirms that there is an effort underway to consolidate in the wake of former acquisitions, and at present, the policy conducted by some important larger operators does not seem to focus explicitly on buying other smaller operators.

The new competitive landscape that is emerging is likely to consist of three market levels. First, there are global players that can provide a one stop shop; second, there are national postal operators with a regional focus and third, an often highly segmented "niche" market. At the same time, cooperation and competition between these different actors is ongoing. Boundaries, between express, courier and parcel services become more and more blurred.

In the near future, the challenge for the postal operators will be to adapt their organisation to the wider communications and transportation market, while managing the sometimes conflicting demands of their stakeholders (shareholders, customers, workforce, regulators, and suppliers).

4.8. Parcels and express

The presence of European postal operators in the express and parcel market is now commonplace. The importance of this expansion, either through partnership or by building their own networks, in a global context has been noted above. Most notably two European postal operators are among the four world leaders of the global express industry, but also other smaller companies are more becoming active in parcels and express.

Market shares in the European parcel and express market (2004)

| | Estimation by TNT | Estimation by Deutsche Post |
|------------------|-------------------|-----------------------------|
| DHL | 23 % | 20 % |
| TNT | 11 % | 11 % |
| UPS | 6 % | 8 % |
| Fedex | 2 % | 2 % |
| La Poste (DPD) | 58 % | 12 % |
| Royal Mail (GLS) | | 8 % |
| Others | | 39 % |

WIK, 2006

Overall, the size of the widely defined European parcel and express market is around 33.7 to 35 billion €, with 250 000 full time equivalent employees plus a further estimated 280 000 related jobs.

The size of the business to business segment which is the most competitive is estimated between 13 and 16 billion €, and noticeably United Parcels Services (UPS) and FEDEX are the only important international service providers in Europe which are not backed by a former postal administration. Their main competitors for example, DHL is owned by Deutsche Post (DE), TNT by TPG (NL), DPD by La Poste (FR) and General Parcels by Royal Mail Holding (UK). In general the Internal Market for parcel and express services has become a reality.

Nevertheless, recent developments suggest that interest is more and more focusing on small and medium sized mailers and substantial increases in access points have taken place and are planned (in retail shops, railway stations, supermarkets etc.). Therefore, consumers also can be expected to benefit from increased competition in the years ahead.

4.9. Social, consumers and employment aspects

Access to postal services

Access to postal services is one of the basic requirements of postal services as a service of general economic interest. Access to universal service via postal outlets has a particular importance for consumers as well as SMEs. At the same time, postal operators have been restructuring and reorganising their networks often finding innovative solutions in the interest of the customer. One should also bear in mind that the mere number or density of postal outlets does not necessarily mean the same degree of accessibility for individual customers, for whom opening hours are also important.

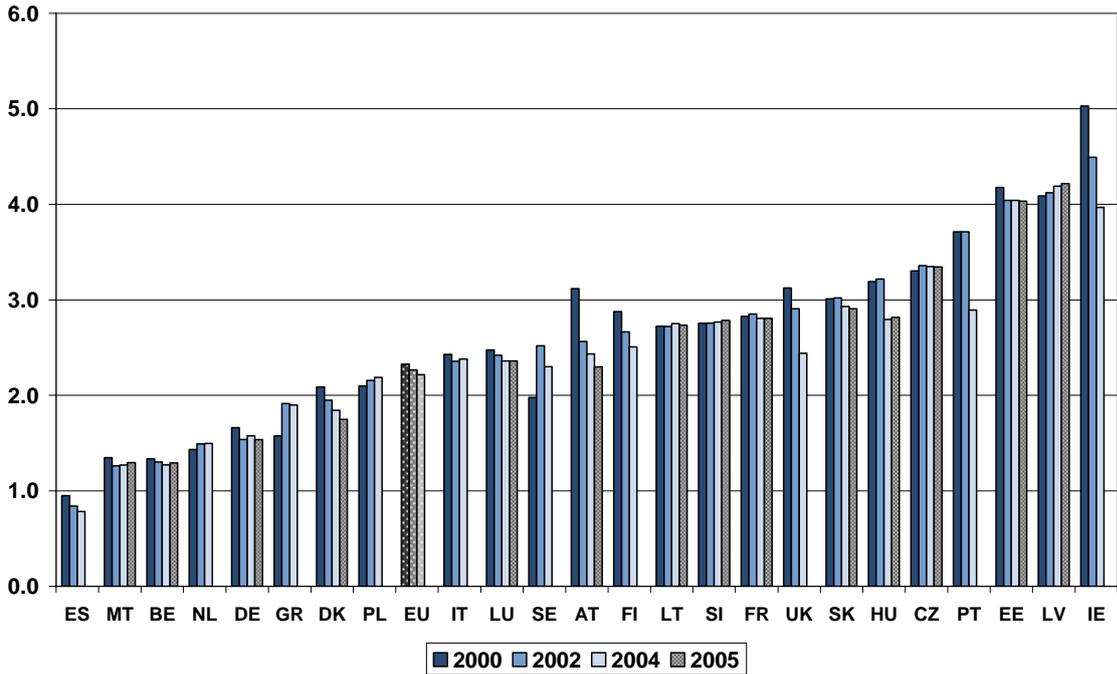
It has been noted that the economic viability of a post office network might be better assured through the provision of other services and in particular postal financial services. In some Member States this plays a more important role.

Both in the 1st and the 2nd Application Report cases of over-provision (of access) in the European postal infrastructure were observed. This is also confirmed by recent data. In fact, while the average number of postal outlets is around 2 per 10.000 inhabitants, in three Member States the number is twice as high. In the EU as a whole, the overall number of postal outlets has decreased by 1.9% between 2002 and 2004. It is worth noting that one Member State (France) has recently divided the role of post offices between access to postal services and other functions (ensuring territorial cohesion).

The consumer perception of access equally seems to be quite stable with 91% (of respondents to the Eurobarometer 2006 survey) finding access easy, 7% difficult and 1% declaring that they have no access. Access is seen as covering issues such as the network of post offices, opening hours, waiting time, mail delivery and proximity to letter boxes. The countries where access is judged relatively most difficult by respondents are Sweden (23%), Italy (13%) and Denmark (11%)⁷²

⁷² Special Eurobarometer, Services of General Interest, 2006.

Number of postal outlets per 10,000 inhabitants



Notes:

CY: not included due to its extremely high number of postal outlets per 10,000 inhabitants

2002: UPU data for FR, UK

2004: UPU data for GR, HU, MT, SI

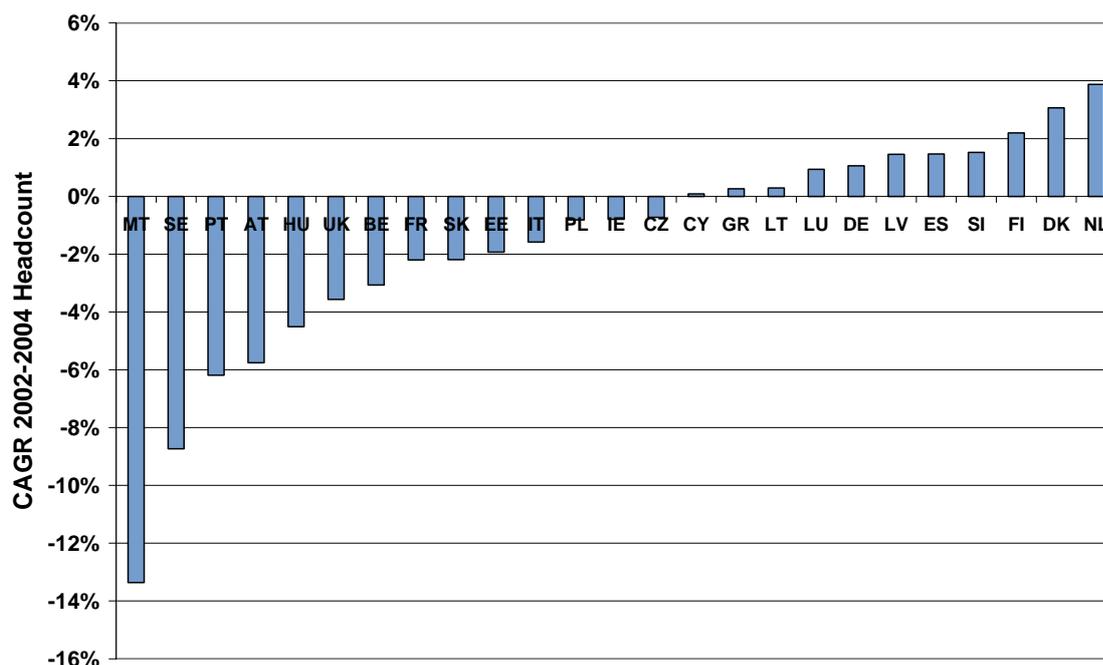
WIK, 2006

Levels of employment

The trend observed in 2005 that general employment levels are likely to be sustained overall in the short term while trends towards outsourcing, increasing flexibility and a greater share of employment in the private sector and parcels/express are likely to continue has been confirmed by the latest available data.

Based on survey results and a review of annual reports, WIK-Consult estimates that Universal Service Providers employed about 1.71 million persons in 2004. Total USP employment decreased by 0.7% between 2002 and 2004. The majority of USPs have further decreased total employment and according to Universal Postal Union figures, the share of part time employment has slightly increased from 18.2% in 2002 to 18.9% in 2004. The share of part-time employment is highest in NL with nearly 70%, followed by CY and LT (around 65% and 55%).

Development of USP employment –WIK survey (headcount, CAGR 2002-2004)



Notes: BE – based on UPU figures

WIK, 2006

The number of civil servants employed in the sector continues to decline; every fifth position in USPs is occupied by civil servants (21.4% in 2004 compared to 23.5% in 2002)

The decrease in the employment of USPs should, however, not mask the fact that new competitors have also created new employment. By way of example, Deutsche Post had reduced its employment between 2000 and 2004 by nearly 20 000. At the same time, its competitors added 12 900 new jobs. While this effect certainly is relative given the fact that a high proportion of these new jobs are not full time engagements, it has to be stated that the overall employment picture is more complex and multifaceted. The reduction of employment in efficiency maximising USPs would have happened in any event irrespective of further market opening. It should also be noted that there seems to be an increasing recognition that highly motivated employees are a major asset in achieving the demanding high quality requirements postal operators' aim at. Reward programmes, share acquisition (at a lower price), other beneficial conditions or a return of operating profits are just some of the measures taken to maintain employee loyalty.

The importance of employment in the whole sector can be appreciated from a study carried out by PLS Ramboll⁷³ which indicated that in 2000, over 5 million jobs were directly or indirectly associated with the postal sector in Europe. In the USA, 11 million jobs are reportedly linked to the mail sector⁷⁴ (USPS, the public postal operator, employed some 704 716 persons in 2005).

⁷³ “Employment trends in the EU postal sector” by PLS Rambøll, October 2002.

⁷⁴ Study completed in 2004 by the Institute for Postal Studies of the Envelope Manufacturers Foundation.

Employment in the postal sector as a whole is therefore of paramount importance. To maintain if not to actually increase the high employment levels, the full potential of the sector must be used both by private and public operators.

End Consumers

Postal services are not only a key element for the Internal Market; they also provide a service which has a high social importance. All areas of the Union –villages, towns, cities and regions and peripheral areas – enjoy a high quality universal service. As stated under point 3.1. and 3.8. the standard of the universal service is high. People expect to have access to affordable and high quality postal services and a great many use them: 93% of EU25 citizens use the postal services in their Member State (relatively lower figures of 82% and 81% were observed in Italy and Spain respectively). The European vision of a competitive and knowledge-based economy implies that the provision of postal services should meet the consumers' needs.

The universal service obligations are established primarily to protect the less powerful, but also help numerous consumers and small business customers. Therefore, the involvement by and input from postal customers is important. One way to seek input was the Commission's public online consultation on postal services which took place from 9 November 2005 to 27 January 2006. The response rate to the consultation which focused on consumers and citizens was high and 2295 replies were received on part one.

At the EU level, recent Commission surveys on consumer satisfaction as regards postal services show that consumers view postal services as fulfilling an important social function that must be safeguarded by the public authorities. Overall consumer satisfaction ranks high among all Services of General Economic Interest.

4.10. Technological trends

Technological development is strongly driven by the need to differentiate the offer (i.e. improve quality, value added services, also in view of the use of other communication services such as the Internet) in a more and more competitive environment and by the necessity to reduce costs (required by capital markets and competitors).

Developments have taken place at all stages of the postal value chain and postal operators have in general improved their productivity and offered new value added features. As far as mail preparation or so-called pre-postal services are concerned, the following new developments are to be noted:

- More efficient digital printing allowed the outsourcing of print/letter production (also for small quantities);
- 2D-code⁷⁵ allows for more information and increases automatic readability;
- Web-franking⁷⁶ benefits users (independence of time and place) and postal services providers (increase of address quality).

⁷⁵ A 2D-code or two-dimensional code does not consist of bars but rather a grid of square cells allowing more information to be encoded in a smaller amount of space. These are also referred to as “stacked” or “matrix” codes.

⁷⁶ This allows to purchase postage online and to frank postal items with the own printer.

Automation has taken place particularly in sorting and routing; examples include:

- Increased use of sequencing machines in sorting centres;
- OCR (optical character recognition) optimisation to increase reading rates; PARS (Postal Automation Redirection System) to forward mail more efficiently and at lower cost;
- Automatic orientation of parcels on sorter machines and the use of 4-band-sorters increases performance;
- Increased use of software for dynamic routing improves efficient use of resources and stronger variability in delivery costs;
- GPS (global positioning systems) in business-to-business parcels delivery may allow for a delivery without address.

As far as value added services are concerned recent innovations include:

- Single identification of letters (identification codes or virtual identification through OCR-data);
- Last mile services for parcels ("packaging station"; "e-box") improved customer service (7/24 systems) and a reduction in costs of operators.

The different pace of the introduction of new technologies might, nevertheless, also present the risk of a widening the gap between operators.

4.11. Conclusions on market developments

Conclusions on market trends

During the reference period, the postal market has continued to evolve towards a one way distribution market and away from the more traditional two way communications model. Today, more than 87.5% of letter post items (EU wide) are sent by businesses and organisations rather than individuals; the business to consumer (B2C) segment of the letter post now accounts for 62% of total volume, up from 60.5% estimated in 2004. There is no indication that this trend would not continue further as the growth rate of the connected products (unaddressed and addressed direct mail) – as well as those of the likely forecasts - is substantively higher than that of traditional letter mail. This is also one important element of optimism for the sector as a whole. Compared to other major economies, like the USA, there is a lot of growth potential in the EU postal sector. However, only a modern and dynamic postal market will be able to release the full potential of the sector. This potential has also to be seen in the broader context of the wider communications market with all sorts of new products and services (home shopping, e- commerce, hybrid mail and value added services).

Meaningful competition in the letter post market has yet to develop. Both objective analyses of market shares of competitors as well as the subjective perception of key players confirm that even in cases where the monopoly has been completely abolished or substantively reduced real competition is only emerging. This is the situation particularly in the case of letter post, items of correspondence as well as – with some notable exceptions – direct mail. Between 2000 and 2005 there seems to have been no fundamental improvement.

The regulatory disparities detected and analysed in Chapter 3 have clearly also had a considerable impact on the development of the mail market. The observations made in relation to profit margins (see particularly point 4.4.) indicate that some incumbents are profiting more than others. Other factors that might have contributed to marked differences are the legal status of operators, different business strategies, and the determination of price levels in an environment with generally low price elasticity.

Consequently, the market developments during the reference period underpin the need to improve further the quality of regulation in the postal sector. All this reinforces the need to consider how to move towards more effective and better regulation and an internal market for postal services thereby ensuring better services for all consumers, including commercial customers and end consumers (greater choice, innovation, quality, price options, etc).

Much needs to be done to improve the collection of market data although recent efforts to compile postal statistics have already been rather successful. Some technical problems still continue to persist and should be appropriately tackled as accurate information on the sector is of utmost importance to analyse possible problems and address them.

The market impact of the Postal Directive

European postal reform, though not completed, has already resulted in a number of significant improvements across the sector. First of all, the quality of postal services has considerably improved and objective quality standards for intra-community services – as well as those on the national level – that had been established have had a very positive impact on the sector and also its image. Service performance has continued to increase in the reference period. Second, the objective of safeguarding a high quality universal service in further opening up postal markets has been fully attained. There are no elements that would lead one to conclude that guaranteeing the universal service is not possible in a fully open market. Third, in the reference period full market opening in Member States in advance of the 2009 date has continued. While this is based on national decisions, there is no doubt that it has been initiated by the Postal Directive. Fourth, a dynamic reform process has resulted not only in greater efficiency of postal operators but also in a market which focuses more and more on the interests of the individual customer.

Innovations have been made and in general, overall competitiveness has improved. This has been inter alia triggered by the potential developments of competition. Incumbents have become more profitable, and this development is even more evident in the reference period of this Report than in previous Reports. Low cost business models are developing, reorganisation, consolidation and diversification are continuing. From a consumer perspective, all this has increased the ability of Europe's postal operators to meet customer needs and thus has a positive effect on universal service.

European postal reform has gained momentum and created a number of expectations. The reference period has indeed been a successful one not only in comparison with the sometimes pessimistic perceptions about the sector but equally against the background of overall economic performance across Europe. Further steps in the reform process are needed to promote the sector's development in the wider and quickly evolving communication market and to ensure that a high quality universal service is assured in the interest of the end-consumer.