

Study for the European Commission,
DG Internal Market

Main Developments in the European Postal Sector

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The views and opinions expressed in this study
are those of the authors and do not necessarily
reflect the position of the European Commission.

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Abbreviations

| | |
|------------|---|
| AG | Aktiengesellschaft |
| AT | Austria |
| BE | Belgium |
| BG | Bulgaria |
| Bln | Billion |
| BtoB | Business to Business |
| BtoC | Business to Consumer |
| CAGR | Compound annual growth rate, average growth rate calculated over a multiple-year period |
| CB | Cross border |
| CC | Candidate country, i.e., one of 3 countries being considered for entry into the European Union, namely, Bulgaria, Romania, Turkey. |
| CEN | European Committee for Standardization |
| CEP | Courier, express and parcels |
| Commission | European Commission |
| CP | Colis postal, parcel post |
| CPO | Competitive postal operator, i.e. postal operators other than the universal service providers (the latter being equal to the public postal operator in all countries surveyed). |
| CtoB | Consumer to Business |
| CtoC | Consumer to Consumer |
| CY | Cyprus |
| CZ | Czech Republic |
| D+n | Delivery n days after posting |
| DE | Germany |
| DK | Denmark |
| Dom | Domestic |
| DPAG | Deutsche Post AG |
| DPWN | Deutsche Post World Net |
| e.g. | Exempli gratia (Latin: for example) |
| EBIT | Earnings Before Interest and Tax(es) |
| EBITA | Earnings Before Interest, Tax, Depreciation and Amortization |
| EC | European Commission or European Council |
| ECJ | European Court of Justice |
| EE | Estonia |
| EEA | European Economic Area |
| EFTA | European Free Trade Area |
| EMOTA | European Mail Order and Distance Selling Trade Association |
| EN | Official European Standard |
| ES | Spain |
| EU | European Union |
| EUR | Euro |
| FEDMA | Federation of European Direct Marketing |
| FFPI | The Free & Fair Post Initiative |

| | |
|-----------|---|
| FI | Finland |
| FR | France |
| FSC | Fastest Standard Category |
| FTE | Full time equivalent |
| g | Gram |
| GA | General authorization |
| GA-I | (for this report) Individual general authorization |
| GATS | General Agreement on Trade in Services |
| GB | Great Britain (United Kingdom) |
| GDP | Gross Domestic Product |
| GR | Greece |
| HU | Hungary |
| i.e. | Id est (Latin: that is) |
| ICB | Inbound cross border (receipt) |
| IE | Ireland |
| IPC | International Post Corporation |
| IS | Iceland |
| IT | Italy |
| IT | Italy |
| kg | Kilo-Gram |
| Leg | Legislation |
| LetLic | Letter licence |
| LI | Liechtenstein |
| Lic | Licence |
| LicR | Individual Licence |
| LP | Letter Post |
| LT | Lithuania |
| LU | Luxembourg |
| LV | Latvia |
| MinOthers | (for this report) Ministry other than the one with primary responsibility for the postal sector |
| MinPost | (for this report) Ministry with primary responsibility for the postal sector |
| MIN | Ministry |
| Mln | Million |
| MS | Member state (of the European Union) |
| MT | Malta |
| N | No |
| NA, na | Not available, i.e., the datum does not exist. |
| nd | No data, i.e., there is no information on whether or not the datum exists. |
| NL | Netherlands |
| NO | Norway |
| NRA | National Regulatory Authority (for postal services) |

| | |
|----------|--|
| O.J. | Official Journal (of the European Communities) |
| OCB | Outbound cross border (dispatch) |
| OCR | Optical Character Recognition |
| Parl | (for this report) Ministerial decrees that require agreement of parliament |
| Pcs | Pieces (of postal items) |
| PL | Poland |
| PLC ,plc | Public Limited Company |
| PLC-G | (for this report) PLC fully owned by the government |
| PLC-Pr | (for this report) Privatised PLC (not fully owned by the government) |
| PPS | Purchasing Power Standard, developed and updated by OECD/Eurostat |
| PT | Portugal |
| PTS | Swedish national regulatory authority (Post- och telestyrelsen) |
| QoS | Quality of Service |
| RegTP | German national regulatory authority (Regulatory Authority for Telecommunications and Posts) |
| Rev | Revenue |
| RO | Romania |
| SE | Sweden |
| SI | Slovenia |
| SK | Slovak Republik |
| SMEs | Small and Medium-sized Enterprises |
| Sq. km | Square kilometre |
| Thou | Thousand |
| TR | Turkey |
| UNEX | Unipost External Monitoring System |
| UPS | United Parcel Service |
| UPU | Universal Postal Union |
| URTiP | Polish natinal regulatory authority (Urząd Regulacji Telekomunikacji i Poczty) |
| US | (Postal) Universal Service |
| USLic | Universal Service Licence |
| USO | Universal Service Obligation |
| USP | Universal Service Provider |
| VAT | Value Added Tax |
| WIK | WIK-Consult |
| Y | Yes |

1 Executive Summary

This survey of the postal services sector in Europe was initiated by the European Commission at the end of 2003 for the purpose of gathering information for its second biennial report on the application of the Postal Directive (due at the end of 2004). This study summarizes regulatory and market developments since adoption of the Postal Directive in 1997 with particular emphasis on events taking place since 2001. The major findings and conclusions of this study are summarized below.

Postal services sector

There is no clear and generally accepted vocabulary for defining or describing the “postal services” market and its major submarkets. This is in part due to imprecision in the Directive and in part to the rapidly changing nature of the market. For the purpose of this study, we consider “postal services” to include of public and private services for the collection, transport, and delivery of correspondence, direct mail, newspapers and other periodic publications, and parcels that have been prepared and addressed in a form suitable to conveyance by a general delivery service.

Postal services in the EU earned about € 88 billion in 2002, about 0.9 percent of Community gross domestic product (GDP). The letter post submarket (correspondence, direct mail, newspapers and magazines) accounts for 60 percent of the total market. The parcel and express submarkets account for the remainder. Postal services employed about 1.6 million persons (full time equivalents). These are very approximate estimates only.

The EU postal services sector is dominated by the largest public universal service providers (USPs). USPs collectively provide more than three-quarters of all postal services in the Community, including almost all of the letter post market and more than half of the express and parcels markets. The four largest USPs (DE, FR, GB, NL) control about 59 percent of the total Community postal services market. The largest USP is Deutsche Post AG with about 23 percent of the postal services market. The largest competitive postal operator (CPO) appears to be United Parcel Service (UPS) with about 2 percent market share.

Improved regulation of USPs

In general terms, the Postal Directive seeks to facilitate development of the postal services sector by stimulating progress on two fronts. First, the Directive requires member states to introduce independent, transparent, and demanding regulation of the public operators responsible for providing universal postal service. Second, the Directive encourages increased competition by limiting the scope of postal monopolies and defining the extent of regulatory controls that can be placed on CPOs.

Under the Directive, improved regulation of USPs involves several issues: better definition and oversight of universal service, improved controls over the prices of universal services, installation of more accurate and transparent accounting standards, and establishment of independent and effective NRAs. With respect to the definition and oversight of universal services, the key findings of the survey are:

- Virtually all member states meet the minimum levels of delivery frequency, nationwide coverage, and access to universal service required by the Directive.
- Although the Directive requires member states to set quality of service targets for all universal services, the range of universal services actually covered by quality of service targets varies widely.
- For domestic postal services, virtually all member states have set transit time targets for correspondence transmitted by the fastest standard category of service, but independent performance monitoring has not yet been implemented in several member states and results have not been published in others.
- Complaint and redress procedures required by the Directive have not yet been adequately implemented.

With respect to the closely related issues of price regulation and accounting controls for universal service providers, member states have made a good start, but only a start, towards the Directive's goal of ensuring affordable, transparent prices geared to costs.

- With one exception, all member states have adopted procedures and standards for regulating the prices of key universal services. While most member states control the prices of all universal services, a significant minority control the prices of only selected universal services. In most cases, USPs must obtain approval of the NRA before each change in regulated prices.
- NRAs need to become more active in implementing the rate principles of the Directive. Only about half of NRAs have conducted formal investigations into rate issues, usually general rate cases. With the exception of certain active NRAs (notably, DE, GB, IE, NL, PT, SK), there has been relatively little formal attention paid to applying the principles of the Directive to special (discount) tariffs, cross subsidy, and terminal dues.
- Separation of accounts is incomplete. Although almost all NRAs report that their USPs are obliged by law to separate accounts as required by the Directive, only slightly more than half of NRAs confirmed that their USPs actually did so in 2002 or 2003.
- Most fundamentally, allocation of costs as required by the Directive appears to be incompletely implemented. Article 14 of the Directive requires that USPs

adopt specific principles of cost allocation. Member state are required to ensure compliance by arranging for monitoring of USP accounts by a body independent of the USP and by periodic publication of a statement of compliance with the costing principles of the Directive. At present, only nine NRAs confirm (1) separation of accounts and (2) an allocation of costs that is verified by an independent body and attested by publication of a periodic statement of compliance.

- Even where compliance with the cost allocation principles of the Directive is confirmed, it appears that NRAs rarely involve themselves with the technical issues of cost drivers and data quality. Instead, they may accept the report of an outside auditor, perhaps retained by the USP, which may reflect no more than adherence to a system of cost drivers and data measurement developed by the USP. Such an approach appears to fall short of the Directive's goal of an open and transparent cost allocation system.

A central feature of the regulatory framework envisioned by the Directive is the establishment of a NRA independent of the USP. In this area, great strides have been taken considering the almost complete absence of postal regulators prior to the Directive.

- An NRA has been established in all member states except France by creating or nominating a government agency to fulfil the duties of a postal NRA (a French NRA is expected to be established in 2005).
- Resources provided the NRAs vary widely. Using the especially well developed NRAs of the UK, Portugal, and Ireland as benchmarks for large, medium, and small member states, respectively, this survey suggests the NRAs of a few member states might be in need of additional resources.
- Independence of the NRAs from influences partial to the USP was evaluated indirectly by considering how closely the institutional arrangements of the NRA conform to an ideal of a wholly independent, quasi-judicial body. We found most NRAs to be reasonably independent but call attention to a possible need to consider further institutional independence in seven member states.
- Most NRAs appear to be vested with sufficient authority to collect data and enforcement judgements, however it may appropriate to consider whether at least four NRAs require strengthening in this respect.

Appropriate competition from CPOs

In addition to strengthening the role of regulation, the Postal Directive also seeks to provide the maximum scope for competition consistent with protection of universal service. It does so by limiting the area of services that can be reserved for the USP and by defining a measured approach towards regulation of CPOs. With respect to the reserved area, major developments identified in this survey include the following:

- Virtually all member states have limited their reserved areas to the boundaries for the maximum reservable area set by the Directive.
- In 12 member states – about half of the Community by population – the reserved area is now minimal or substantially less than the outer boundaries fixed by the Directive (primarily due to exclusion of direct mail).
- In other member states, it may be questioned whether the “principle of proportionality” required by the Directive – that is, adjustment of the scope of the reserved area “to the extent necessary to ensure the maintenance of universal service” – has been adequately pursued.
- After seven years it appears that no member state has produced an objective economic analysis that supports the need for any reserved area to sustain universal service and at least two member states (GB, SE) have generated studies which lead to the conclusion no reserved area is needed to sustain universal service.
- For the major portion of the EU letter post, an effective end to the postal monopoly is in sight. The NRA in the U.K. has set April 2007 as the end of the reserved area in that country. The exclusive license of the German USP expires at end of 2007, and the Netherlands has indicated an intention to repeal its reserved area at the same time. These three member states comprise almost 48 percent of the EU letter post system. Including member states which have already repealed the postal monopoly (EE, FI, SE) and member states where the monopoly offers minimal effective protection from competition (ES, SI), 60 percent of the EU letter post will be substantially liberalised by the end of 2007.

In regard to the regulation of CPOs, the Postal Directive provides for two types of authorizations: a “general authorization” which does not require specific approval by the NRA and an “individual licence” which does. The individual licence can be introduced only for services provided within the universal service area. The precise parameters of these authorizations are not clearly set out in the Directive, however, and this survey found considerable confusion over and seeming misapplication of the authorization provisions of the Directive. With respect to authorizations, the principal findings of this survey are:

- At least eight member states appear to have established “general authorizations” which require specific approval by the NRA before the authorized operator can begin service, a definitional impossibility under the Directive.
- Several member states attach conditions to authorizations relating to financial resources or operational expertise despite the fact that such conditions appear to be more stringent than envisioned by the Directive.
- A handful of member states seem to require individual licences for postal services outside the universal service area even though the legitimate scope of individual licences is limited to the universal service area.
- The most important issue relating to authorizations derives from the practice in many member states of requiring a licence for provision of all services within the universal service area. In some cases, member states have apparently made it difficult or impossible to obtain such “universal service licences” by delaying implementing regulations or attaching unnecessarily stringent conditions. Based on answers (or in some cases, no answers) of NRAs, up to ten member states might be considered to have introduced overly restrictive universal service licences.

Development of the postal services market

In broad terms, the overall postal services market is becoming more competitive, more commercial, and more concentrated in the hands of a few large USPs.

NRAs and USPs perceive increasing competition in both the letter post and express and parcel portions of the market. Nonetheless, the development of competition in the letter post market has been extremely gradual even in the most liberalized markets.

- Sweden repealed the postal monopoly a decade ago, but the Swedish USP retains about 93 percent of the letter post market.
- In the United Kingdom, Postcomm (the NRA) has made substantial efforts to introduce competition in the last two years, but CPOs have captured less than 0.5 percent of the market.

The most significant market development in recent years has been the continuing organizational transformation of USPs.

- Fifteen of the 25 USPs are now corporatized, and a sixteenth USP (SK) is planning to take the step before the end of the year.

- Three USPs are partially privatized (DE, MT, NL), with one or two USPs (DK, AT) expected to follow in the near future.

As USPs are becoming more like private companies, they are absorbing of more and more of the genuinely private portion of the postal sector.

- The four largest USPs (DE, FR, GB, NL) have acquired two of the four largest global express services (DHL, TNT). Since 1998, they have taken over more than 70 parcel and express companies and about 50 companies engaged in other types of postal and other activities. Lately these USPs have used acquisitions to increase their upstream and downstream activities and to expand into letter post related services in other member states. Some medium-sized USPs (e.g., AT, BE, FI, SE) have been pursuing similar, although smaller-scale, expansion strategies.
- Small and medium-sized USPs are increasingly adopting the role of commercial partners with larger, regional postal operators.

To the extent that USPs, especially the four largest USPs, are consolidating private sector postal services into regional systems while retaining the special and exclusive rights of public undertakings, there appears to be a risk of “governmentalizing” the private sector instead of privatizing the public sector.

Changes in market structure are being driven at least in part by changes in market demand. It is widely expected that the letter post will become more a medium for the distribution of direct mail and less a medium for the exchange of correspondence. Respondents generally expect the net effect of declining correspondence (due to electronic substitution) and increasing direct mail (due to a growing economy) will be a modest decrease in the volume of letter post over the next decade.

One notable detail about demand that emerged from this survey is an estimate that 75 percent of letter post items weigh less than 50 grams. Only about 7 percent of letter post items fall in the 50 to 100 gram weight category that the Postal Directive places outside the reservable area at the start of 2006.

Development of USPs

As commercial enterprises, USPs collectively have done well in recent years.

- Total USP revenues in 2002 were about € 105 billion. Total revenues from postal services were about € 70 billion, of which 77 percent was accounted for by the four largest USPs (DE, FR, GB, NL).

- Between 1999 and 2002, total revenues USPs increased by more than 10 percent per year. Revenues from postal services rose by about 7.7 percent per year. Even without the four largest USPs (whose revenue growth was strongly affected by acquisitions) postal revenues of the USPs grew by almost 4.5 percent per year.
- USP employment in 2002 was about 1.8 million persons (headcount), of which about 1.1 million persons were engaged in the production of postal services. Employment in letter post services appears to have declined by about 1 to 2 percent per year after 2000.

The USPs' volume of domestic letter post grew from 1998 to 2000, but it remained essentially flat after that. The historically strong link between growth in economic activity and growth in letter post volume seems to be waning in the most advanced economies and in the EU as a whole, although economic growth is still stimulating increases in letter post volumes in less advanced economies.

- The volume of domestic letter post volume in the EU was about 85.1 billion items in 1998 (including the new member states), 89.6 billion items in 2000, and 89.1 billion items in 2003.
- The four largest USPs (DE, FR, GB, NL) have 68 percent of the EU domestic letter post by volume.

With respect to the USPs' parcel business, this survey can provide less detail.

- In the EU domestic parcel post market, USPs delivered about 1.5 billion parcels in 1999. The relationship between the domestic parcel post market and the total EU parcel and express market is unknown.
- The four largest USPs (DE, FR, GB, NL) appear to account for about 81 percent of the parcel post market (by volume).

After adjusting for inflation, the real postage rate for a first class letter of the lowest weight step increased only moderately in most member states in the last six years and actually decreased in five (DE, IT, NL, PT, SK).

- Among member states, the basic first class letter rate in 2003 varied from € 0.15 (MT) to € 0.65 (FI), although the differential is somewhat less if adjusted for differences in purchasing power.
- Thirteen member states have a second class or non-priority letter post service; these services carry a substantial fraction of all letter post items and suggest an important demand for lower priority but less expensive services.

- Special or discount tariffs are widely available for all types of postal items and appear to apply to a substantial proportion of the mail. Discounts for bulk presorted correspondence typically range from 15 to 30 percent, while discounts for direct mail may exceed 50 percent.
- Public parcel rates seemed to have increased much faster than first class letter rates.

USPs are in the midst of a substantial transformation and modernization process. Modernization strategies include the following:

- Restructure the transportation and mail processing network (often the first step) by reducing the number of sorting centres to reduce transportation costs and create critical mass for sorting automation.
- Use information technology to optimise routes and reduce costs in transportation and distribution.
- Increase outsourcing of transport, collection, and the retail operations.
- Improve operational synergies.

Significant increases in productivity were realised by most USPs from 2000 to 2002, primarily due to reduced employment rather than rising volumes. While many USPs are far advanced in this transformational process, others have lagged noticeably. This widening gap in technological sophistication may become difficult to bridge.

Universal services

Access to universal service, in traditional terms, is gradually declining.

- Post offices were closed at an average rate of about 2.4 percent per year from 1998 to 2002.
- The number of postal agencies (staffed by non-USP employees) has increased but not enough to offset the decline in the number of post offices. On the other hand, USPs are developing closer relations with retailers, such as supermarkets, which can offer consumers access to postal facilities outside of normal business hours.
- The number of public collection boxes has remained stable except for significant declines in Germany and Sweden.

The quality of universal services is stabilizing at a high level, although not all member states and all universal services have reached this point.

- Next day delivery exceeds 90 percent for first class mail in more than half of member states.
- Quality of service has declined for a few USPs (especially HU and FR).
- New member states generally do not yet have reliable systems to measure quality of service.
- Cross-border letter post service among the EU-15 member states has reached a high and stable level, with some exceptions, but the new member states will not join the monitoring system for cross-border mail until the start of 2005.

Specific policy issues

This report also examined whether available data could shed light on three specific policy issues of particular significance for the future. Without presuming to supply definitive answers, this analysis suggests that the following preliminary conclusions:

What are the key factors leading to increases in letter post volume?

- The main driver of letter post volume continues to be general economic growth but the stimulative effect of economic growth is declining significantly among the more economically advanced member states.
- Differences in quality of universal service appear to be a significant factor in explaining differences in the growth rate of letter post volume experienced by member states in similar economic circumstances.
- The level of tariffs also seems to affect the rate of growth in letter post volume. Substantial tariff increases in some member states seem to have restrained growth in the letter post.

What are the most important factors stimulating improvement in quality of universal services?

- Increasing use of technology and automation has led to significant improvements in the quality of letter post service, but these benefits are realised only in the medium term.

- Competitive pressure, whether from market opening or increased use of the internet, appears to incite management focus on improvements in quality of service.
- The degree of geographic dispersion of the population has only a small effect on the quality of service.

What are the primary effects of increased competition in the letter post market?

- Increasing competition has not led to a general deterioration in the quantity or quality of universal postal service.
- Increasing competition seems to have a positive effect on universal service and the universal service provider where the USP has the resources and commercial flexibility to respond.
- The effects of electronic substitution on universal postal service seem to be similar to the effects of market opening.

Recommendations

This survey suggests that the following revisions in the regulatory framework of the sector may merit consideration. They are listed in the order of topics in the Directive.

- Clarify the definitions of terms used in the Directive
- Allow member states greater flexibility in the definition of the scope of universal service
- Set a deadline for termination of the reserved area.
- Revise the process of transition to an open market, if further transition is needed, by making use of benchmarks expressed in terms of percentages of the market that must be opened.
- Revise and clarify the authorization provisions for CPOs in light of principles developed in the licensing regimes in Germany, Sweden, and the UK.
- Extend the practice of monitoring quality of service performance.
- Allow member states greater flexibility in reconsidering the scope of price regulation for universal services.
- Encourage member states to continue establishing effective mechanisms for price control of universal services which are not controlled by competitive forces.

- Clarify the level of scrutiny of cost allocation systems expected from NRAs and require that NRAs, not an independent body, periodically certify the USP's compliance with the cost allocation principles of the Directive.
- Require NRAs to publish an annual summary of regulatory accounts and a technical explanation of how data is collected and costs attributed by means of cost drivers.
- Encourage member states to pursue corporatization of public operators.
- Clarify the nature of the independence expected of the NRA and the extent of necessary enforcement powers.

With respect to collection of market information, we recommend that the Commission adopt an internet-based system of standardized reports that would be periodically updated by the NRAs. The reports should include both regulatory information and basic market data gathered from USPs and CPOs. The set of market data to be collected should be determined after considering the legitimate commercial concerns of the USPs and CPOs. In the end, a standard reporting procedure focused on the NRAs should prove less burdensome for the Commission, NRAs, and postal service providers.

2 Background

2.1 European Union in brief

After the accession of ten new member states¹ on May 1, 2004, the European Union embraces 25 countries with a total population of about 454 million persons and a land area of almost 4 million square kilometres. The total gross domestic product of the EU is approximately € 9.6 trillion. The EEA countries represent another 5 million persons and the candidate countries almost 30 million. See Table 2.1.

Table 2.1.1 Overview of countries involved (2002)

| | Size (thou km ²) | Population (in thou) | GDP (in bln EUR) | Employment (in thou) |
|---------------------|---------------------------------|-------------------------|---------------------|-------------------------|
| EU-25 | 3,980,495 | 453,722 | 9,615 | 191,880 |
| Old member states | 3,241,923 | 379,053 | 9,171 | 162,973 |
| New member states | 738,572 | 74,669 | 444 | 28,907 |
| EEA | 427,055 | 4,844 | 212 | 2,449 |
| Candidate countries | 1,127,864 | 29,725 | 257 | 12,568 |

Source: Eurostat

2.2 Development of postal policy in the European Union

The national post office is among the oldest and most important of governmental services. National postal systems for the carriage of letters of the general public were first developed by French and English monarchs in the seventeenth century from earlier systems of governmental and private messenger services. In the mid-nineteenth century, a postal reform movement begun in England lowered rates of postage to levels affordable to ordinary persons and introduced uniform national postage rates. For two and a half centuries, the national post office has been a vital feature of the social life of European nations.

In the 1980s, however, continuing advances in transportation and communications technologies began to erode the national identity and functional simplicity of the post office. In the previous decade, private messenger companies, called “air couriers”, developed in Europe and America to provide extra fast and reliable transmission of “time-sensitive” business documents. By the late 1980s, couriers and commercially-

¹ Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia.

mindful post offices were joining forces to offer “re-mail” services that allowed a mailer in country A to send international mail to the post office in country B rather than posting the mail with his “home” post office in country A. Computers and telecommunications soon permitted the “mailer” in country A to print his international mail in country B as well. Suddenly post offices were placed in competition with one another for the distribution of cross-border mail.

Acting in response to such changes in traditional national postal markets and in anticipation of the 1992 deadline for development of a single Community market, the European Commission in late 1988 began a comprehensive survey of the delivery services sector. The result was the “Postal Green Paper” adopted in June 1992.² The Postal Green Paper found that postal services varied widely in quality and efficiency among Member States and were too often handicapped by unnecessarily extensive public sector monopolies. Differences and poor coordination among national post offices produced a “frontier effect” that tended to impede progress towards a single market. The Postal Green Paper proposed a minimum Community-wide definition of universal postal service, a maximum Community-wide limit to the postal monopoly, liberalization of cross-border postal services and direct mail, establishment of an independent postal regulator in each Member State, and imposition of quality of service standards on universal postal services.

In December 1997, after five years of consultation and debate, the European Union adopted the Directive 97/67, the Directive on Postal Services.³ Under the Directive, the main objectives of Community postal policy became to improve the quality of service and to facilitate the internal market for postal services. Respecting the legal principle of subsidiarity, the Postal Directive required limited harmonization of Community postal services. Regulatory provisions included a minimum definition of the universal postal services that must be guaranteed by government and a maximum definition of the scope of postal services that could be reserved to the national post office. The Directive included criteria relating to non-reserved postal services, access to the postal network, tariff principles and the transparency of accounts, quality of service, and harmonization of technical standards. In sum, the Postal Directive established a unified Community framework for postal services which left Member States considerable discretion to adapt national postal law to different national circumstances.

Guided by Community policy considerations, commercial relations between Member State USPs evolved in parallel with the Postal Directive. The USPs of most Member States introduced a new system, called “REIMS”, for compensation and control of cross-border mail. In essence, REIMS aligns charges for delivery of cross-border mail (called “terminal dues”) more closely with domestic postage rates and to establish

² COM(91) 476 final (adopted 11.6.1992).

³ Directive 97/67/EC.

financial incentives for high quality service. The original REIMS agreement was notified to the Commission in 1995, but the Commission was unable to provide the exemption from the competition rules sought by the USPs. In 1997, a revised REIMS II agreement was notified to the Commission, and in 1999 the Commission granted the requested exemption until the end of 2001.⁴

In March 2000, the European Council, meeting in special session in Lisbon, formally embraced the "Lisbon strategy" for transforming the Community into "the most competitive and dynamic knowledge-based economy in the world" over the ensuing decade. The Lisbon plan specifically addressed modernization of postal services. The Council requested the Commission to set out by the end of 2000 a strategy for the removal of barriers to postal services and to speed up liberalization in postal services in order to achieve a fully operational internal market. The Council likewise considered it essential that, in the framework of the internal market and of a knowledge-based economy, full account be taken of Treaty provisions relating to services of general economic interest and to undertakings entrusted with operating such services.

Pursuant to the Lisbon decisions, in June 2002 the Council and Parliament amended the Postal Directive by adopting Directive 2002/39.⁵ The new directive was derived from a Commission proposal made in May 2000.⁶ Under Directive 2002/39, the maximum definition of the reserved service is reduced to correspondence weighing less than 100 grams or costing less than three times the basic tariff; in 2006, the limits will be reduced further to 50 grams or 2.5 times the basic tariff. Furthermore, the Directive encouraged liberalization of outgoing cross-border mail (while permitting some exceptions) and set January 1, 2009, as a possible date for the full accomplishment of the Internal Market for postal services, although this step must be confirmed or modified by a further act of the European Parliament and the Council. The Directive also requires the Commission to prepare a progress report every two years on the application of the Postal Directive and other developments in the sector, particularly economic, social, employment and technological aspects and the quality of service. In addition, by the end of 2006, the Commission is required to prepare "a prospective study which will assess, for each Member State, the impact on universal service of the full accomplishment of the postal internal market in 2009" and to submit a proposal "confirming, if appropriate, the date of 2009 for the full accomplishment of the postal internal market or determining any other step in the light of the study's conclusions."

⁴ Commission Decision 1999/695/EC in Case No COMP/36.748— REIMS II (OJ L 275, 26.10.1999, p. 17).

⁵ 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. OJ L 176, 5.7.2002, p. 21.

⁶ OJ C 337 E, 28.11.2000, p. 220 (original proposal) and OJ C 180 E, 26.6.2001, p. 291 (revised proposal).

In October 2003, the Commission took another step towards achievement of the internal market for postal services by approving a five-year extension of the REIMS II agreement subject to additional conditions.⁷ In particular, reflecting greater liberalization of outgoing cross-border mail in Directive 39/2002, the Commission required the 17 European USPs party to REIMS II to deliver incoming cross-border mail tendered by private operators and other parties on the same terms as applied other USPs. Each USP is likewise required to grant other USPs effective access to the generally available domestic rates in the country of delivery. The Commission's order firmly embraced the principle that "terminal dues" must reflect the actual cost of delivery and endorsed use of penalties to encourage USPs to meet quality of service targets for cross-border mail.

2.3 Evaluating the effects of the Postal Directive

As required by the amended Postal Directive, the Commission's first biennial report on the application of the Directive and developments in the postal sector was issued in June 2002. This report surveyed the main trends in the European postal sector during the period from 1998 to 2001.⁸ The report was based primarily on data collected through several studies prepared for the European Commission in that period.⁹

With regard to the regulatory developments, the Commission concluded that Directive 97/67 was substantially implemented in the fifteen member states then comprising the EU. The following regulatory achievements were specifically noted:

- Implementation of a common maximum reserved area across the Community;
- Implementation of additional safeguards for the universal service in most Member States;
- Definition of national requirements for a good and reasonable access to national postal services;
- Implementation of transparent and clearly separated cost accounting systems by the former postal administrations;
- Definition of quality of service targets both for domestic and cross-border mail;
- Harmonized arrangements for customer complaints;
- On-going definition of European technical standards;

⁷ Commission Decision 2004/139/EC in Case No COMP/C/38.170 — REIMS II Renotification (OJ L 56, 24.2.2004, p. 76).

⁸ COM(2002) 632 final.

⁹ PLS Ramboll (2002), CTcon (2001a), CTcon(2001b), Omega Partners (2001).

- Establishment of independent national regulatory authorities (NRAs).

Nonetheless, the Commission stressed that regulatory systems for posts had achieved only limited harmonization among member states due to varied application of the Directive among member states.

In the marketplace, the Commission reported rapid development. Universal postal service provided in the EU-15 often exceeded the requirements of the Postal Directive. Quality of service (in terms of transit time) had improved for both domestic and cross-border mail, due to twin influences of the Directive and the REIMS agreement. Corporatization of former postal administrations had led to new business strategies, improved efficiency, and diversification. Indeed, product innovation and increased outsourcing were blurring traditional boundaries between public postal service and private delivery services. Nonetheless, it remained the case that the universal service required by the Postal Directive was primarily delivered by the traditional national postal services, now usually called "universal service providers" (USPs).

A third note struck by the Commission's report was one of fundamental change. New technologies were found to pose increasing potential for substitution of traditional mail products. At the same time, improvements in postal technology opened opportunities for improvements in efficiency. Both trends put downward pressure on employment among traditional USPs and, in fact, the Commission found that a pattern of continuous erosion of public sector postal jobs. At the same time, the Commission noted growth in employment among private providers of delivery services such as courier and express companies, denominated "competing private operators" (CPOs). Studies suggested that gains in CPO employment and other activities supported by the postal sector more than offset losses in USP employment.

Since publication of the 2002 report on the application of the Directive, the Commission has retained consultants to prepare further studies on aspects of the European postal market. Last year, the Commission released a study of quality of universal service in the European postal markets and a survey of the main aspects of postal services in the thirteen countries which were (in 2003) due to join the European Union in 2004 or candidates for admission at later date.¹⁰ Additional studies on the relationship of different treaties related to international postal services (Universal Postal Union, General Agreement on Trade in Services, EC Community law) and the economics of postal services are in progress.¹¹

¹⁰ WIK-Consult (2003a and 2003b).

¹¹ "Study of the relationship between the constitution, rules and practice of the Universal Postal Union and WTO rules and EC Community law", under preparation by TMC Asser, and "Study about the economics of postal services" under preparation by NERA.

The Commission has also proceeded with other relevant evaluations concerning services of general interest.¹² A Green Paper on Services of General Interest, issued in 2003,¹³ addressed a broad range of questions, including, e.g., the degree of subsidiarity, financing, and evaluation of services of general interest. In a methodological note and a related working document,¹⁴ the Commission observed that the evaluation of services of a general interest should be “based on factual information on the evolution of those industries and feedback from citizens, consumers and other stakeholders”.¹⁵ The analysis shall focus on the evolution of competition against the background of the market opening process, on the performance of the network industries in terms of efficiency and universal service provision, and on users’ perception of the market performance.

2.4 About this study

The present study was commissioned by the Commission at the end of 2003 for the purpose of gathering relevant data and analyses to be used in the preparation of its second biennial report on the application of the Directive later this year. This study reviews regulatory and market developments in 31 European countries: the 25 member states of the European Union as well the three countries which are members of the European Economic Area (Norway, Iceland, and Liechtenstein) and the three countries which are candidates for future membership in the EU (Bulgaria and Romania, to be admitted in 2007 according to present plans, and Turkey, whose candidacy is under consideration).

In particular, the Commission requested WIK to identify specific indicators of development and their implications for development of the sector regulated by the Postal Directive, i.e., public and private postal services (see section 3.1 below). Three areas in special significance were to be given extra emphasis: pricing of postal products, market entry and competition (including authorization and licensing), and the National Regulatory Authorities required by the Directive.

This study is based primarily on a survey of operators, national regulatory authorities, mailers, consumers, and postal unions. Participants were requested to complete detailed questionnaires posted on a secure internet site during the period February 15, 2004, to June 21, 2004. In order to permit ease of completion and to facilitate rapid analysis, the WIK questionnaire made extensive use of questions that could be answered by choosing from a menu of choices or by supplying numerical data.

¹² e.g. Eurobaromètre 58 (2002) and Eurobaromètre (2003).

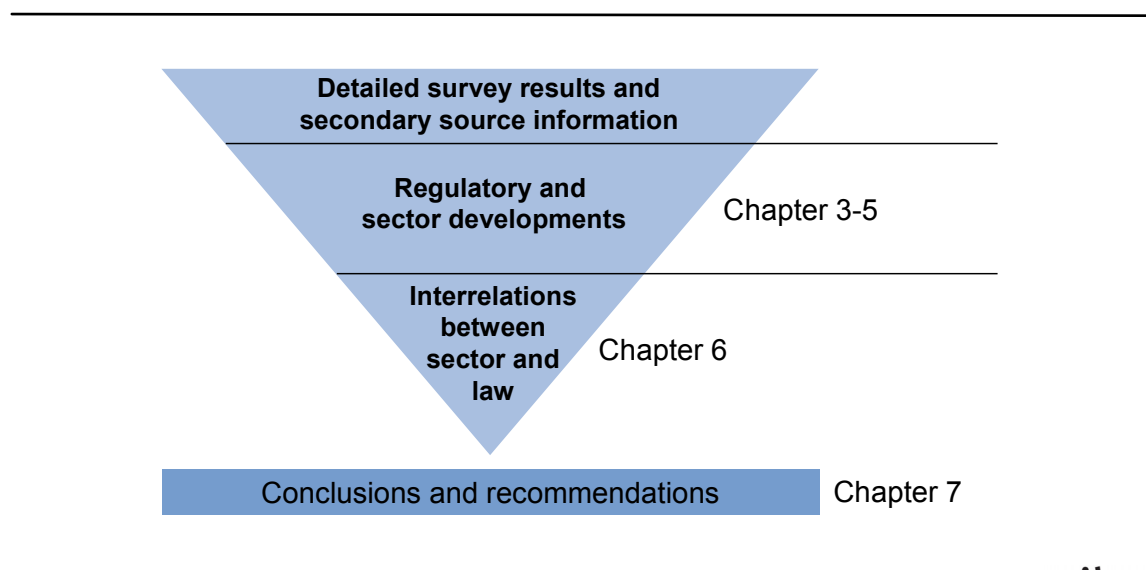
¹³ COM(2003) 270 final.

¹⁴ COM(2002) 331 final (“A methodological note for the horizontal evaluation of services of General Economic Interest”) and SEC(2004) 866 (“Horizontal evaluation of the performance of network industries providing services of general economic interest”).

¹⁵ COM(2002) 331 final, p. 3.

Questions were grouped into 31 “question modules”, each containing 10 to 40 (or more, in a few cases) questions dealing with a specific topic. NRAs and USPs were asked to complete 16 and 17 question modules, respectively. Other participants were asked to complete only one or two question modules. Several question modules requested quantitative time series data for the six years 1998 to 2003. In each case in which there might be reasonable questions relating to the availability or sensitivity of data, the participant was asked to indicate whether the data provided was available for public disclosure or considered confidential; where data was not provided, the participant was asked to indicate whether the reason was unavailability, commercial sensitivity, administrative burden, or some other reason. All together, the survey sought more that 100,000 bits of information about the European postal sector. NRAs cooperated extensively with the survey; and USPs to a good, but more limited extent. CPOs, mailers, consumers, and postal unions participated to only a very limited extent. In addition, WIK has consulted national laws, annual reports, the statistical data available from the Universal Postal Union and Eurostat, and other secondary sources. Details of the methodology of this study are provided in appendices accompanying this report.

Figure 2.4.1 Structure of the report



The basic process used in analysing the data and preparing the report is shown schematically in Figure 2.4.1.

In preparing the report, the first step was organization of the collected data into extensive appendices. These appendices present information received from individual respondents and take into account more than 1,000 notes and explanations that respondents included with their answers.

Chapters 3, 4, and 5 provide an interpretation and summary of the regulatory and sector information collected in the survey.¹⁶ These three chapters offer a compilation of main indicators related to universal service, regulation, postal operators, competition, employment, and social issues. The organization of chapters 4 and 5 closely follows the sequence of topics in the Postal Directive. The presentation makes use of diagrams, figures and analytical tables to highlight and compare country-specific outcomes in order to identify “best practices” in relation to the issues considered.

Chapter 6 reviews the relationships between data developed by this survey in order to provide some insight into the major factors determining the answers to three important policy issues: What are the key factors leading to increases in letter post volume? What are the most important factors stimulating improvement in quality of universal services? What are the primary effects of increased competition whether by market opening or electronic substitution, on universal service?

Chapter 7 provides conclusions and recommendations flowing from the preceding analysis.

16 In some cases, WIK revised or interpreted information reported in the appendices in order to provide consistency and correct for apparent misunderstandings. In cases of apparent error or inconsistency, WIK first sought clarification from respondents. Nonetheless, even after finalization, a certain amount of interpretation has been necessary to reconcile the disparate data collected.

3 Postal services in the European Union

This chapter describes the subject of this study, the postal services sector in the European Union. Three issues are addressed:

- a definition of the sector and major submarkets;
- an overview of the revenue and employment generated by postal services; and
- a short description of the changing role of postal services within the context of the communications and transportation infrastructure.

3.1 Postal services, delivery services, and terminology

Although the focus of this study is “postal services” in the European Union, the research agenda spanned what may be termed informally the “delivery services sector”. Specifically, in the terms of reference, the Commission requested information and analysis of the following submarkets:

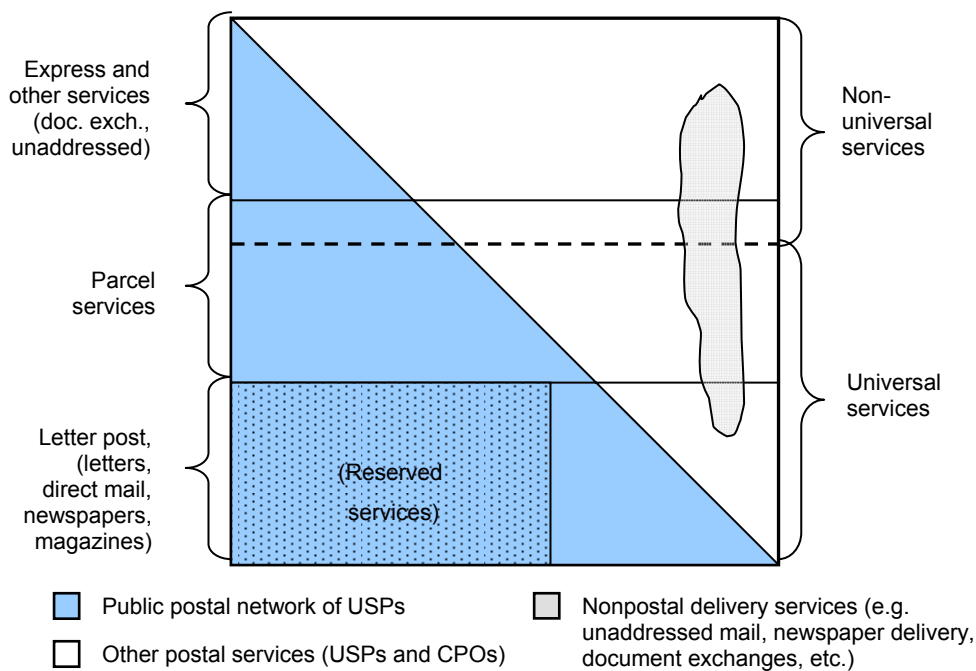
- Addressed written communications on any kind of physical medium including hybrid mail and direct mail;
- Addressed parcels and packages;
- Addressed press products;
- Registered or insured mail (of the three above categories);
- Express delivery services;
- Non-addressed items;
- Document exchange;
- Other services.¹⁷

What portion of this delivery services sector can be referred to as “postal services” and what are the major submarkets of “postal services”? Remarkably, there is no generally agreed answer to this question. Indeed, there is today no standard, accepted vocabulary to describe key elements of the delivery services sector.

¹⁷ Terms of reference, p. 25.

According to the Postal Directive, the delivery services sector is described by several overlapping concepts whose boundaries are not always distinct. Figure 3.1.1 provides a schematic representation of the segmentation of the delivery services market implied by Postal Directive.

Figure 3.1.1 Segmentation of the delivery services market



According to the Directive, *postal services* are “services involving the clearance, sorting, transport and delivery of postal items”.¹⁸ A *postal item* is defined as “an item addressed in the final form in which it is to be carried by the universal service provider. In addition to items of correspondence, such items also include for instance books, catalogues, newspapers, periodicals and postal packages containing merchandise with or without commercial value”. A *universal service provider* (“USP”) is “the public or private entity providing a universal postal service or parts thereof within a Member State, the identity of which has been notified to the Commission”. *Universal postal service* is defined, implicitly at least, as a “service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users.”¹⁹

¹⁸ Unless otherwise indicated, the definitions in the Postal Directive may be found in § 2.

¹⁹ Directive § 3.

In the course of this survey, it has become clear that reasonable persons interpret these key terms in the Directive differently with the result that there exist significantly different views on basic issues such as the scope of the Postal Directive or the meaning of statistical categories. Terminological difficulties arise because the Postal Directive sometimes employs terms that are not well aligned with terms traditionally used by postal officials. In the world of public postal operators, standard traditional usage is generally defined by, or at least reflected in, the Universal Postal Convention. In simplified form, the traditional postal view is that the delivery services sector is composed of *public postal operators* (meaning public undertakings) and *private operators* (everyone else including express companies). Public postal operators provide three types of postal services:

- *Letter post* is a collection and delivery service for conveyance of (1) letters and cards, (2) printed matter, and (3) small packets containing other things and weighing up to 1 or 2 kilograms.
- *Parcel post* is a distinctly different service that is designed for heavier packages weighing up to 20 kilograms or more and containing any type of item other than letters.
- *Express mail*, a relatively recent development, is a service like that developed in the 1980s by private international express companies such as DHL and TNT or, in a very large country, like that developed by Federal Express in the United States.

Traditional postal terminology is plagued its own ambiguities because it is grounded in technologies and business practices that have changed radically in the last three decades. Nonetheless, in preparing this study we have adopted or adapted, or otherwise been mindful of several traditional postal terms that usefully supplement the terms of the Directive. Some of the most important points that should be noted are as follows:

- *Letter post*. In this report, we use the term *letter post* as a convenient way to refer collectively to postal services for the collection and delivery of (using the terms of the Directive) correspondence, direct mail, and periodic publications such as newspapers and magazines even though this definition does not quite conform to traditional postal usage (see the next item).²⁰
- *Small packets*. In traditional postal terminology, small packets are postal items weighing less than 1 or 2 kilograms other than correspondence, direct mail, or periodicals. Postal officials consider small packets to be part of the letter post

²⁰ See the use of “letter post” in figure 3.1.1. In the Directive there is no collective term for non-parcel services even though a vestige of the letter post concept is retained in Article 3, which refers to the universal services for “postal items up to two kilograms”.

and USP volume and revenue figures for the “letter post” in this study undoubtedly include small packets. Nonetheless, from the standpoint of the Directive, small packets are parcels, and we do not include them in our revised usage of “letter post”.²¹

- *Letters and correspondence.* In this report, we use the postal term “letter” as equivalent to the Directive term “item of correspondence”.
- *Printed matter and direct mail.* The postal term “printed matter” (or “printed papers”) and the Directive term “direct mail” are similar but not identical. In the Directive, direct mail includes printed advertisements that are personalized without altering the nature of the message. In the pre-computer world of postal terms, anything more than minimal personalization transformed printed matter into letters. Moreover, printed matter includes periodicals such as newspapers whereas direct mail does not. In this report, we do not use the terms printed matter and direct mail equivalently, but we consider liberalization of printed matter to be tantamount to liberalization of direct mail.
- *Unaddressed mail.* Until recently, the UPU did not distinguish between delivery of addressed and unaddressed mail, and many postal officials still consider the delivery of unaddressed mail be a postal service even though the Directive does not. While we follow the Directive’s definition of postal services, it should be noted that letter post statistics of member states probably include unaddressed mail in some cases.

Overall, this study uses the term “postal services” to refer to any general delivery service whether provided by a public or private operator. The upper weight limit for delivery service items is undefined. The major submarkets of postal services are (1) the letter post (which may be further divided into correspondence, direct mail, and periodicals), (2) parcels, and (3) express. The delivery services sector also includes a grey area of non-postal delivery services (see Figure 3.1.1) that consists of services for items not prepared in a manner suitable for posting, such as, inter alia, unaddressed mail or document exchange items.

²¹ Of course, small packets should be deducted from volume and revenue figures to conform to the categories of the Directive and our non-parcel definition of ‘letter post’. There does not seem to be any practical way to do this, however. The Universal Postal Union stopped maintaining separate statistics for small packets in the early 1990s. At that time, small packets constituted roughly 1.5 to 2.25 percent of the letter post in France and Germany.

3.2 Revenues and employment in the sector

With these caveats, it may be estimated that the overall postal sector in the European Union, including letter post, parcel, and express services, earned total revenues of about € 88 billion in 2002. This figure corresponds to 0.9 percent of the gross domestic product (GDP) of the 25 member states. The largest segment of the market is the letter post, which accounts for about 59 percent of all revenues. The parcel and express segments combined account for 41 percent of all revenues (there is insufficient data to divide parcel and express).

For the postal services market as a whole, universal service providers (USPs) account for about 76 of the market by revenue and competitive postal operators (CPOs) account for about 24 percent. The competitiveness of the market varies by segment. The letter post is dominated by public USPs, most of whom are protected from competition by a legal monopoly and other legal privileges. Collectively, USPs collect about 95.5 percent of all revenues earned in the letter post segment while CPOs collect only about 4.5 percent. The express and parcel markets are more competitive. In these segments, USPs account for about 47 percent of revenues, and CPOs account for 53 percent. These figures are misleading, however, because the USPs are in effect CPOs in so far as their participation in express and parcel markets is concerned.

Total employment in the postal services sector may be estimated very roughly to be about 1.6 million persons, or a little less than 1 percent of all jobs in the European Union. USPs employed about 1.4 million persons in sum and about 1.1 bln in the production of postal services in 2002.²² A reasonable but very rough estimate of employment by competitive private operators (CPOs) would be 500,000 persons.²³

²² Full time equivalents (FTE). See Table 5.2.8 in section 5.2.1.2, below.

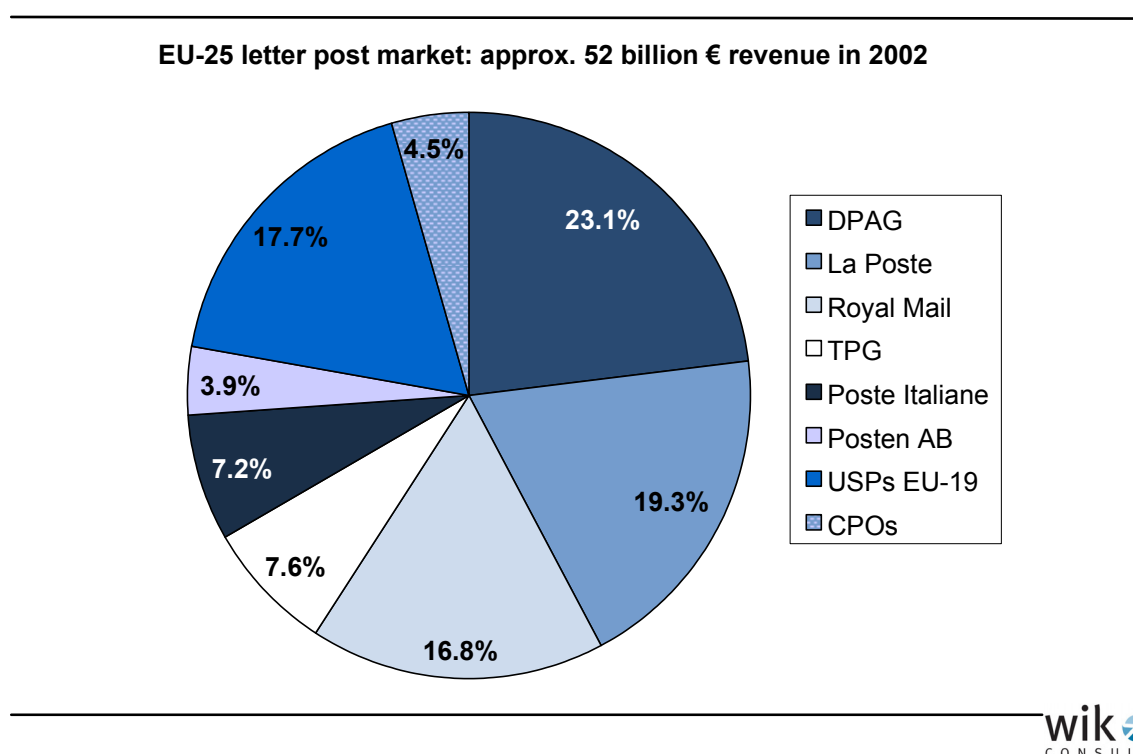
²³ Full time equivalents (FTE).

3.3 Market structure

Letter post market

Based on approximate market share data provided by USPs and NRAs, the total revenue earned from letter post services in the EU is estimated to have been about € 49 billion in 2000 and € 52 billion in 2002. These figures imply a recent growth rate of about 3.5 percent per year.

Figure 3.3.1 The European letter post market (2002)



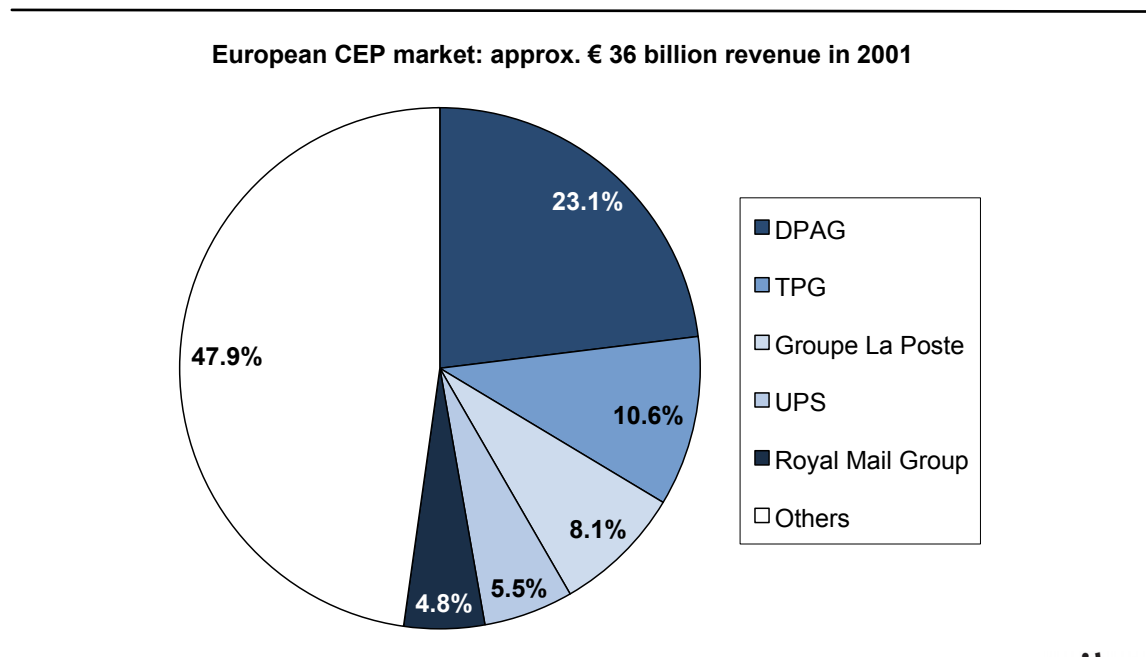
The USPs are by far the most important providers of letter post services. The shares of the six biggest USPs are presented in Figure 3.3.1 reflecting the size of their home markets: The six largest USPs have more than 75 percent of the European market. The share of the competitors has been estimated to be about 4.5 percent.

Parcels and express markets

The boundary between the parcels and express markets has become more and more blurred. Private express operators are active in many national parcel markets. The largest USPs are competing in national markets outside their home territories. And the local USP has in many cases improved its parcel post service so that it is able to compete successfully with foreign challengers. Reflecting the increasing overlap

between parcel and express markets, some USPs have merged their formerly separate parcel and express lines of business.²⁴ MRU, a German consultant, has estimated that the total revenues earned in EU parcel and express markets amounted to € 33 billion in 2000 and € 36 billion in 2001.²⁵

Figure 3.3.2 The European CEP (courier, parcels, express) market, 2001



Source: MRU (2002).

The market shares of the five largest operators in the combined parcel and express market are shown in Figure 3.3.2. As a result of a consolidation process led by the four largest USPs, market concentration has increased with the five top operators holding 52 percent of the markets in 2001.

This survey did not develop better or more recent data due to lack of cooperation from major USPs and CPOs. Annual reports of the four largest USPs suggest, however, that the market has been growing since 2001, although at a reduced rate, and that further consolidation has led to even higher market concentration.

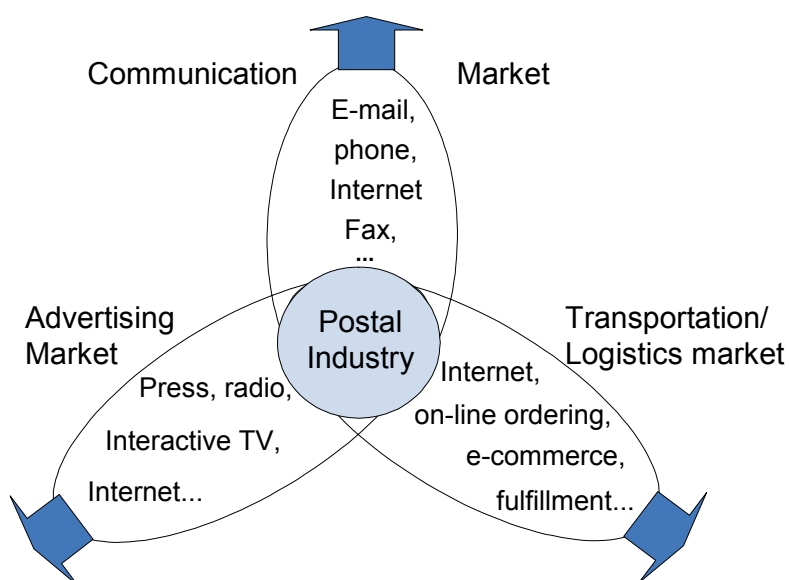
²⁴ Neither the corporate structure nor the annual accounts of Deutsche Post AG (DE) and TPG (NL) distinguish between parcel and express operations. La Poste (FR) recently announced that it would consolidate its parcel and express operations under the umbrella of GeoPost.

²⁵ MRU (2002).

3.4 Changing role of postal services

The role of postal services is evolving substantially. Postal services today find themselves at the crossroads of three markets important for economic development: communications, advertising, and transportation (including all types of delivery services and logistics). These markets are generally open to competition. Impelled by shifting market demands and improving technological capabilities, they are undergoing rapid development. To retain their vitality and economic role in the future, postal services have no choice but to develop in harmony with these closely related markets.

Figure 3.4.1 The strategic location of the postal services market



Source: COM(2002) 632 final, 25.11.2002. (EC report on the application of the Postal Directive)

This is more easily said than done. USPs, the dominant providers of postal services, straddle the boundary between traditional, nationally-based, public services and a kaleidoscope of rapidly evolving communications and transportation services supplied by an ever-changing cast of couriers, logistics firms, telecommunications services, and internet operators (to name but a few). For a century and a half, revenue from the carriage of letters sustained development of large public postal systems, which facilitated the social, intellectual, and commercial relations of society. Today, the eventual decline of letter revenue is in plain view, yet public demand for assured universal delivery systems remains strong. Although the EU took a major step in 1997 towards adapting the rules governing postal operators and postal markets to the needs of the twenty-first century, a need for further steps seems apparent.

4 Regulatory developments

This chapter surveys implementation of the regulatory principles of the Postal Directive by the several member states. The chapter begins with an overview of national postal laws and how each member state has allocated authority to carry out the policies and decisions required by the Directive. Sections 2 through 7 of this chapter focus on six key elements of the Directive:

- universal service,
- limitation of the reserved area,
- authorization of competitive postal operators,
- regulation of universal service prices,
- accounting controls for USPs, and
- establishment on independent regulators.

Each section describes how member states have implemented the primary requirements of the Postal Directive. In this review, the focus is on recognizing best or innovative practices among member states and identifying areas where experience suggests Community policy might be clarified or improved rather than on compliance with the technical legal requirements of the Directive.

4.1 Overview of regulatory framework

Spurred by the 1997 Postal Directive and its amendment in 2002, as well as by shifting commercial and technological circumstances, postal law in the member states has evolved rapidly and substantially. In 1997, the average postal law was about 13 years old. Today, postal laws in the member states average less than three years since enactment or major revision. As shown in Table 4.1.1, each member state has amended or replaced its postal law since 1997; some have done so two or three times. In addition, governments have typically adopted three to six secondary measures to implement postal statutes.²⁶

Table 4.1.1 Evolution of member state postal laws

| | Date of current law or amend | Date 1997 law | Amends since 1997 | Transpose 1997/67 | Transpose 2002/39 | EN translation |
|----|------------------------------|---------------|-------------------|-------------------|-------------------|----------------|
| AT | 2003 | 1998 | 1 | Y | Y | N |
| BE | 2002 | 1991 | 2 | Y | Y | N |
| CY | 2002 | 1960 | 1 | Y | N | Y |
| CZ | 2000 | 1946 | 1 | N | N | Y |
| DE | 2002 | 1969 | 4 | Y | Y | Y |
| DK | 2002 | 1995 | 1 | Y | Y | Y |
| EE | 2001 | 1991 | 1 | N | N | Y |
| ES | 2002 | 1953 | 2 | Y | Y | N |
| FI | 2001 | 1993 | 1 | Y | Y | Y |
| FR | 1999 | 1990 | 1 | Y | N | Y |
| GB | 2002 | 1981 | 2 | Y | Y | Y |
| GR | 2003 | [None] | 2 | Y | Y | N |
| HU | 2003 | 1992 | 2 | Y | Y | Y |
| IE | 2002 | 1983 | 2 | Y | Y | Y |
| IT | 2003 | 1973 | 2 | Y | Y | N |
| LT | 2004 | | 3 | Y | Y | |
| LU | 2002 | 1992 | 2 | Y | Y | N |
| LV | 2004 | 1994 | 1 | Y | Y | Y |
| MT | 2002 | 1975 | 1 | Y | N | Y |
| NL | 2000 | 1988 | 1 | Y | Y | Y |
| PL | 2004 | 1990 | 2 | Y | Y | Y |
| PT | 2003 | 1988 | 3 | Y | Y | |
| SE | 1993 | 1997 | 3 | Y | Y | Y |
| SI | 2004 | 1986 | 3 | Y | Y | N |
| SK | 2003 | 1950 | 2 | Y | Y | Y |

²⁶ Since governmental practices vary among member states, there is no clear distinction between primary legislation and secondary legislation. In this report, the terms “statute” or “primary legislation” refers to a legal measure adopted by parliament or by the head of the government (the president or council) or by the government and parliament acting together (e.g., in Germany and the United Kingdom). “Secondary legislation” or “regulation” refers a legal measure adopted by a minister or lower ministerial official or by the regulator.

Even so several member states have not fully transposed the Postal Directive into national law. Five member states (CY, CZ, EE, FR, MT) report that they have not yet transposed Directive 2002/39. Two of these (CZ, EE) have not completely transposed Directive 97/67. In the Czech Republic and France, new postal legislation is pending and expected to be enacted in the near future. Among other countries covered by this study, one EEA country (Norway) and one candidate country (Romania) report that their postal laws comply fully with the Postal Directive.

Table 4.1.2 Authority to make policy decisions required by the Directive

| | Specifics of USO | Weight limit for USO | Scope of reserved area | Auth. sys. for non- univ servs | Auth. sys. for univ. servs. | QoS standards |
|----|------------------|----------------------|------------------------|--------------------------------|-----------------------------|---------------|
| AT | MinPost | MinPost | MinPost | [None] | [None] | MinPost |
| BE | Parl | Parl | Parl | Parl | Parl | Parl |
| CY | NRA | NRA | NRA | NRA | NRA | NRA |
| CZ | NRA | NRA | Council | Parl | NRA | NRA |
| DE | Parl | Parl | Parl | Parl | Parl | Parl |
| DK | MinPost | MinPost | MinPost | MinPost | MinPost | MinPost |
| EE | Parl | Parl | [None] | Parl | Parl | Council |
| ES | Council | Parl | Council | NRA | Parl | Council |
| FI | Parl | Parl | [None] | [None] | Parl | Parl |
| FR | Parl | Parl | Parl | [None] | [None] | MinPost |
| GB | Parl | NRA | NRA | NRA | NRA | NRA |
| GR | MinPost | Parl | Parl | Parl | Parl | MinPost |
| HU | Council | Parl | Parl | Parl | Parl | Council |
| IE | MinPost | MinPost | MinPost | MinPost | MinPost | NRA |
| IT | MinPost | MinPost | MinPost | MinPost | MinPost | MinPost |
| LT | Parl | Parl | Parl | Parl | Parl | NRA |
| LU | MinOther | MinOther | MinOther | MinOther | MinOther | MinOther |
| LV | Council | Parl | Parl | Parl | Parl | Council |
| MT | NRA | Parl | MinPost | Parl | Parl | NRA |
| NL | MinPost | MinPost | MinPost | [None] | [None] | MinPost |
| PL | MinPost | MinPost | MinPost | MinPost | MinPost | MinPost |
| PT | Parl | Parl | Council | Council | Council | NRA |
| SE | Parl | Parl | [None] | [None] | Parl | Council |
| SI | MinPost | Parl | Parl | Parl | NRA | NRA2 |
| SK | Parl | NRA | Parl | Parl | Parl | NRA |

DE: "Parl" refers to ministerial decrees that require agreement of parliament.
IE: MinPost determines frequency of universal service; NRA determines access conditions.
IT: MinPost is the NRA.
SI: Quality of service standards set by Slovenian Institute for Standardization.

The Postal Directive imposes a range of obligations on member states. Broadly speaking, governmental decisions to meet these obligations may be taken according one of three procedures:

- legislation, i.e., measures which must be adopted by the government as a whole, such as by the parliament or the council of ministers or both;
- ministerial regulation, i.e., measures which can be adopted by a single minister, perhaps in consultation with other ministers; and
- NRA decision, i.e., measures which can be adopted by an independent body based primarily on technical considerations.

Table 4.1.3 Authority to make administrative decisions required by the Directive

| | Cost-based tariffs | Special tariffs | QoS monitoring | USP accounts | Cross subsidy | Procedures for gen. auth | Procedures for licenses | Procedures for complaint |
|----|--------------------|-----------------|----------------|--------------|---------------|--------------------------|-------------------------|--------------------------|
| AT | MinPost | MinPost | MinPost | MinPost | MinPost | [None] | [None] | MinPost |
| BE | NRA | NRA | NRA | NRA | NRA | MinPost | Council | NRA |
| CY | NRA | NRA | NRA | NRA | NRA | NRA | NRA | NRA |
| CZ | MinPost | MinPost | NRA | NRA | NRA | Parl | NRA | NRA |
| DE | NRA | NRA | NRA | NRA | NRA | NRA | NRA | NRA |
| DK | MinPost | MinPost | NRA | MinPost | MinPost | MinPost | MinPost | NRA |
| EE | NRA | NRA | NRA | NRA | NRA | Parl | Parl | NRA |
| ES | Council | Council | Council | MinPost | MinPost | Council | MinPost | NRA |
| FI | NRA | NRA | NRA | NRA | NRA2 | [None] | Council | NRA |
| FR | MinPost | MinPost | MinPost | MinPost | MinPost | [None] | [None] | NRA2 |
| GB | NRA | NRA | NRA2 | NRA | NRA | NRA | NRA | NRA |
| GR | NRA | NRA | NRA | NRA | NRA | NRA | NRA | NRA |
| HU | Parl | Parl | Parl | Parl | Parl | Parl | Parl | Parl |
| IE | NRA | NRA | NRA | NRA | NRA | NRA | NRA | NRA |
| IT | MinPost | MinPost | MinPost | MinPost | MinPost | MinPost | MinPost | MinPost |
| LT | NRA | Parl | NRA | NRA | NRA | NRA | NRA | NRA |
| LU | NRA | NRA | NRA | NRA | NRA | MinOther | MinOther | NRA |
| LV | Parl | Parl | Parl | Parl | Parl | NRA | Council | Parl |
| MT | NRA | NRA | NRA | NRA | NRA | Parl | Parl | NRA |
| NL | MinPost | MinPost | NRA | NRA | MinPost | [None] | [None] | MinPost |
| PL | NRA | NRA | NRA | NRA | NRA | MinPost | MinPost | MinPost |
| PT | NRA | NRA | NRA | NRA | NRA | Council | Council | NRA |
| SE | NRA | NRA | NRA | NRA | NRA | [None] | Parl | NRA |
| SI | NRA | NRA | NRA | NRA | NRA | NRA | [None] | NRA |
| SK | NRA | NRA | NRA | NRA | NRA | NRA | NRA | NRA |

CZ: Minister of Infomatics determines tariffs for international mail rates.

FI: Cross subsidy issues handled by Competition Office.

GB: Quality of service monitoring by Postwatch, an official consumer body.

Legislation is the most cumbersome decision making process and is reserved for the most politically sensitive issues, that is, for issues which require the input of all significant interest groups before a decision can be made. Committing a decision to a single minister is appropriate for decisions of a less sensitive but still fundamentally political nature. The third approach, authorizing an expert independent regulator to decide an issue, while not wholly free from political consideration, provides the most economically objective means of decision short of allowing the impersonal competitive market to work its will. The manner in which a government allocates authority to implement the requirements of the Postal Directive offers some insight into the extent to which postal policy is to be determined by political criteria or economic criteria.

As one would expect, decisions requiring the most political input are those that relate to basic policy: What level of universal service (frequency, maximum weight of parcels, etc.) is required to meet the needs of users? To what extent is a reserved area needed to ensure maintenance of universal service? What authorization procedures, if any, should be established for non-reserved services? What quality of service should be required of universal service providers? Table 4.1.2 summarizes how member states have provided for discharge of key policymaking functions required by the Postal Directive. In many cases, postal policy determinations are decided by legislation. In some cases, however, authority to make key policy judgements has been delegated to the minister in charge of postal policy or to the NRA. Among the six issues listed in this table, member states allocate about half to the parliament or council for decision and about one quarter to a ministry. The remaining 25 percent are decided by a regulator or left to the market.

Table 4.1.3 summarizes decision procedures for more administrative functions required by the Directive. Here the NRA plays a more prominent role, with responsibility for more than 60 percent of decisions. Fifteen percent are decided by parliament or the council and 20 percent are entrusted to a ministry. Among the eight issues listed, the definition of procedures for obtaining authorizations to provide competitive delivery services appears to be the most politically sensitive. Issues such as monitoring of quality of service performance, policing of cross subsidy, and definition of complaint procedures appear to be the least sensitive.

Conclusions

Member states have made very substantial efforts to modernize their postal laws since adoption of the Postal Directive in 1997. All but five member states have transposed the Postal Directive as amended in 2002; two member states still need to transpose the original Directive. A review of how the tasks required by the Postal Directive are managed by member states suggests that in many states postal policy issues still require a high level of political consideration before decision.

4.2 Universal service

The Postal Directive seeks to harmonize and enhance universal postal service for all citizens of the Community while accepting the authority of member states to shape universal service to meet country-specific requirements. Accordingly, the Directive defines minimum requirements with respect to:

- the scope of universal services,
- delivery requirements,
- access conditions,
- quality of service, and
- complaints and redress procedures.

These minimum criteria imply considerable freedom for a member state government in designing its national universal service obligation. This section considers how national universal service requirements implement the Postal Directive. The heterogeneity of universal service as actually provided by national USPs will be discussed in more detail in section 5.3, below.

Scope of universal service

Article 3 of the Postal Directive declares, “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.” According to the Directive, universal service shall cover national and cross-border postal services comprising

- the clearance, sorting, transport, and distribution of domestic postal items weighing up to 10 kilograms (which may be extended to not more than 20 kilograms by member states); and
- delivery of incoming cross-border postal packages weighing up to 20 kilograms.

Table 4.2.1 Weight limits for domestic and ingoing cross-border postal items

| | Domestic postal items | Cross-border postal items |
|--------------|--|--|
| 10kg | BE, EE, ES, FI, LT, LU, LV, MT, NL, PL, SK | ES, LV, MT |
| 20kg | AT, CY, DE, DK, FR, GB, GR, HU, IE, IT, PT, SE, SI | AT, BE, CY, CZ, DE, DK, EE, FR, GB, GR, HU, IE, IT, LT, LU, NL, PL, PT, SE, SI, SK |
| Other | CZ (15kg) | FI (30kg) |

All member states provide universal services for domestic postal items weighing up to 10 kilograms (see Table 4.2.1). The picture is slightly less unanimous regarding the delivery of incoming cross-border parcels weighing up to 20 kilograms. Latvia, Malta, and Spain²⁷ apparently apply a weight limit of 10 kilograms to incoming cross-border packages, although Malta has declared that it will soon raise the weight limit to 20 kilograms.

Two member states have taken an especially innovative approach towards the definition of universal service. In the Netherlands, bulk mail outside the reserved area is considered outside the definition of universal service (see the accompanying case study). And in the United Kingdom, the NRA, Postcomm, has recently adopted a universal service definition based on an extensive public consultation process about the needs of postal users. This appears to be the first time that universal service has been defined by actually assessing the needs of postal users. Postcomm's general conclusion was that, "as competition develops in the UK postal market, the universal service will fulfil the role of a guarantee of a minimum, rather than a comprehensive, range of services." On this basis, Postcomm exempted all but one bulk mail service from the universal service as well as services for priority domestic parcels and all outbound international parcels. Moreover, Postcomm suggested that regulation of price and quality of service would be inappropriate for a given service if competition develops sufficiently to protect the interests of customers. As USPs face greater competition from the CPOs and electronic alternatives, these issues are likely to become more important.²⁸

²⁷ The weight limit has been stated by the NRA. In the last Application Report Spain has been listed with a weight limit of 20kg for incoming cross-border items.

²⁸ Postcomm (2004d).

Case study 4.1 Universal service definition in the Netherlands

In the Netherlands universal service includes single-piece items weighing up to 2000 grams but excludes most bulk mail outside the reserved area. Single-piece items are defined as postal items transported at the single-piece tariff. Bulk mail items weighing less than 100 grams are within the reserved area and part of the universal service. Bulk mail services outside the reserved area and offered at discount rates (which is practically always the case) fall outside the universal service. The definition of universal service in the Netherlands seems to be driven mainly by the expectations of consumers because consumers are most likely to be concerned by market failure.

This philosophy is mirrored in a recent discussion paper on future postal policy issued by the Ministry on Economic Affairs.²⁹ This paper reasoned as follows. The current development of the Dutch postal market indicates that the benefits of competition have flowed predominantly to business mailers. At an advanced stage of liberalization, competitors may enter the consumer segment as well. To protect the public interest, there should be a universal service obligation even under competition. Uniform tariffs for single-piece items should probably be required as well. The Ministry intends to continue to limit the general universal service obligation to single-piece items. For a transition period, bulk mail items weighing up to 50 grams might be retained within the universal service. Depending on the future demand for postal services, even the scope of the universal service obligation for single-piece items may have to be adjusted. TPG will be obliged to continue providing universal postal services for at least five years after liberalization so that nationwide delivery can be guaranteed. After this period, operators may be invited to tender for universal service contracts. If neither TPG nor other postal operators are interested in voluntarily providing universal service, a universal service obligation may be imposed on the largest operator.

Delivery requirements

The Postal Directive requires a member state to ensure at least one clearance and one delivery each working day, not less than five days a week, at all points in the national territory save in extraordinary circumstances. National regulatory authorities must approve exceptions from nationwide coverage. The minimum of five day per week service is met in all member states (see Table 4.2.2). In six member states (EE, ES, IT, LT, MT, SI), USPs voluntarily provide six-day delivery although it is not required by law.

²⁹ "Postal Memorandum" (Jan. 22, 2004), available on the internet at <http://www.ez.nl>.

Table 4.2.2 Delivery requirements

| | Deliveries per week required | Deliveries per week in practice | Exceptions | Parcel delivery |
|----|------------------------------|---------------------------------|------------|-----------------|
| AT | 5 | 5 | N | Yes |
| BE | 5 | 5 | N | Yes |
| CY | 5 | 5 | N | Charge |
| CZ | 5 | 5 | N | Yes |
| DE | 6 | 6 | N | Yes |
| DK | 6 | 6 | Y | Yes |
| EE | 5 | 6 | Y | Charge |
| ES | 5 | 6 | N | No |
| FI | 5 | 5 | Y | Charge |
| FR | 6 | 6 | N | Yes |
| GB | 6 | 6 | Y | ChargeX |
| GR | 5 | 5 | Y | Charge |
| HU | 5 | 5 | N | Yes |
| IE | 5 | 5 | Y | Yes |
| IT | 5 | 6 | N | Yes |
| LT | 5 | 6 | N | Charge |
| LU | 5 | 5 | N | Yes |
| LV | 5 | 5 | N | Charge |
| MT | 5 | 6 | N | Yes |
| NL | 6 | 6 | N | Yes |
| PL | 5 | 5 | N | Yes |
| PT | 5 | 5 | N | Charge |
| SE | 5 | 5 | Y | Charge |
| SI | 5 | 6 | Y | Yes |
| SK | 5 | 5 | Y | Yes |

In the majority of member states, collection and delivery is provided at all points in the country. In eleven member states (DK, EE, ES, FI, GB, GR, IE, ISE, SI, SK) letter post items are delivered less than five or six times a week to a small share of population. While less than one percent of the population is affected in most of these countries, in Greece more than three percent of the population receives universal service less than five days per week. With regard to home delivery of parcels, the picture varies. In more than half of the member states, parcels are delivered free of charge to the premises of the recipient. In Spain there is no requirement to deliver parcels at all. In eight member states (CY, EE, FI, GR, LT, LV, SE, SI), home parcel delivery is provided at an extra charge. In the United Kingdom home delivery of parcels is free of charge in most but not all locations.

Access requirements

The Postal Directive requires that the availability of access points to the public postal network should meet the needs of users and that users should have transparent and non-discriminatory access to the network. Access points include mail boxes and postal outlets. Postal outlets include post offices operated by USP employees as well as postal agencies operated by persons who are not USP employees. In a recent study on quality of service, a main finding was that regulation of access to the postal network varies widely among member states.

Table 4.2.3 Access requirements

| | Postal outlets | Mail boxes |
|--------------------------------|--|--|
| Special requirements | BE, CZ, DE, EE, FI, GB, HU, IE, LT, LV, MT, NL, PL, SI, SK | AT, BE, CY, CZ, DE, EE, FI, GB, GR, HU, IE, LT, LV, NL, SI, SK |
| No special requirements | AT, CY, DK, FR, GR, IT, LU, PT, SE | DK, FR, IT, LU, MT, PL, PT, SE |

ES: not answered

This survey found a similar situation. Regulatory requirements relating to the density of access points range from none to detailed guidelines relating the location of access points to density, distance, population, or community-related criteria. In some countries, the minimum total number of postal outlets is fixed. In Germany even the minimum number of outlets operated with USP staff is defined.³⁰ In some member states, the USP is prohibited from closing postal outlets due to social reasons. In the majority of the member states (20 of 24), however, there is no rule that prevents the USP from replacing a post office with a postal agency. Table 4.2.3 provides an overview of the prevalence of specific access requirements for the universal service network.

³⁰ Currently the union and DPAG are disputing the final definition of this type of outlet. DPAG has recently designated about 1,000 Quelle shops (shops owned by Quelle, a large mail-order company) as postal outlets operated with DPAG's own staff, but this staff does not consist of full-time employees but of part-time workers with substantially reduced social security payments (so-called mini-jobs).

Case study 4.2 Access to post office boxes in Sweden and Germany

In Sweden, the USP, Posten AB, and CPOs were unable to agree on terms under which CPOs would have access to the USPs' facilities. In 1998, the postal law was amended to require the USP to provide all CPO licence holders access to post office boxes (i.e., delivery boxes located in post offices) at reasonable and non-discriminatory rates. The amendment also guaranteed CPOs access to the USP's database of addresses. The address database is managed by a company that is jointly owned by the USP, the leading CPO (CityMail), and Svensk Adressändring AB.

In Germany, the postal law of 1997 assured CPOs access to post office boxes and the address database. This provision was motivated by the failure of the USP and CPOs to agree on access conditions. The access pricing provisions of the act have been enforced by regulatory decisions in 2000 and 2002.

Quality of service

Article 16 of the Postal Directive emphasises the need to improve the quality of universal service by focusing, in particular, on transit time, i.e., the time it takes to deliver a postal item after it is collected. The Directive itself establishes transit time standards for cross-border postal services of the fastest standard category.³¹ Member states are enjoined to establish and publish quality of service targets for all domestic universal services. Domestic quality of service standards must be consistent with the cross-border standards, and compliance of the USP with domestic standards must be evaluated by an independent institution.

For cross-border postal items sent by the fastest standard category, the Directive provides that 85 percent of the mail must be delivered by the third working day after posting (referred to as "D+3" where "D" stands for the day of posting). A second requirement is that 97 percent of such mail must be delivered by the fifth day after posting (D+5). These targets should be achieved both as an overall average and in each bilateral exchange between member states.

The USPs of the EU-15 member states participate in a monitoring system called UNEX that systematically measures the transit times of cross-border letters. The results are regularly published by the International Postal Corporation (IPC). Application of this system to the USPs in the new member states has proved difficult.³² The most obvious problem is a lack of data about the actual transit time of cross-border services in these countries. Currently, six USPs (CZ, HU, MT, PL, SK and SI) in the new member states participate in a "UNEX-Lite" measurement system for inbound and outbound cross-

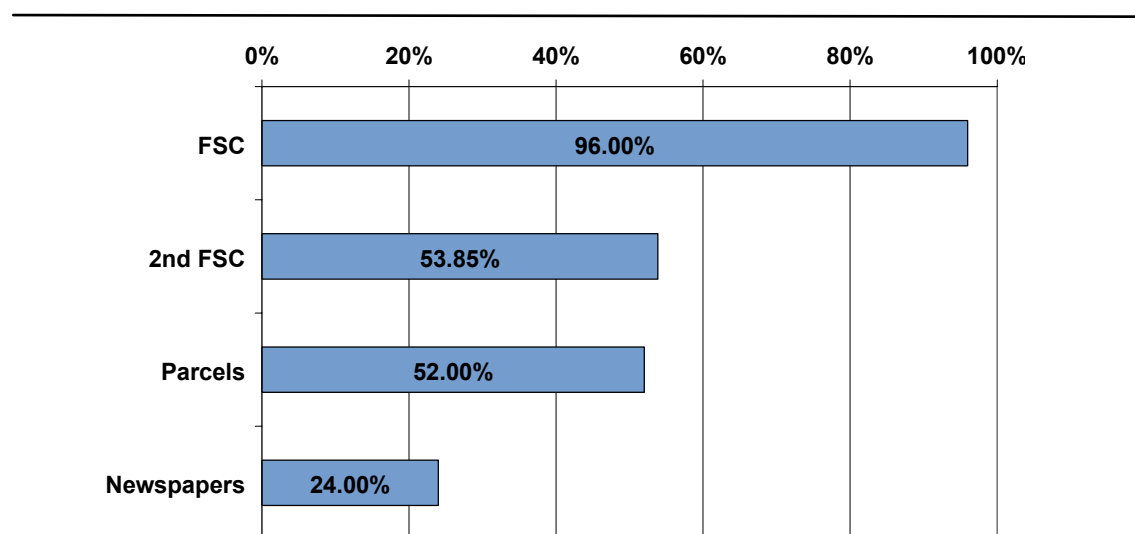
³¹ Annex of Directive 97/67

³² WIK-Consult (2003b), chapter 4.

border mail.³³ The USPs of Estonia and Lithuania use UNEX-Lite for inbound mail only.³⁴ UNEX-Lite is a low-cost version of UNEX which yields results that are not representative of the actual mail streams between the countries involved. In total, 15 member states currently employ UNEX-Lite. UNEX-Lite will stop by the end of 2004. According to IPC, USPs in all member states will then participate in a revised UNEX measurement system called “UNEX 2005”. So far, neither UNEX nor UNEX-Lite have been audited. This issue will be addressed with the participants in 2005.³⁵

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 actuality, however, the coverage of transit time targets varies widely among member states.³⁶ In Great Britain, for example, all services provided by Royal Mail are subject to transit time targets and monitoring; in all 15 transit time targets have been set covering single piece items as well as bulk mail. On the other hand, in many member states, only one target is set for letters in the fastest standard category without distinguishing between single-piece and bulk mail.

Figure 4.2.1 Transit time targets set in relation to services offered



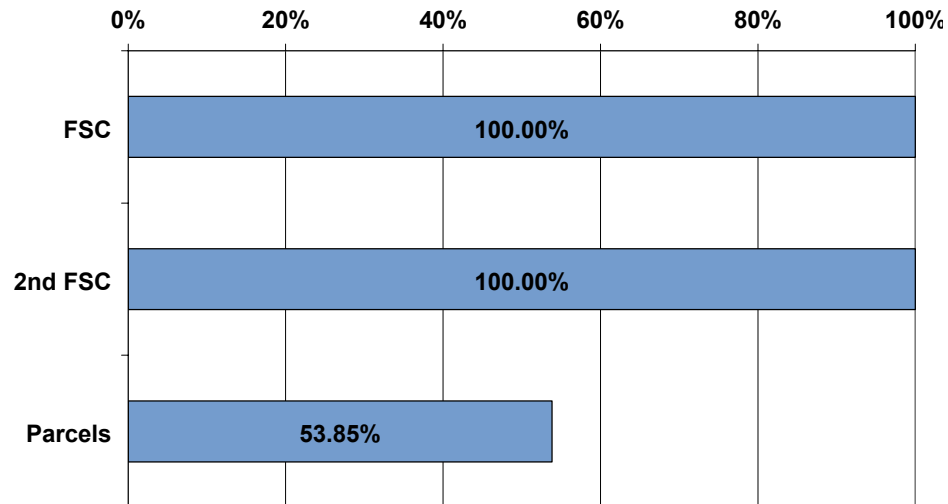
³³ see IPC (2004b)

³⁴ Information provided by IPC.

³⁵ Information provided by IPC. The ongoing revision process of the measurement method is also effected by the progress of amending the transit time standard EN 13850. According to the head of WG1/TC331 (Quality of Service), the group is currently in the process of drafting an amendment to the standard. The overall plan is that this will be send out for enquiry early in 2005 and for formal vote early in 2006.

³⁶ For a detailed discussion see WIK-Consult (2003b).

Figure 4.2.2 Share of targets monitored in relation to targets set



All member states except for Malta have set transit time targets applicable to at least correspondence transmitted by the fastest standard category of service, usually called “first class” or “priority” service (see Figure 4.2.1). These targets are usually defined as the percentage of mail that should be delivered within one working day after posting (D+1). The sole exception is Spain which has set a D+3 target for the mail in the fastest standard category of service. In addition to the fastest standard category of service, a lower priority universal service is also provided in 13 member states. Targets have been set for a “second class” or “non-priority” service in more than half of these countries. Universal parcel services are provided in every member state; regulatory transit time targets exist in half (13) of the countries. Regularly monitoring of first and second class services is in place in all member states when targets have been set. This is not the case with regard to parcels. About half of member states have monitored whether parcel transit time targets have been met (see Figure 4.2.2). The range of quality of service requirements is summarized in Table 4.2.4.

Table 4.2.4 Quality of service requirements

| | QoS targets set (FSC, 2003) | Compliant with CB target | Independent performance monitoring | Publication of QoS performance |
|----|-----------------------------|--------------------------|------------------------------------|--------------------------------|
| AT | Yes | Yes | Yes | No |
| BE | Yes | Yes | Yes | Yes |
| CY | Yes | Yes | Yes | No |
| CZ | Yes | Yes | Yes | Yes |
| DE | Yes | Yes | Yes | Yes |
| DK | Yes | Yes | Yes | Yes |
| EE | Yes | Yes | No | Yes |
| ES | Yes | Partly | Yes | Yes |
| FI | Yes | Yes | Yes | Yes |
| FR | Yes | Yes | Yes | Yes |
| GB | Yes | Yes | Yes | Yes |
| GR | Yes | Yes | Yes | Yes |
| HU | Yes | Yes | Yes | No |
| IE | Yes | Yes | Yes | Yes |
| IT | Yes | Yes | Yes | Yes |
| LT | Yes | Yes | No | Yes |
| LU | Yes | Yes | Yes | Yes |
| LV | Yes | Yes | No | No |
| MT | No | No | No | No |
| NL | Yes | Yes | Yes | Yes |
| PL | Yes | Yes | Yes | No |
| PT | Yes | Yes | Yes | Yes |
| SE | Yes | Yes | Yes | Yes |
| SI | Yes | Yes | No | No |
| SK | Yes | Yes | Yes | Yes |

AT: QoS requirements entered into force beginning 2004.

ES: Compliance with cross-border transit time target is limited due to missing D+1 service.

MT: Secondary legislation is pending.

Publication of QoS performance: answers based on WIK-Consult (2003a) und (2003b)

Under the Directive, compliance with quality of service targets must be monitored by a body independent of the USP. In general, where priority (and non-priority, if applicable) service targets have been established, compliance is monitored. For parcel services, however, monitoring occurs in only seven of the 13 member states that set service targets. In most member states, quality of service monitoring is conducted by the NRA or by an independent institution. In five member states (EE, LT, LV, MT and SI), however, transit time is measured by the USP.

Complaints and redress procedures

According to Article 19 of the Postal Directive, member states shall 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 requirements. If a user's complaint is unsatisfactorily resolved by the USP, a customer should have the right to appeal to a competent national authority. Member states may extend these requirements to postal and express operators other than the USP. The NRAs of 16 member states have stated that this extension has been implemented.³⁷ Usually the NRA is responsible for dealing with these complaints, but in some cases the ombudsman fulfils this role.

The USP is generally the first point of contact in case of complaints. In a handful of countries the NRA provides the first point of contact (DK, LT, SI). In the majority of member states (16), the NRA accepts appeals concerning complaints. In five member states (BE, FR, IE, NL, PT), an ombudsman attends to complaints and related appeals.³⁸ In Cyprus customers can appeal to the NRA or the ombudsman. In Sweden, a national board for consumer complaints is responsible for handling and resolving complaints. In Italy customers can appeal to a conciliation committee staffed by representatives of consumer associations and the Italian USP. In Poland customers have to go to court in order to appeal. Only in the United Kingdom is there a dedicated body for the protection and advancement of consumer rights called Postwatch. Among other functions, Postwatch is responsible for dealing with complaints.

Table 4.2.5 Complaints procedures: publication requirements and practice

| | Number of complaints | Manner of dealing with complaints |
|--|---|---|
| Publication not required and not applied | AT, NL | AT, DE, EE, FR, NL |
| Publication not required but implemented | DE, EE, FR, GR, LT | BE, GR, LT |
| Publication required and implemented | BE, DK, ES, FI, GB, HU, LV, PT, SE, SK | DK, ES, FI, GB, HU, LV, PT, SE, SK |
| Publication required but not implemented | CY, CZ, IE, IT, LU, MT, PL, SI | CY, CZ, IE, IT, LU, MT, PL, SI |

The Directive further mandates publication of data on the number of complaints and the manner in which they have been disposed. As summarized in Table 4.2.5, implementation of this requirement varies among member states. In 18 member states

³⁷ BE, CY, EE, ES, GB, GR, HU, IE, IT, LU, LV, MT, PL, PT, SE, SK.

³⁸ In HU and PT consumer associations are additional points of contact.

publication of the number of complaints is required, and in 10 of these, publication is implemented. In five member states, publication is not required but implemented nonetheless. In sum, in at least 15 member states the number of complaints is regularly published.

The number of complaints appears, so far as figures were provided, to vary significantly among member states. Since there are differences in culture and in the application of compensation schemes, the simple number of complaints does not provide reliable comparative information on the operations of USPs. As discussed in an earlier study,³⁹ application of the voluntary CEN standard EN 14012 on the measurement of complaints and redress procedures would improve the organization of the complaints handling process. This standard specifies minimum requirements for a complaints management system.

Conclusions

Overall there is a high degree of compliance by member states with the basic universal service requirements set by the Postal Directive. In a handful of cases, weight limits for inbound parcels need to be adjusted. Access conditions vary widely among member states, but none are clearly inconsistent with the Directive's imprecise standards. The most interesting recent developments in respect to the scope of universal service have been the decision of the Netherlands to exempt non-reserved bulk mail from the universal service definition and the efforts of the British NRA to derive a definition of universal service from a detailed survey of customers' needs.

Quality of service (transit time) targets have been set for the fastest standard category of service in all but one member state, but independent performance monitoring has not been introduced in four member states and performance results are not published in five. In addition, it appears that the coverage of quality of service standards varies widely among member states even though the Directive seems to require establishment of quality of service targets for all universal services. With respect to cross-border services, transit time is not measured in the new member states according to the system applied in the EU-15 countries, but it is expected that new member states will take part in a revised measurement system beginning in 2005.

Finally, the Directive's provisions relating to complaint and redress are still not adequately implemented in several member states. Application of the CEN standard EN 14012 would considerably improve the current situation.

³⁹ WIK-Consult (2003b).

4.3 Reserved services

One of the most significant features of the Postal Directive is the set of limitations placed on the scope of services which may be reserved for universal service providers. Article 7(1) provides that the reserved area may include only items of *domestic and incoming cross-border* correspondence which weigh less than 100 grams and for which the transportation charge is less than three times the public tariff⁴⁰ for an item in the lowest weight step of the fastest standard category of service.⁴¹ After January 1, 2006, these limits will be reduced to 50 grams and 2.5 times the basic first class tariff, respectively. Within these limits, postal services for domestic and incoming cross border correspondence may be reserved for the USP only “to the extent necessary to ensure the maintenance of universal service”.

Article 7 goes on to provide the reserved area may be extended in two respects. First, the reserved area may include *direct mail* falling within the same price and weight limits but again, only “to the extent necessary to ensure the maintenance of universal service”. Second, the reserved area may include *outgoing cross-border mail* falling within the same price and weight limits but only “to the extent necessary to ensure the maintenance of universal service, for example, when certain sectors of postal activity have already been liberalized or because of the specific characteristics peculiar to the postal services in a Member State”.

Beneath this ceiling on the potentially reservable area, the Postal Directive’s repeated insistence that a reservation may be introduced only “*to the extent necessary to ensure the maintenance of universal service*” plainly implies a duty to adjust the reserved area to the economic requirements of universal service. This provision of the Directive echoes the “principle of proportionality” of Postal Green Paper, but it has been more honoured in the breach than in the observance. No member state seems to have prepared a study that relates the scope of the reserved area to the need to maintain universal service. The only substantive studies undertaken by member states (GB, SE) have concluded that no reserved area is needed to maintain universal service once the USP has been given a reasonable opportunity to adjust to competitive conditions. With respect to a reservation over outgoing mail, the Postal Directive requires a member state to base a reservation on a specific rationale and offers two examples: liberalization of other postal services and specific circumstances. Of the 13 member states that reserve outgoing mail, four cited liberalization of other postal services (HU, IT, LT, LV); seven cited specific considerations (CY, ES, GR, LU, MT, PL, SK); and two cited other circumstances (CZ, PT).

⁴⁰ The Directive is silent on whether the price limit includes value added tax, and there is no consensus among member states on this issue. See section 4.5.4, below.

⁴¹ These weight and price became effective on January 1, 2003 by virtue of Directive 2002/39. Prior to that date, the weight and price limits were 350 grams and 5 times the basic tariff, respectively.

The Postal Directive also specifically requires that document exchanges be outside the reserved area. No member state reserves document exchanges services.

Table 4.3.1 Services reserved for the USP in member states

| Member states | Domestic and incoming cross-border | Direct mail | Outgoing cross-border |
|------------------------|---|-------------|-----------------------|
| EE, ES, FI, GB, SE | No or relatively minor reserved area | | |
| AT, CZ, DK, NL | X | | |
| IT, LT, LV | X | | X |
| BE, DE, FR, IE, SI | X | X | |
| CY, GR, HU, LU, PT, SK | X | X | X |
| MT, PL | Reserved area exceeds limits of Directive | | |

AT, DK: Printed matter appears to be essentially similar to "direct mail" and is unreserved.
 DE: Weight limit for reservation of direct mail (50 g) is lower than for correspondence.
 ES: No reservation over intra-city mail.
 GB: Bulk mailings of 4000 or more items are exempt from reservation; the reservation will end on April 1, 2007.
 PL: Special exemption from weight limit in the Directive.

Table 4.3.1 summarizes the reserved area in the member states according to the three areas of potential reservation. In this table, each row represents liberalization of a larger fraction of the mail than the row below it. The listing of two member states requires explanation: in Spain and the United Kingdom, the reserved area does not fit comfortably within the tripartite scheme established by the Directive.

In Spain, the postal reservation has never included intra-city postal service, the largest part of a modern postal system. Since transmission of documents between cities by telecommunications or express is also outside the reserved area, the practical effect of remaining postal reservation over intercity postal items appears to be relatively slight compared to the postal monopolies in other member states. In fact, in Spain private operators deliver a substantially higher percentage of letter post items than in member states which have repealed the reserved area entirely. Hence, we consider that, viewed in the terms established by the Directive, Spain has a relatively minor reserved area.

In the United Kingdom, there is technically no reserved area in law, but there remains a small reserved area in fact. The British postal law creates a licensed area and instructs the regulator, Postcomm, to grant licences to applicants based upon three criteria: protection of universal service, promotion of competition, and promotion of efficiency (see Case study 4.5). Postcomm is now awarding licences to CPOs to provide services for bulk mail. Moreover, Postcomm has announced that licences for all types of postal services will be granted beginning in early 2007. Under these circumstances, not only direct mail and outgoing mail but also bulk correspondence is excluded from the reserved area, and prospective entrants into the full postal market can today begin a

phased entry that includes immediate solicitation of the Royal Mail's largest customers. Hence, in the United Kingdom as well, the practical effect of the reserved area must be considered relatively minor when viewed in the terms established by the Directive.

Figure 4.3.1 Reserved area in the EU

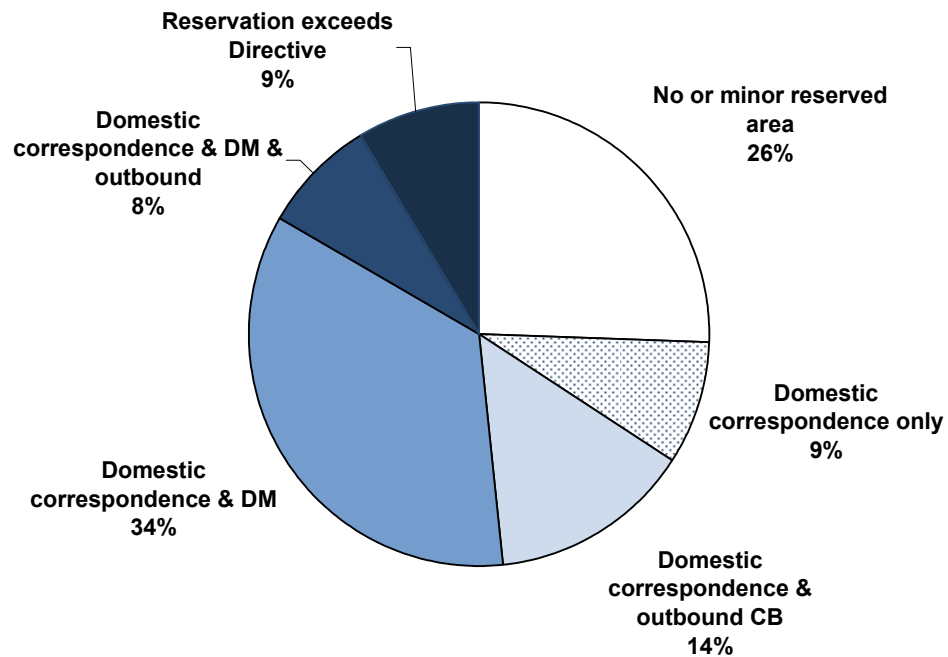


Figure 4.3.1 provides a graphical summary of the services reserved for USPs from a Community standpoint. In this figure, reservations of member states are weighted by population. As this figure shows, almost half of the Community has introduced substantial liberalization in the traditional letter post market.

Table 4.3.2 Exceptions to the reserved area in member states

| | Incoming cross border | Bulk mail | Upstream services | Services distinct from univ. serv. |
|----|-----------------------|-----------|-------------------|------------------------------------|
| CY | | | | X |
| CZ | X | | | |
| DE | | | | X |
| DK | | | | X |
| ES | | X | | X |
| GB | | X | X | |
| SI | | X | X | |
| SK | X | | | X |

In addition, some member states with reserved areas provide significant exceptions not foreseen in the Directive. Slovenia, in particular, exempts bulk mail and upstream services (i.e., collection and transportation of mail to a post office for final delivery). The Czech Republic and Slovakia exempt incoming cross-border mail from the reserved area. Several member states (CY, DE, DK, ES, SK) exempt “special services” from the reserved area, i.e., services that are “distinct from the universal service”.⁴²

Finally, as of May 1, 2004, two member states maintained reserved areas that, at least temporarily, exceed the limits specified in the Postal Directive. Poland, by terms of its accession agreement, is permitted to maintain a reserved area over items of correspondence weighing up to 350 grams until the end of 2005, although as in other member states the price limit is three times the postage rate for a letter in the lowest weight step of the fastest standard category of service. Malta maintains a reserved area for items of correspondence weighing up to 350 grams and priced up to five times the postage rate for a first class letter in the lowest weight step.⁴³

⁴² In Case C-320/91 Paul Corbeau [1993] ECR I-2563, the Court of Justice ruled that the competition rules did not permit extension of a reserved area to “specific services dissociable from the service of general interest which meet special needs of economic operators”. In 1997, Germany incorporated this concept in its seminar postal reform law by creation of “D-licences” for CPOs who seek to provide “services distinct from universal services, having special features and higher quality” (see Case study 4.6). In 2000, the Commission proposed adding to the Postal Directive an explicit exemption from the reserved area for “special services: services clearly distinct from the universal service, which meet particular customer requirements and which offer additional service features with added-value not offered by the standard postal service.” COM(2000) 319 final. Ultimately, the Council and Parliament were unwilling to introduce “special services” into the Postal Directive, but because of the fundamental nature of the Corbeau case and the popularity of the D-licences in Germany, it appeared worthwhile to inquire whether other member states had embraced, at least in a general way, the notion of an explicit exception from the reserved area for special or dissociable services.

⁴³ Malta seems to be still in the process of establishing its NRA and postal regulatory framework.

Looking towards the future, major reductions in the reserved area are already planned at member state level. In the U.K., as noted above, the NRA has set April 1, 2007 as the end of the reserved area in that country.⁴⁴ In Germany, the exclusive license of the Deutsche Post A.G. expires at end of 2007.⁴⁵ The Netherlands has also indicated that it will likely terminate its reserved area at the same time that the United Kingdom and Germany do so (see Case study 4.6). These three member states comprise almost 48 percent of the EU letter post system. If one includes member states which have already repealed the postal monopoly (EE, FI, SE) and member states where the postal monopoly offers minimal effective protection from competition (ES, SI), then 60 percent of the EU letter post will be substantially liberalized by the end of 2007.

Conclusions

Virtually all member states have limited their reserved areas to the boundaries for the maximum reservable area set by the Directive. Moreover, in 12 member states – about half of the Community measured by population – the reserved area is now minimal or substantially less (primarily due to exclusion of direct mail) than the outer limits fixed by the Directive.

In the seven years since adoption of the Postal Directive, no member state seems to have developed an economic study demonstrating the need for a reserved area to sustain universal service and at least two member states have produced studies that come to the opposite conclusion. Indeed, member states generally have not implemented the “principle of proportionality” as required by the Postal Directive.

Current laws and public statements imply that the reserved area will be terminated in three key member states by the end of 2007: Germany, the Netherlands, and the United Kingdom. These member states account for about 48 percent of the Community letter post. Counting other member states with no or minimal postal monopoly, the present course will result in substantially complete liberalization of about 60 percent of the EU letter post by the end of 2007.

⁴⁴ Postcomm (2002).

⁴⁵ Postal Act of 1997, as amended, sec. 51.

Case study 4.3 Norway - market opening process

Norway is currently planning to fix a date for full liberalization of the postal market before 2009. The Ministry of Transport and Communications has submitted a proposal for full liberalization as of January 1, 2007. The proposal is based on the report of an inter-ministerial working group appointed in November 2003. The group recommended a fixed end date for full liberalization of the postal market and accompanying regulatory measures with respect to universal services and uniform tariffs. The group also proposed further evaluation of the need for CPO access to the USP's network. The existing regulatory framework will be adapted to a fully liberalized postal market in 2005 and 2006. The Ministry intends to submit a "white paper" to the Parliament in autumn 2004 concerning liberalization of postal services.

Case study 4.4 Netherlands – market opening process

On January 22, 2004, the Dutch Minister of Economic Affairs, Laurens-Jan Brinkhorst, published a discussion paper on the future of postal policy in the Netherlands.⁴⁶ He proposed that the Netherlands should completely liberalize postal services in 2007. In order to create a level playing field, full liberalization in the United Kingdom and Germany is regarded as a precondition for the total opening of the Dutch market. Thus, the final date of full liberalization of the Dutch postal market depends on the market opening process being implemented in the United Kingdom and Germany. This document was sent to the cabinet for review before submission to the Dutch parliament.

⁴⁶ "Postal Memorandum", available on the internet at <http://www.ez.nl/content.jsp?objectid=20863>.

Case study 4.5 United Kingdom – market opening process

In June 2000, a new postal law in the United Kingdom established an independent NRA, Postcomm, and authorized Postcomm to issue licences for all types of postal services subject to three conditions. First, Postcomm must assure the continuation of universal service. Second, Postcomm must encourage competition to the extent consistent with the first goal. And third, Postcomm must promote efficiency to the extent consistent with the first two goals.

This act brought to an end the British postal monopoly law enacted in 1660 upon the restoration of Charles II. In 2002, after long public inquiry, Postcomm adopted a plan to implement its licensing authority by phasing in competition in three stages with full liberalization to be achieved on April 1, 2007.

The first stage started on January 1, 2003 and opened about 30 percent of the market by value. CPOs can enter the market by applying for three types of licences: (1) bulk mail services for mailings of more than 4,000 items; (2) consolidation services for items to be tendered ultimately to Royal Mail, and (3) specialized niche services. CPOs may obtain all three types of licences but may not commingle consolidated mail with items carried under other two licences. So far, the nature of niche services is not clearly defined. Postcomm is considering applications which may fall into this category. In general, however, niche service licences are intended for specialized small scale activities, such as the provision of internal company mail with overnight delivery for customers in the financial sector. In principle, all U.K. licences have an indefinite duration with a notice period of three years which can only be exercised after the fourth year, so the minimum duration is seven years.

The second phase of Postcomm's licensing program will start on April 1, 2005 and open a further 30 percent of the market. The precise conditions to be applied in this stage will be determined by Postcomm in a separate consultation exercise. Finally, with the beginning of the third stage on April 1, 2007, the entire market will be open for entry.

In sum, Postcomm decided to liberalize the postal market by means of a strategy based on the type of services offered rather than (as in the Postal Directive) on the introduction of declining weight and price thresholds. Postcomm adopted its alternative strategy because it concluded that the approach embodied in the Postal Directive fails to provide sufficient liberalization in the beginning and produces too abrupt liberalization when the lowest weight step is liberalized.

The level of competition that has developed in the British market to date has been less than Postcomm anticipated. In 2003, the market share of seven licensed private operators amounted only 0.27 percent. Postcomm has concluded that several factors are responsible for this weak performance, among them difficulties in obtaining access to Royal Mail's network, Royal Mail's exemption from value added tax (not shared by CPOs), the interim nature of licences prior to 2003, and customers' natural resistance to change.

Case study 4.6 D-licences in Germany: Competing on price for higher quality service

A statutory exclusive licence reserves for the German USP the right to provide postal services for correspondence weighing up to 100 grams (and direct mail weighing up to 50 grams) and priced less than three times the rate for a 20 gram letter. The exclusive licence expires on December 31, 2007. To provide services for correspondence or direct mail weighing up to 1,000 grams, CPOs must apply to the NRA, RegTP, for a licence. German law provides for eight types of licences, denominated "A" to "H", some of which act as additional limitations on the scope of the exclusive licence. The most important types of licences are:

- Licence A – conveyance of letter mail items and addressed catalogues weighing more than 100 grams or costing more than three times the standard tariff for a 20 gram letter.
- Licence B – conveyance of bulk direct mail weighing more than 50 grams and dispatched in quantities of not less than 50 items.
- Licence D – provision of postal services that are "distinct from universal services, having special features and higher quality".

The D-licence permits a CPO to provide "higher quality" postal services for correspondence and direct mail even if the items fall within the weight and price limits of the DPAG's exclusive licence. Since the required level of quality is not specified by law, RegTP has established criteria in the course of deciding on licence applications. RegTP's definition of the quality criteria for a D-licence has been the subject of numerous legal cases extending over several years. CPOs holding D-licences are usually very small companies, and they have been strongly unsettled by these procedures. So far, the courts have upheld D-licences which authorize same day delivery of postal items. Cases involving overnight delivery are still pending.

Since implementation of the licensing system, the market share of CPOs has been increasing. In 1998 the market share within the licensed area was 0.8 percent (by revenue) and 0.9 percent (by volume). In 2002 the market share was about 3.0 percent (by revenue) and 2.8 percent (by volume). Due to extension of the licensed area to cross-border services, the estimates for 2003 are not comparable with those of 2002. In spite of the extension, the estimated market share of CPOs in 2003 were 4 percent (by revenue) and 3.75 percent (by volume). The D-licensees are the most important licensee group with regard to volumes and revenues: They account for more than half of the letter post volume and about half of revenues generated by all licensees in 2003.

Although they must provide higher quality services than the USP, D-licensees appear to be unable to charge higher prices. The average price for delivery of a postal item by a D-licensee was about € 0.49 in 2002. PIN AG, one of the most important D-licensees, has opined that there is no demand for still higher quality mail services at higher prices. Although providing high quality letter services and (unlike the USP) subject to value added tax, PIN AG has used low prices to win business. By charging low prices, PIN AG has been able to win over large big mailers such as insurance companies, banks and some local administration authorities.

4.4 Authorization of competitive postal operators

Article 9 of the Postal Directive provides that member states may introduce a regime of authorizations for postal services provided by public and private operators. Responses to this survey suggest a significant level of confusion about details of the authorization regime envisioned by the Directive.

The first point of confusion pertains to the range of services which may be subject to authorizations.⁴⁷ The Directive refers to authorizations for “non-reserved services”. The term “non-reserved services” is undefined in the Directive. The term “authorizations”, however, is defined in such a way as to imply that the authorizations refer to authorizations to provide “postal services”.⁴⁸ “Postal services”, in turn, are defined as “services involving the clearance, sorting, transport and delivery of postal items”.⁴⁹ The term “postal item” refers to “an item addressed in the final form in which it is to be carried by the universal service provider. In addition to items of correspondence, such items also include for instance books, catalogues, newspapers, periodicals and postal packages containing merchandise with or without commercial value.” As used in the Directive, therefore, authorizations appear to refer to permissions to provide services for the collection, transport, and delivery of correspondence, book, catalogues, newspapers, periodicals, and packages which are addressed in a manner suited to conveyance by the USP whether conveyance is provided by the USP or other operator.

A second point of confusion involves the types of authorizations that may be introduced. Article 9 prescribes two types of authorizations: individual licences and general authorizations. Responses from NRAs indicated a failure to distinguish clearly between these two types of authorizations. According to the Directive, an *individual licence* is an authorization that is not valid until granted to the licensee individually and subjects the licensee to specific obligations.⁵⁰ A *general authorization* is a registration or declaration procedure which does not require a competitive postal operator (CPO) to obtain an explicit approval from the NRA before beginning service.⁵¹ In several cases, however,

⁴⁷ For example, major European express companies expressed doubt over the precise scope of Article 9. and concluded that “the express industry is [not] subject to the legislation in the Postal Directive”.

⁴⁸ §2(14) declares: “*authorizations*: means any permission setting out rights and obligations specific to the postal sector and allowing undertakings to provide postal services and, where applicable, to establish and/or operate postal networks for the provision of such services, in the form of a ‘general authorization’ or ‘individual licence’ as defined below:”.

⁴⁹ § 2(1).

⁵⁰ The Postal Directive § 2 defines “‘individual licence’ to mean an authorisation which is granted by a national regulatory authority and which gives an undertaking specific rights, or which subjects that undertaking’s operations to specific obligations supplementing the general authorisation where applicable, where the undertaking is not entitled to exercise the rights concerned until it has received the decision by the national regulatory authority”.

⁵¹ The Postal Directive § 2 defines “general authorisation” to mean “an authorization, regardless of whether it is regulated by a ‘class licence’ or under general law and regardless of whether such regulation requires registration or declaration procedures, which does not require the undertaking concerned to obtain an explicit decision by the national regulatory authority before exercising the rights stemming from the authorisation”.

member states have introduced what they describe as “general authorizations” yet these authorizations require an explicit decision by the government before the CPO can begin service. Under the Directive, a “general authorization” that requires an explicit decision by the government before the operator begins service appears to be a contradiction in terms. For the purposes of this report, an authorization which a member state considers to be “general authorization” but which requires specific approval by government will be termed a “individual general authorization”.

A third problem in interpretation of Article 9 relates to the range conditions that may be associated with authorizations. Authorizations permitted by Article 9 may require the authorized operator to comply with certain obligations. Although the Directive is not completely clear on this point, the scope of acceptable obligations appears to be limited to specified categories. In several cases, member states have imposed obligations on holders of individual licences and general authorizations which appear to exceed the scope of obligations permitted by the Directive.

With these points in mind, we shall consider the two sets of postal services which may be subject to authorization under the Directive: (i) postal services inside the universal service area but outside reserved area and (ii) postal services outside the universal service area.

4.4.1 Authorization of CPOs inside the universal service area

For “non-reserved services which are within the scope of the universal service” the Postal Directive provides that member states may introduce “*authorization procedures, including individual licences, to the extent necessary in order to guarantee compliance with the essential requirements and to safeguard the universal service.*” “Essential requirements” refers to public interest objectives of a non-economic nature.⁵² As explained in section 4.2 above, “universal service” refers to the regular nationwide delivery of documents and parcels by a universal service provider.⁵³

The Directive thus implies several options for regulation of CPOs within the universal service area. A member state may wholly refrain from establishing authorization procedures. That is, a member state may require the USP to maintain universal service with or without the benefit of a reserved area and allow CPOs to provide services within the universal service area under the same rules that apply to other commercial

⁵² Postal Directive § 9(2). Postal Directive § 2 defines “essential requirements” to mean “general non economic reasons which can induce a Member State to impose conditions on the supply of postal services. These reasons are the confidentiality of correspondence, security of the network as regards the transport of dangerous goods and, where justified, data protection, environmental protection and regional planning”.

⁵³ Precisely which postal services are “within the scope of the universal service” is not entirely self-evident. For example, are irregular or localized services “within the scope of the universal service”?

activities. Alternatively, a member state may require a CPO offering services within the universal service area to obtain either a general authorization or an individual licence. Indeed, one portion of the universal service area could be subject to an individual licence while another portion is subject to a general authorization or to no authorization at all. This mixed situation arises in Germany, Sweden, and the United Kingdom where an individual licence is required for that portion of the universal service area that formerly fell within the scope of reserved area while no authorization is required for the remainder of the universal service area.

Table 4.4.1 Authorization regimes for CPOs inside universal service area

| Type of Authorization | Member state |
|---|--|
| None needed | AT, FR, NL |
| General Authorization | DK |
| General Authorization requiring approval before starting operations | IE, LU, SI, SK |
| Licence required for some or all letter post services only | DE, GB, PL, SE |
| Licence required for all universal services | BE, CY, CZ, EE, ES, FI, GR, HU, IT, LT, LV, MT, PT |

CZ: Authorization law intended to be changed about Aug. 2004.
 EE: For non-universal services licence is required for parcels; GA for other services.
 PL: For non-reserved services licence is required for correspondence; GA for other services.

The authorization regimes employed by member states to regulate postal services within the universal service area are summarized in Table 4.4.1. In sum, the practice in member states reflects five different approaches. The first is the absence of any authorization procedures. Three member states (AT, FR, NL) have adopted this course.⁵⁴ Second, Denmark has introduced authorizations for non-reserved services which comply with the Directive’s definition of a “general authorization”.⁵⁵ Several other member states (IE, LU, SI, SK), have introduced authorization procedures which they describe as “general authorizations” but which appear to require individual approval, i.e., “individual general authorizations”. A fourth type of authorization is a licence for services that used to be reserved, i.e., for the collection and delivery of correspondence and (in most cases) direct mail. This might be conveniently termed a “letter post licence”. Four member states (DE, GB, PL, SE) have introduced letter post licences. A fifth type of authorization is a licence for all universal services, including collection and delivery of newspapers, magazines, and parcels within the universal service area. The remaining 13 member states have introduced such “universal service licences”.

⁵⁴ France may introduce an authorization regime if pending legislation is adopted by parliament.

⁵⁵ Details of the French authorization regime are unknown. It appears to apply to postal services for correspondence only.

Under the Directive, an authorization to provide services within the scope of universal service may be subject to two categories of obligations: (1) those necessary to ensure compliance with essential, non-economic requirements and (2) those necessary to safeguard universal service. The latter can include one or more of the following four types of obligations:

- universal service obligations “where appropriate”;
- requirements concerning quality, availability and performance of relevant services “if necessary”;⁵⁶
- an obligation not to infringe on the reserved area or special rights of the universal service provider; and
- an obligation to contribute to a universal service compensation fund.⁵⁷

Other types of obligations appear to be inconsistent with the Directive.

Table 4.4.2 lists the types of obligations that member states have attached to authorizations for CPOs providing postal services inside the universal service. Most member states condition authorizations for universal services on fulfilment of one or more non-economic obligations designed to ensure essential requirements. This category of obligations has but slight effect on the postal sector as distinct from other sectors and will not be considered further.⁵⁸ Attachment of economic obligations to authorizations, however, represents an important element of postal policy and necessitates more careful scrutiny.

The first question arising from attachment of economic conditions to licences is whether the conditions are permitted by Directive. Several member states reported that CPOs are required by their licences to meet minimum capital or financial conditions, standards of technical or operational competence, or other types of conditions.⁵⁹ Such conditions do not seem to be contemplated by Article 9(2) of the Directive. Eleven member states (BE, CY, DE, FI, GB, HU, MT, PL, PT, SI, SK) attach conditions to licences that might be considered to exceed the scope permitted by the Directive.⁶⁰

⁵⁶ Article 19, as amended in 2002, permits a member state to require a CPO to fulfil obligations relating to complaints and redress. For the purposes of this discussion, conditions relating to complaint and redress procedures are considered as one type of condition relating to the performance of services within the universal service area.

⁵⁷ §§ 9(2), 9(4).

⁵⁸ For example, regulation of the transportation of dangerous goods affects all types of transportation and distribution services.

⁵⁹ WIK considered an obligation to respond to complaints in an appropriate manner to be an “obligation concerning quality, availability, and performance of relevant services”.

⁶⁰ It must be admitted, however, the outer boundary of permissible conditions is not entirely clear.

A more fundamental issue with respect to licensing of services within the universal service area is whether the economic obligations imposed on licences – whether of a type permitted by the Directive or not – are so onerous that they restrict competition. If a licence to provide universal services is so difficult to obtain or fulfil that it is practically impossible to provide competitive services, then the licensing regime effectively constitutes a reservation of services for the USP or, at minimum, a serious distortion of the market. Such a licensing regime appears to be inconsistent with the Directive’s explicit limits on the scope of the reserved area.

Table 4.4.2 Obligations attached to CPO authorizations inside universal service area

| | Type of authorisation | Essential requirements | Conditions to ensure US | | | | Other conditions | | |
|----|-----------------------|------------------------|-------------------------|---------------|-----------|------------|------------------|--------------|-------|
| | | | Univ. serv. obligations | Service cond. | Res. area | Comp. fund | Fin. cond. | Tech. expert | Other |
| AT | None | | | | | | | | |
| BE | USLic | X | | | | | | | X |
| CY | USLic | X | X | X | X | X | X | X | X |
| CZ | USLic | X | | X | | | | | |
| DE | LetLic | | | | X | | X | X | |
| DK | GA | | | | | | | | |
| EE | USLic | X | X | X | | | | | |
| ES | USLic | | X | X | X | X | | | |
| FI | USLic | | X | X | | | X | X | |
| FR | None | | | | | | | | |
| GB | LetLic | | | X | | | X | X | |
| GR | USLic | | | | X | X | | X | |
| HU | USLic | X | | X | X | | X | X | X |
| IE | GA-I | | | | | | | | |
| IT | USLic | | | X | X | X | | | |
| LT | USLic | | | | | | | | |
| LU | GA-I | | | | | | | | |
| LV | USLic | | X | X | | | | | |
| MT | USLic | | | X | X | | | X | |
| NL | None | | | | | | | | |
| PL | GA & LetLic | X | | | X | | | X | |
| PT | USLic | X | | | | | X | X | |
| SE | LetLic | | | | | | | | |
| SI | GA-I | X | | X | | | X | X | |
| SK | GA-I | | X | X | | | X | X | |

BE: Subject to other conditions not specified.

CY: Compliance with competition rules.

CZ: Law to be amended about August 2004.

HU: Conditions to be defined In regulations not yet issued.

Table 4.4.3 Development of authorizations for CPOs inside universal service area, 1998-2003

| | Year NRA began | Type auth inside US | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|----|----------------|---------------------|-------|-------|-------|-------|-------|-------|
| AT | 1999 | None | 0 | 0 | 0 | 0 | 0 | 0 |
| BE | 1991 | USLic | 0 | 0 | 0 | 0 | 0 | 0 |
| CY | 2002 | USLic | 0 | 0 | 0 | 0 | 0 | 0 |
| CZ | 2000 | USLic | 0 | 0 | 0 | 0 | 0 | 0 |
| DE | 1998 | LetLic | 165 | 600 | 775 | 860 | 860 | 1,020 |
| DK | 1995 | GA | 1,657 | 1,842 | 1,895 | 1,940 | 1,935 | 1,959 |
| EE | 2002 | USLic | 0 | 0 | 0 | 0 | 0 | 0 |
| ES | 1998 | USLic | 0 | 0 | 326 | 396 | 441 | 470 |
| FI | 1994 | USLic | 0 | 0 | 0 | 0 | 0 | 1 |
| FR | | None | 0 | 0 | 0 | 0 | 0 | 0 |
| GB | 2000 | LetLic | 0 | 0 | 0 | 6 | 14 | 18 |
| GR | 1998 | USLic | 0 | 0 | 0 | 0 | 1 | 1 |
| HU | 1990 | USLic | 0 | 0 | 0 | 0 | 0 | 0 |
| IE | 2002 | GA-I | 0 | 0 | 0 | 0 | 0 | 0 |
| IT | 1999 | USLic | 0 | 0 | 228 | 263 | 307 | 331 |
| LT | 2002 | USLic | 1 | 1 | 1 | 1 | 1 | 1 |
| LU | 2000 | GA-I | 0 | 0 | 0 | 15 | 17 | 17 |
| LV | 2001 | USLic | 0 | 0 | 0 | 0 | 0 | 0 |
| MT | 2003 | USLic | 0 | 0 | 0 | 0 | 0 | 0 |
| NL | 1997 | None | 0 | 0 | 0 | 0 | 0 | 0 |
| PL | 2002 | GA & LetLic | 19 | 21 | 21 | 30 | 52 | 59 |
| PT | 1981 | USLic | 0 | 0 | 0 | 1 | 3 | 3 |
| SE | 1994 | LetLic | 80 | 64 | 46 | 41 | 35 | 33 |
| SI | 2002 | GA-I | 0 | 0 | 0 | 0 | 5 | 12 |
| SK | 2002 | GA-I | 0 | 0 | 0 | 0 | 7 | 13 |

Figures include both licences and general authorizations. Shaded block = year before establishment of postal NRA. Blue-shaded block = no authorization required for universal service

CZ, DE, DK, LU, SI: Same GA is valid for non-universal and universal services (outside reserved area) (status of SI before 2004 unclear).

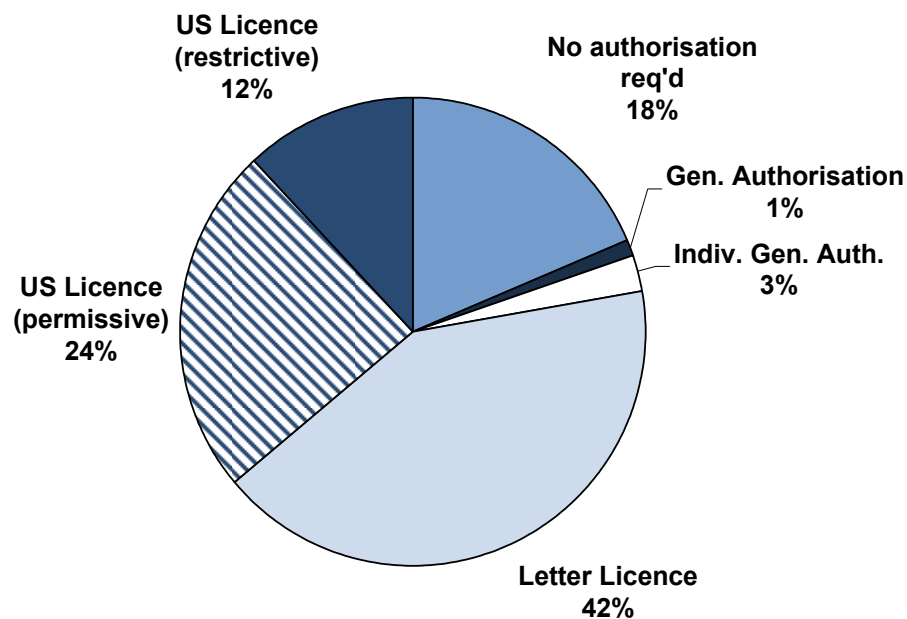
IE: No restrictions on CPOs outside reserved area until authorization system established as of January 1, 2004.

The best objective test of whether an authorization regime acts as a barrier to entry into the universal service area appears to be the number of authorizations granted. The last column in Table 4.4.3 gives the number of either type of authorization in effect at the end the year during the period 1998 to 2003.⁶¹ Where a member state requires a

⁶¹ It should be noted that for the four member states that employ letter post licences (DE, GB, PL, SE) reported figures are not comparable to figures for member states that employ universal service licences because the number of authorised CPOs does not include operators providing universal

licence to provide universal service but has authorized no CPO or only one CPO to provide such services by the end of 2003, it seems reasonable to surmise that obligations associated with such licences – or the failure to provide for the issuance of such licences – may in fact constitute a significant barrier to entry. From Table 4.4.3, it appears that nine authorization schemes may have this character (BE, CY, CZ, EE, FI, GR, LT, LV, MT).⁶² In some cases, the lack of licences for CPOs may indicate a legitimately late start in developing a regulatory framework or a failure by the NRA to complete this portion of the survey questionnaire. In light of available information, however, and for the purposes of this study, we will consider that the absence of licences implies a restrictive than a liberal approach towards the authorization procedures established by the Directive. In this report, we shall distinguish between a licensing regime that clearly permits CPOs to operate and one that does not seem to do so by using the terms “permissive licence” and “restrictive licence”.

Figure 4.4.1 Authorization of CPOs within the universal service area



services outside the licensed area. Likewise, the number of CPOs operating in the universal service area in three member states (AT, FR, NL) are not included in this table because they have no authorization regimes at all. Moreover, in some member states CPOs provide services within the universal service area without official authorization.

⁶² We do not include Denmark because it appears from the answers of the Danish NRA that authorizations are given out freely and not counted.

The pattern of procedures used in the Community to authorize services within the universal service area is shown graphically in Figure 4.4.1. In this figure, different types of authorization procedures are weighted according to the population of each member state. As this figure shows, the majority rule in the Community is liberal in nature, making use of no authorization, a general authorization, or the limited letter post licence. About a third of the Community has extended licensing regulation to the entire universal service area. In a small portion of the Community, a restrictive licensing regulation has seemingly inhibited development of competition.

Table 4.4.4 Universal service funds authorized

| Member state | Authorized to establish fund | Fund established in fact |
|--------------|------------------------------|--------------------------|
| BE | Parl | |
| CY | NRA | |
| DE | NRA | |
| ES | NRA | |
| GR | MinPost | |
| IT | MinPost | X |
| LV | Council | |
| PT | NRA | |
| SI | NRA | |

In connection with authorization procedures, the Postal Directive permits a member state to establish a “compensation fund”. The Directive explains the purpose of the compensation as follows: “In 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.”⁶³ According to the Directive, a member state may “may make the granting of authorization subject to an obligation to make a financial contribution to that fund.”⁶⁴

⁶³ This passage is rather oblique. The implicit purpose of a compensation fund seems to be to protect the USP from an “unfair burden” rather to preserve universal service per se. Presumably, the burden of universal service obligations would not be unfair if fully compensated by the value of a reserved area and perhaps other legal privileges. Indeed, it is unclear whether a burden resulting from universal service obligations in excess of those required by the Directive may be considered a proper justification for establishing a compensation fund.

⁶⁴ Since, as discussed below, an authorization to provide services outside the scope of the universal service may only be conditioned on compliance with non-economic essential requirements, it appears that only CPOs authorized to provide services within the scope of universal service can be required to contribute to the compensation fund. WIK understands that the Commission interprets the Directive in this manner although some member states may disagree.

Most member states have not authorized establishment of compensation funds. Of the nine member states who have done so, only one, Italy, reports actually setting up a compensation fund. See Table 4.4.4. In several cases, member states have authorized the Minister of Post or Council to establish the compensation fund rather than the NRA. Since the Directive explicitly requires that the compensation fund be administered by “a body independent of the beneficiary”, it may be questioned whether any body with less independence from the USP than the NRA can satisfy the administrative requirements of the Directive.

Case study 4.7 Restrictive licences in Finland and Estonia

Although Finland has repealed the reserved area and several postal operators have expressed an interest in providing service, no market entry has occurred. Two important factors have restricted entry into the Finnish postal market: regulatory quality standards and financial conditions imposed on new operators.

The Finnish postal law requires each postal operator, not only the USP, to deliver and collect mail on a daily basis and to deliver 95 percent of domestic items by the next working day. Unless the new entrant has large volumes of postal items and substantial financial resources to ensure high quality service from the first day, these requirements pose a significant obstacle to entry.

Furthermore, an operator holding a licence for service in a portion of Finland must pay a tax equal to as much as 20 percent of turnover if the population density of the area served is above 250 inhabitants per square kilometre. If the average population density in all areas served by the licence holder is below 250 per square kilometre, no fee is charged. The tax was introduced in 1997 to prevent cream-skimming strategies and to ensure the provision of postal services all over Finland, especially in sparsely populated and remote areas.

In Estonia each licence holder providing services inside the universal service area must fulfil several requirements similar to those in Finland: the licensee must offer services at a uniform tariff, deliver at least five times per week, and provide services throughout the whole Estonian territory. Furthermore, the postal service provider must maintain a postal network with access points for collection and delivery that shall be sited at a reasonable distance from postal users.

The situation in Estonia is similar to that in Finland but not as restrictive. In fact, there is one licence holder providing universal service, and more than twenty courier and three direct mail service providers in Estonia who are not subject to the licence requirements.

4.4.2 Authorizations of CPOs outside the universal service area

Outside the universal service area, the Postal Directive declares that “For non reserved services which are outside the scope of the universal service as defined in Article 3, member states may introduce general authorizations to the extent necessary in order to guarantee compliance with the essential requirements.”⁶⁵ Thus, only general authorizations, not individual licences, may be employed, and they may be predicated only on the need to meet public interest objectives of a non-economic nature.

Table 4.4.5 Authorization regimes for CPOs outside universal service area

| General authorization | Member state |
|---|--------------------------------|
| None needed | AT, DE, FI, FR, GB, NL, SE, SI |
| General Authorization | CY, DK, GR, HU, IT, LT |
| Individual General Authorization requiring approval before starting operations | BE, ES, IE, LU, LV, MT, PT, SK |
| Gen. Auth. required for some services and licence for others | EE, PL |
| Licence required for all non universal services | CZ |
| CZ: Authorization law intended to be changed about Aug. 2004. | |
| EE: For non-univ. serv. licence is required for parcels; GA for other services. | |
| PL: For non-reserved serv. licence is required for correspondence; GA for other services. | |

Table 4.4.5 summarizes the authorization regimes employed by member states to regulate postal services outside the universal service area. Eight member states (AT, DE, FI, FR, GB, NL, SE, SI) have not established any authorization procedures for services outside the universal service area. Six member states (CY, DK, GR, HU, IT, LT) appear to require a general authorization to provide service outside the universal service area. Eight other member states (BE, ES, IE, LU, LV, MT, PT, SK) require an “individual general authorization”. Three member states (CZ, EE, PL) require an individual licence to operate non-universal services. Estonia requires a licence to provide services for parcels outside the universal service area (i.e., parcels weighing more than 20 kilograms) as well as a general authorization for other postal services outside the universal service area.⁶⁶ Poland requires a licence to provide postal services for correspondence, apparently outside as well as inside of the universal service area. The Czech Republic requires a licence for all postal services, although this law is expected to be revised before the end of 2004.

⁶⁵ § 9(1).

⁶⁶ Estonia requires general authorization for other non-universal services.

Table 4.4.6 Obligations attached to CPO authorizations outside universal service area

| | Type of authorization | Essential requirements | Conditions to ensure US | | | | Other conditions | | | Number of authorizations |
|----|-----------------------|------------------------|-------------------------|-------------|-----------|------------|------------------|---------------|-------|--------------------------|
| | | | Univ. serv. obligations | Serv. cond. | Res. area | Comp. fund | Fin. cond. | Tech. expert. | Other | |
| AT | None | | | | | | | | | 0 |
| BE | GA-I | | | | | | | | X | 0 |
| CY | GA | X | | | | | | | X | 0 |
| CZ | Licence | | | | | | | | | 18 |
| DE | None | | | | | | | | | 0 |
| DK | GA | | | | | | | | | 1,959 |
| EE | GA & Lic | X | | X | | | | | | 23 |
| ES | GA-I | X | | X | X | | | | | 2,304 |
| FI | None | | | | | | | | | 0 |
| FR | None | | | | | | | | | 0 |
| GB | None | | | | | | | | | 0 |
| GR | GA | X | | | X | | | X | | 295 |
| HU | GA | X | | X | X | | | X | X | 51 |
| IE | GA-I | X | | X | X | | | | | 0 |
| IT | GA | | | X | X | | | | | 1,356 |
| LT | GA | X | | | X | | | | | 65 |
| LU | GA-I | X | | X | X | | | | | 17 |
| LV | GA-I | X | | | | | | | | 27 |
| MT | GA-I | X | | | X | | | X | | 0 |
| NL | None | | | | | | | | | 0 |
| PL | GA & Lic | X | | | X | | | X | | 0 |
| PT | GA-I | X | | | | | | X | | 11 |
| SE | None | | | | | | | | | 0 |
| SI | None | | | | | | | | | 12 |
| SK | GA-I | X | | | X | | | X | | 13 |

BE: Subject to other conditions not specified.

CY: Compliance with competition rules.

CZ: Law to be amended about August 2004.

HU: Authorization requires registration of postal identifier, contact details. Other conditions to be specified in regulations.

Table 4.4.6 summarizes the obligations that member states have attached to authorizations for CPOs providing services outside the universal service area. Although the Directive permits only obligations necessary to ensure compliance with essential requirements, as many as 14 member states have included additional conditions. Ten member states report that an authorization is conditioned on respect for the reserved area of the USP. As a practical matter, this condition may empower a regulator to terminate the business of a CPO without the procedural protections that would be accorded in a prosecution under the criminal laws that define the reserved area. In addition, several member states have adopted requirements relating to service conditions or technical expertise.

Table 4.4.7 Development of authorizations for CPOs outside universal service area, 1998-2003

| | Year NRA began | Type auth outside US | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|----|----------------|----------------------|-------|-------|-------|-------|-------|-------|
| AT | 1999 | None | 0 | 0 | 0 | 0 | 0 | 0 |
| BE | 1991 | GA-I | 0 | 0 | 0 | 0 | 0 | 0 |
| CY | 2002 | GA | 0 | 0 | 0 | 0 | 0 | 0 |
| CZ | 2000 | Licence | 0 | 0 | 2 | 9 | 11 | 18 |
| DE | 1998 | None | 0 | 0 | 0 | 0 | 0 | 0 |
| DK | 1995 | GA | 1,657 | 1,842 | 1,895 | 1,940 | 1,935 | 1,959 |
| EE | 2002 | GA & Lic | 0 | 0 | 0 | 0 | 14 | 23 |
| ES | 1998 | GA-I | 0 | 1,423 | 1,738 | 1,919 | 2,108 | 2,304 |
| FI | 1994 | None | 0 | 0 | 0 | 0 | 0 | 0 |
| FR | | None | 0 | 0 | 0 | 0 | 0 | 0 |
| GB | 2000 | None | 0 | 0 | 0 | 0 | 0 | 0 |
| GR | 1998 | GA | 0 | 152 | 174 | 224 | 262 | 295 |
| HU | 1990 | GA | 0 | 0 | 0 | 0 | 6 | 51 |
| IE | 2002 | GA-I | 0 | 0 | 0 | 0 | 0 | 0 |
| IT | 1999 | GA | 0 | 0 | 820 | 1,029 | 1,232 | 1,356 |
| LT | 2002 | GA | 0 | 0 | 0 | 0 | 39 | 65 |
| LU | 2000 | GA-I | 0 | 0 | 0 | 15 | 17 | 17 |
| LV | 2001 | GA-I | 0 | 0 | 0 | 19 | 23 | 27 |
| MT | 2003 | GA-I | 0 | 0 | 0 | 0 | 0 | 0 |
| NL | 1997 | None | 0 | 0 | 0 | 0 | 0 | 0 |
| PL | 2002 | GA & Lic | 0 | 0 | 0 | 0 | 0 | 0 |
| PT | 1981 | GA-I | 0 | 0 | 0 | 5 | 7 | 11 |
| SE | 1994 | None | 0 | 0 | 0 | 0 | 0 | 0 |
| SI | 2002 | None | 0 | 0 | 0 | 0 | 5 | 12 |
| SK | 2002 | GA-I | 0 | 0 | 0 | 0 | 7 | 13 |

Figures include both licences and general authorizations. Shaded block = year before establishment of postal NRA. Blue-shaded block = no authorization program for non-univ. serv.

HU: Legislation requiring registration CPOs outside universal service area adopted in 2001.

The growth of authorizations for CPOs outside the universal service area is set out in Table 4.4.7. By the end of 2003 it appears that more than 6,000 authorizations had been granted even though many member states do not require authorization for service outside the universal service area.

Figure 4.4.2 Authorization of CPOs outside the universal service area

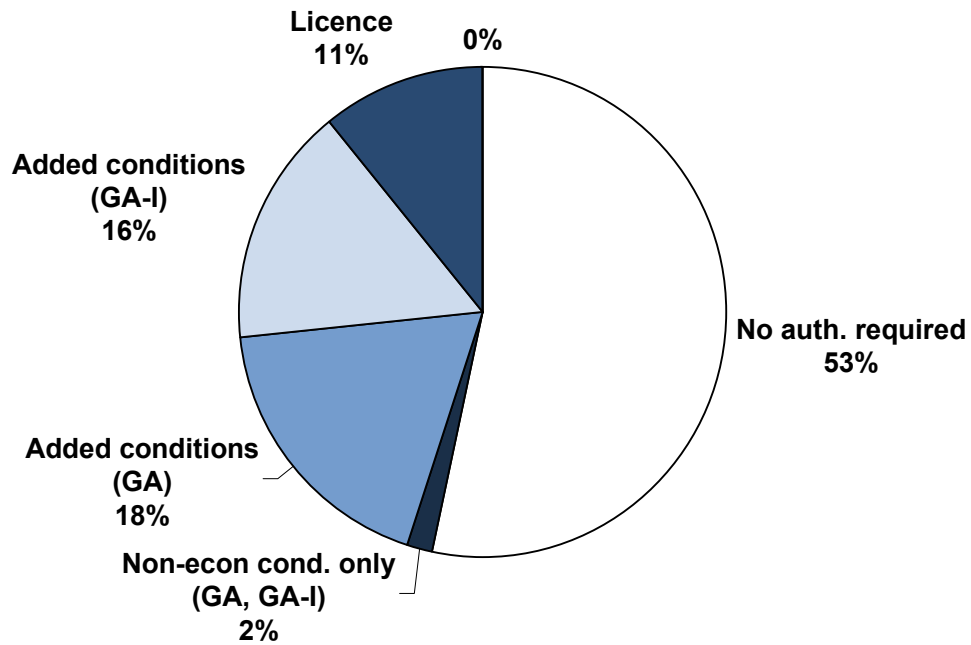


Figure 4.4.2 illustrates the overall pattern of procedures used in the Community to authorize services outside the universal service area. As in Figure 4.4.1, use of different types of authorization procedures is weighted according to the population of each member state. As this figure shows, in two-thirds of the Community, services outside the universal service require no special authorization from postal authorities or, at most, a minimal general authorization that implies no economic controls. In about one-third of the Community, member states have introduced general authorizations that include conditions of an economic nature that may be considered to exceed the scope of the Directive. Licences are employed to authorize non-universal services in a very small fraction of the Commission, although this practice should be largely terminated before the end of 2004.

Conclusions

Twenty-two member states have introduced authorization procedures for CPOs operating within the universal service area, and 17 member states have done so for CPOs operating outside the universal service area. In a majority of the Community (considered by population), authorization procedures have either not been introduced or have been introduced in a generally appropriate and non-restrictive manner.

There exists considerable confusion, however, about the operational scope, approval process, and obligatory conditions of authorizations permitted by the Directive for the regulation of competitive postal operators inside and outside the universal service area. This confusion is due in part to a lack of clarity in the provisions of the Directive. Depending on interpretation, in many cases member states appear to have implemented authorization procedures in a manner that may be considered inconsistent with the terms or objectives of the Directive.

The matter of most concern with respect to authorization procedures involves member states which require a CPO to obtain an individual licence before providing service within the universal service area. In as many as 10 member states, such “universal service licences” are required, and yet virtually no licences have been issued. On the surface, the result appears to be a licensing regime that is so restrictive that it effectively establishes a reserved area far in excess of the limits permitted by the Directive.

Another matter of concern is the use of authorization procedures to impose conditions of an economic nature on CPOs operating outside the universal service area. As many as 14 member states may have adopted such conditions. Some of these conditions may be considered inconsistent with the terms or objectives of the Directive although in this respect as well the Directive is less than crystal clear.

Although the Directive permits member states to establish a compensation fund that requires licensed CPOs to make contributions to relieve an “unfair financial burden” imposed on the USP, this provision has been little used. So far, only one member state (Italy) has established such a fund.

4.5 Tariff principles

Guidelines for the regulation of prices of universal postal services are set out in Articles 12 and 13 of the Postal Directive.

Article 12 provides that “for each of the services forming part of the provision of the “universal service” prices must be “affordable”, “geared to costs”, and “transparent and non-discriminatory”.⁶⁷ By way of a limited exception to the principle of cost-based pricing, a member state may require that a postage rate be applied uniformly throughout the national territory. While USPs may conclude individual rate agreements with mailers, special or individualized tariffs must conform to the foregoing principles. Specifically, special tariffs for large businesses or companies that consolidate the mail of smaller firms should “take account of the avoided costs, as compared to the standard service” and “shall apply equally both as between different third parties and as between third parties and universal service providers supplying equivalent services.” Moreover, special tariffs must be made available to “private customers who post under similar conditions”. Finally, Article 12 explicitly bars cross subsidization of non-reserved services from revenues earned from reserved services “except to the extent to which it is shown to be strictly necessary to fulfil specific universal service obligations imposed in the competitive area”.

Article 13 requires member states to “encourage” their USPs to adopt terminal dues agreements that respect principles similar to those in effect for domestic mail. Specifically, terminal dues – what a USP charges another USP for delivering incoming cross-border mail – “shall be fixed in relation to the costs” of handling and delivery and shall be transparent and non-discriminatory. Article 13 also adds that for cross-border mail “remuneration shall be related to the quality of service achieved”.

4.5.1 Scope and methods of price regulation

Although the Directive expects a member state to ensure that the price of *each* universal service meets the prescribed criteria, the scope of price regulation in fact varies substantially among member states. Fifteen member states regulate the prices of all universal services. A substantial minority, however, regulate only a subset of universal services, such as single-piece correspondence (AT, ES, LU, SE) or single-piece correspondence and single-piece parcels (CZ, LT, LV). Germany limits price

67 § 12.

regulation to rates provided by a dominant operator for non-bulk letter post mail weighing 1 kilogram or less (the licensed area).⁶⁸ See Table 4.5.1.

Table 4.5.1 Scope and methods of price regulation

| | Regulator | Scope of price regulation | Ex ante | Price cap | Ex post | Cost basis |
|----|-----------|---------------------------|---------|-----------|---------|-----------------|
| AT | MinPost | Reserved single corr. | X | | | Actual costs |
| BE | NRA | Universal services | X | | | NA |
| CY | NRA | Universal services | X | | | NA |
| CZ | MinPost | Single corr. & parcels | X | | | Actual costs |
| DE | NRA | Corr. & direct mail | X | X | | Efficient costs |
| DK | MinPost | Reserved services | | X | | NA |
| EE | NRA | Universal services | X | | | Actual costs |
| ES | Council | Single correspondence | X | X | | Actual costs |
| FI | NRA | Universal services | | | X | Actual costs |
| FR | MinPost | Universal services | | X | | Actual costs |
| GB | NRA | Universal services | X | | | NA |
| GR | NRA | Universal services | X | | | Actual costs |
| HU | Parl | Universal services | X | | X | NA |
| IE | NRA | Universal services | X | | X | NA |
| IT | MinPost | Universal services | X | | | NA |
| LT | NRA | Single corr. & parcels | X | | | Actual costs |
| LU | NRA | Single correspondence | X | | X | Actual costs |
| LV | Parl | Single corr. & parcels | X | | | Actual costs |
| MT | NRA | Universal services | X | | | NA |
| NL | MinPost | Universal services | X | | | NA |
| PL | NRA | None | | | | Actual costs |
| PT | NRA | Universal services | X | | | Actual costs |
| SE | NRA | Single correspondence | | X | | Actual costs |
| SI | NRA | Universal services | X | | | Efficient costs |

Note: A price cap based on actual costs implies adjustments for future changes in demand, etc. and may be adjusted by a productivity factor.

CZ: Minister of Finance regulates domestic rates ex ante; Minister of Informatics regulates international rates by price caps.

DE: Price cap regulation does not apply to bulk correspondence and direct mail outside reserved services.

DK: Rates of subsidized periodicals also regulated.

ES: Reserved single piece correspondence subject to ex ante regulation; other single piece correspondence to price cap.

FR: Reserved services, newspapers and periodicals subject to ex ante regulation; other universal services to price cap.

HU: Reserved single correspondence subject to ex ante regulation; other universal service to ex post.

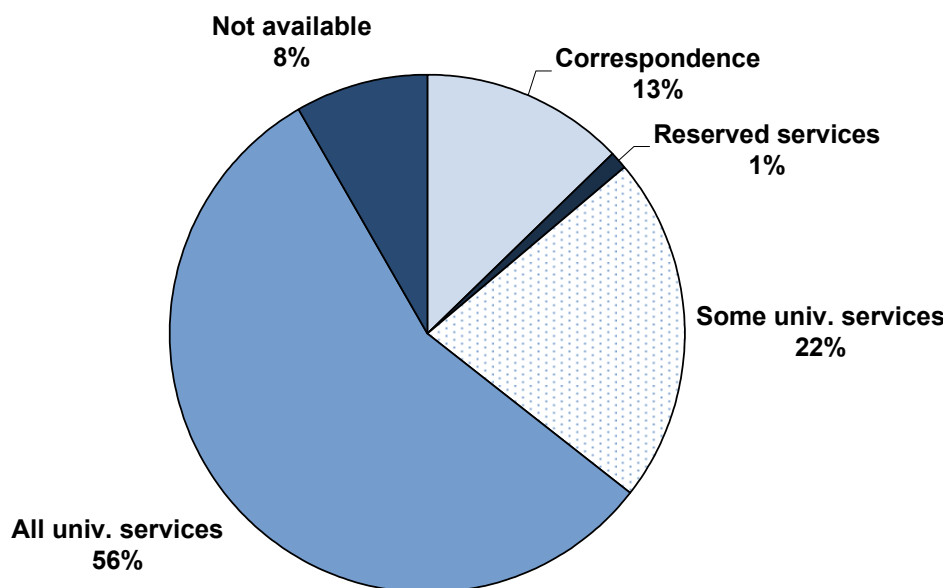
IE: Reserved services subject to ex ante regulation; other universal services subject to ex post.

NL: Ended a price freeze and re-imposed ex ante price regulation in June 2004.

PL: No apparent process for price regulation. See Post act, secs. 3(25), 50.

⁶⁸ German Post Law § 19 states: "All rates charged by a licensee in a market for postal services subject to licence shall require approval by the Regulatory Authority, provided the licensee has a dominant position in the relevant market. Sentence 1 shall not apply to rates payable for conveyance services involving a minimum mailing volume of 50 letter post items." Other rates are subject to ex post review by the NRA but only to prevent anti-competitive conduct.

Figure 4.5.1 Scope of price regulation in the EU



The scope of price regulation in the Community as a whole is shown graphically in Figure 4.5.1 (member states are weighted by population). From this figure it appears that for more than half of the EU, price regulation encompasses all universal services. More than one-third of the Community, however, regulates only a portion of universal postal services.

The Directive leaves to member states the choice of how to regulate prices. The method preferred by member states is ex ante regulation, i.e., the USP must obtain specific approval of the NRA before prices are changed. Six member states (DE, DK, ES, FR, SE, SI) appear to have instituted price cap regimes according to which the USP is free to adjust some or all regulated prices without specific approval of the regulator provided prices remain below a maximum level. In most cases, the price cap is tied to a measure of inflation, either the Consumer Price Index or the Retail Price Index. In three cases (DE, DK, PT), the inflation rate is reduced by a factor, ranging from 0.5 to 1.8 percent, representing the annual gain in productivity expected of the USP. Ex post regulation appears to be used in competitive markets only. Ireland, for example, applies ex ante regulation to reserved services and ex post controls to unreserved universal services. Finland, which has no reserved area, employs ex post price regulation only. ⁶⁹

⁶⁹ Although differences between ex ante, price cap, and ex post methods of regulation seem apparent, many NRAs did not draw a clear distinction among these procedures in specifying which services were subject to which methods of regulation. The responses on which this paragraph is based are therefore somewhat ambiguous.

4.5.2 Special tariffs

Although the Directive does not require a USP to provide special tariffs for universal services provided to large mailers, almost all USPs do so. Discounts are provided for large volume tenders or tenders of mail prepared by the sender. In some cases, discounts are also provided if the sender transports mail to a post office near the addressees.

Table 4.5.2 Types and transparency of special tariffs

| Country | Correspondence | | | Direct mail | | | Parcels | | |
|---------|----------------|--------|------------|-------------|--------|------------|---------|--------|------------|
| | NRA | USP | Regulation | NRA | USP | Regulation | NRA | USP | Regulation |
| AT | | Y: P | ? ? ? ? | | | NA | | | NA |
| BE | Y: VPT | Y: VPT | ? ? ? ? | Y: VPT | Y: VPT | ? ? Y Y | Y: VPT | Y: VPT | ? ? Y Y |
| CY | Y: VP | Y: VP | Y Y Y Y | Y: VP | Y: VP | Y Y Y Y | Y: V | Y: VP | Y Y Y Y |
| CZ | | | NA | | | NA | | | NA |
| DE | Y: PT | Y: VPT | Y Y Y Y | Y: P | Y: VP | Y Y Y Y | Y: PT | Y: PT | ? ? ? ? |
| DK | Y: P | Y: P | Y Y Y Y | Y: V | Y: V | ? ? ? N | N: | N: | |
| EE | Y: V | Y: V | N Y Y Y | Y: V | Y: V | N Y Y Y | N: | N: | |
| ES | Y: PT | Y: VPT | Y Y ? ? | Y: PT | Y: VPT | Y Y ? ? | Y: PT | Y: VP | Y Y ? ? |
| FI | Y: PT | Y: VP | ? ? ? ? | | Y: V | ? ? ? ? | | N: | 0 |
| FR | Y: P | Y: PT | Y Y ? ? | Y: P | Y: PT | Y Y ? ? | Y: PT | Y: PT | ? ? ? ? |
| GB | Y: PT | : VPT | ? ? ? ? | | | NA | | | NA |
| GR | Y: VPT | Y: VP | Y Y Y Y | : VPT | Y: VPT | Y Y Y Y | Y: VPT | Y: VPT | Y Y Y Y |
| HU | Y: P | Y: | Y Y Y Y | Y: P | Y: | Y Y Y Y | Y: P | Y: | Y Y Y Y |
| IE | Y: VPT | Y: VPT | Y Y Y Y | Y: VPT | Y: VPT | N Y Y Y | Y: | | ? ? ? ? |
| IT | Y: | N: | Y Y Y Y | Y: V | Y: VPT | Y Y Y Y | Y: VP | Y: VP | Y Y Y Y |
| LT | Y: VPT | Y: VPT | ? ? ? ? | Y: VPT | Y: VPT | ? ? ? ? | Y: VPT | Y: VPT | ? ? ? ? |
| LU | Y: VPT | Y: VP | ? ? ? ? | | Y: VP | ? ? ? ? | | Y: V | ? ? ? ? |
| LV | Y: VP | Y: V | Y Y N N | Y: V | Y: V | Y Y N N | Y: V | Y: V | Y Y N N |
| MT | | Y: VPT | NA | | Y: VPT | ? ? ? ? | | N: | |
| NL | Y: VP | Y: VPT | Y Y Y Y | Y: VP | Y: VPT | ? ? ? ? | Y: VP | Y: VPT | ? ? ? Y |
| PL | Y: VPT | Y: VP | N ? ? N | Y: VPT | | N ? ? N | Y: VPT | | N ? ? N |
| PT | | Y: P | Y Y Y Y | | Y: P | Y Y Y Y | | Y: P | Y Y Y Y |
| SE | Y: VP | | Y Y Y Y | Y: VP | | Y Y Y Y | Y: VT | | ? ? ? ? |
| SI | Y: VP | Y: VP | Y Y ? ? | Y: VP | Y: VPT | ? ? ? ? | Y: VP | Y: VP | ? ? ? ? |
| SK | Y: VPT | Y: VP | Y Y ? ? | Y: VP | Y: VP | Y Y ? ? | Y: VP | Y: VP | Y Y ? ? |

NRA and USP: "Y"= Discount exists; "N" = No discount. "V" = volume based; "P"= presorted; "T"=transport by mailer.

Regulation: Yes (Y), No (N), or no answer (?) for 4 issues: Based on avoided costs | Transparent and non-discriminatory | Available to consolidators | Available to CPOs. "NA" = no answers from NRA to this section of questionnaire.

DE: Tariffs of parcels weighing up to 20kg are subject of an ex post price review by the NRA.

Table 4.5.2 summarizes the availability of special tariffs in the Community (as reported by NRAs and USPs) and the extent to which each NRA confirmed adherence to the four criteria derived from the Directive. This table is divided into three sections, dealing with discounts for correspondence, direct mail, and parcels, respectively. In each section,

the first column indicates whether the NRA reported that a special tariff is available (yes or no) and whether the special tariff, if any, is based on large volume tenders of mail (V), presortation or other preparation by the sender (P), or transportation by the mailer to a sorting centre near the mailer (T). The second column summarizes answers by the USP to the same questions. Although answers of the NRA and USP should be identical, in some cases they are not. The third column in each section of this table summarizes the responses of the NRA to four regulatory questions:

- Are the discounts based on avoided costs?
- Are the discounts transparent and non-discriminatory?
- Are the discounted rates available to consolidators?
- Are the discounted rates available to competitive postal operators?

In each case where the existence of a special tariff was confirmed by either the NRA or USP, answers are summarized by indicating whether the NRA answered yes (Y), no (N), or provided no answer (?). The requirements of the Directive imply that the NRA should be able to confirm an affirmative answer to each question, so that where a discount exists, the entry under the “regulation” column should be “Y | Y | Y | Y”.

A review of Table 4.5.2 suggests that NRAs have not fully implemented the provisions of the Postal Directive dealing with special tariffs. For example, discounts for correspondence are apparently available in 22 member states, but NRAs confirmed that the discounts were based on avoided costs in only 15 instances and that the special tariff was transparent and non-discriminatory in only 16 instances. Seemingly, either a third of special tariffs for correspondence do not meet the criteria of the directive or the NRAs are unfamiliar with the details of the tariffs. Discounts for direct mail are available in 22 member states, and in about half of them NRAs have not confirmed adherence to either the costing or transparency requirements of the Directive. For parcels, discounted tariffs are available in 19 member states, and only eight NRAs confirm reference to avoided costs and price transparency.

Case study 4.8 Germany – downstream access

According to the German postal law, a postal licensee with dominant position is obliged to give competitors access to portions of its network at rates considered reasonable and competitive by the NRA, RegTP.

In its first access case in 2000, RegTP determined lawful rates for downstream access to the network of Deutsche Post A.G. (DPAG), the German USP. RegTP adopted the principle that the price for access to DPAG's network should be set at the retail price for the postal service at issue less the cost of services which the USP did not provide because the mail was tendered at the downstream access point. As a result, RegTP required a 20 percent discount for mail tendered at the USP's outward sorting centre and a 23 percent discount for mail tendered at the USP's inward sorting centre. The actual price for particular mailing also depended on volume thresholds and the degree of presorting.

In 2003, RegTP adopted a price cap regime for many of DPAG's services. This regime incorporated the principles of the earlier access case and included separate price caps for several categories of bulk mail.

While the price cap regime is broadly similar to the approach adopted by the British NRA (see separate Case study 4.9), there are two very significant differences. First, the discounts for downstream access required by RegTP are only about half of the discounts required by the British NRA. Second, German postal law does not allow for downstream access within the reserved area. This limitation substantially undermines the commercial prospects of a CPO providing mail preparation and consolidation services and licensed to transport mail items from the sender to the USP (an "E-licence", see Case study 4.6). Consolidators are effectively barred from access to discount tariffs that DPAG offers to large mailers for postal items within the reserved area.⁷⁰

The lawfulness of such discrimination against consolidators appears questionable under Article 12 of the Postal Directive. RegTP has pointed out that competition in upstream markets (mail preparation, printing, consolidation) might be obstructed due to this situation. RegTP has observed that subsidiaries of DPAG have been increasingly active in this market and that CPOs are placed at a competitive disadvantage because DPAG's subsidiaries do not face the same legal restrictions as CPOs with respect to the reserved area.⁷¹ The European Commission has recently requested the German government to amend the postal law, and the German Ministry of Economics and Labour has agreed to do so.

⁷⁰ DPAG may voluntarily agree to give a CPO a discount mail contract in same way as with any other large mailer. In practice, however, only two percent of 858 discount contracts placed in effect in 2002 and 2003 have been agreed between DPAG and CPOs. RegTP (2003b), p. 295.

⁷¹ RegTP (2003b), p. 281.

Case study 4.9 United Kingdom – downstream access by third parties

According to its licence, Royal Mail is required to provide CPOs access to its postal facilities and delivery systems at rates that reflect a reasonable allocation of costs. Access prices are critical for CPOs which have a mail consolidator licence, i.e. a licence that only permits the holder to collect, sort and transport mail to Royal Mail's delivery network.

UK Mail, a CPO with a mail consolidator licence, started negotiations with Royal Mail over access prices in November 2001. After negotiations failed, UK Mail requested Postcomm to determine a reasonable access price.

In March 2004, Postcomm proposed an approach towards access prices for UK Mail. Postcomm concluded that access prices should be based on the costs of providing the downstream postal service. This approach implies much lower access prices than the "avoided cost" methodology adopted by the German NRA (see Case study 4.8) and endorsed in Article 12 of the Postal Directive. The avoided cost approach begins with the retail price for end-to-end service and subtracts the costs the USP does not incur because the mailer or consolidator has performed some of the upstream functions, such as collection, sorting, and transportation to the USP's sorting centre. Under an avoided cost approach, the access price includes the overhead contribution and profit that the USP would have made on a retail sale. Under the cost-based approach adopted by Postcomm, the access price includes only the cost of the downstream services and a reasonable allowance for overhead and profit associated with those services; the overhead contribution and profit associated with upstream services is lost. With respect to the Postal Directive, Postcomm pointed out that while Article 12 requires member states to "take account of the avoided costs" in setting access prices, it also requires generally that "prices must be geared to costs".

Under pressure from the Postcomm proposal, Royal Mail resumed negotiations with UK Mail and reached a "voluntary" agreement. For significant volumes of mail taking place on a regular and frequent basis, the agreement provides for access at prices that represent a discount of 52 percent for letters tendered at an outward sorting centre and 54 percent for letters tendered at an inward sorting centre. Discounts for other products are comparable.

Royal Mail intends to submit a draft access code to Postcomm. The final access code resulting from a consultation procedure organized by Postcomm will replace the bilateral negotiations currently required by Royal Mail's licence.

Case study 4.10 Netherlands: access to USP's delivery network

On January 22, 2004, the Dutch Minister of Economic Affairs, Laurens-Jan Brinkhorst, published a discussion paper on the future of postal policy in the Netherlands. He proposed that the Netherlands should completely liberalize postal services in 2007 provided Germany and the United Kingdom do likewise. This document was sent to the cabinet for review before submission to the Dutch parliament.

In developing the discussion paper, the ministry commissioned an extensive academic study on network access by the foundation for economic research of the University of Amsterdam (SEO). The SEO study concluded that the development of competitive end-to-end networks was unlikely in view of the economies of scale in mail collection and delivery. However, SEO recommended against requiring the USP to provide access to CPOs at regulated rates. Instead, SEO proposed that it would be sufficient to require the USP to provide non-discriminatory access at rates negotiated with mailers and consolidators. Implicitly, the USP could decline access on a non-discriminatory basis as well. A second weighty academic study by the Tilburg Law and Economics Center (TILEC) of Tilburg University was commissioned by TPG. The TILEC study adopts an even more sceptical view of regulation of access to postal networks.

4.5.3 Rate investigations

Table 4.5.3 Rate investigations of the NRAs

| | Type | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|----|---------------|------|------|------|------|------|------|
| DE | Rate | | | | | 2 | 1 |
| DE | Discount | | 23 | 104 | 78 | 103 | 117 |
| FI | Rate | | | | | | 1 |
| GB | Rate | | | | 1 | 1 | |
| GR | Cross subsidy | | | | 1 | 1 | 1 |
| IE | Rate | | | | | 1 | 1 |
| IE | Discount | | | | | 1 | 1 |
| IE | Terminal dues | | | | | | 1 |
| IT | Rate | | | 79 | 440 | 443 | 378 |
| LU | Rate | | | | | | 1 |
| NL | Discount | | | | 1 | 2 | 1 |
| NL | Cross subsidy | 1 | | | | | |
| PT | Rate | 4 | 4 | 4 | 8 | 6 | 8 |
| PT | Discount | 4 | 4 | 4 | 8 | 6 | 8 |
| PT | Cross subsidy | 2 | 2 | 2 | 3 | 3 | 3 |
| PT | Terminal dues | 2 | 2 | 2 | 3 | 3 | 3 |
| SE | Rate | 2 | | 7 | 2 | 4 | 3 |
| SI | Rate | | | | | | 2 |
| SK | Rate | | | | | 2 | 11 |
| SK | Discount | | | | | | 3 |
| SK | Cross subsidy | | | | | 1 | 1 |

As an additional indicator of the vigour of price regulation, this survey requested NRAs to report the number of “formal investigations” into rate issues begun in each year from 1998 to 2003. Separate figures were asked for four types of rate cases: public tariffs, special tariffs, terminal dues, and cross-subsidy. Responses are summarized in Table 4.5.3. From this table, it appears that only 12 NRAs conducted formal investigations into rates during this period. Ten NRAs launched reviews of the public tariffs (DE, FI, GB, IE, IT, LU, PT, SE, SI, SK). In addition, six NRAs conducted inquiries into the appropriateness of special tariffs (DE, GB, IE, NL, PT, SK); two reviewed terminal dues rates (IE, PT); and four investigated cases of possible cross subsidy (GR, NL, PT, SK).⁷²

A somewhat different response was provided in answer to the question, “When has the last general rate case been carried out?” To this question, 20 NRAs referred to cases conducted since 1998: five in 2004 (DK, ES, FI, PT, SK), 10 in 2003 (AT, DE, FR, GR,

⁷² Obviously, the answers of the NRAs suggest the term “formal investigation” may be understood somewhat differently by different NRAs, or even by the same NRA in different contexts. For this reason, we place more emphasis on the fact and type of investigation rather than the number of cases reported.

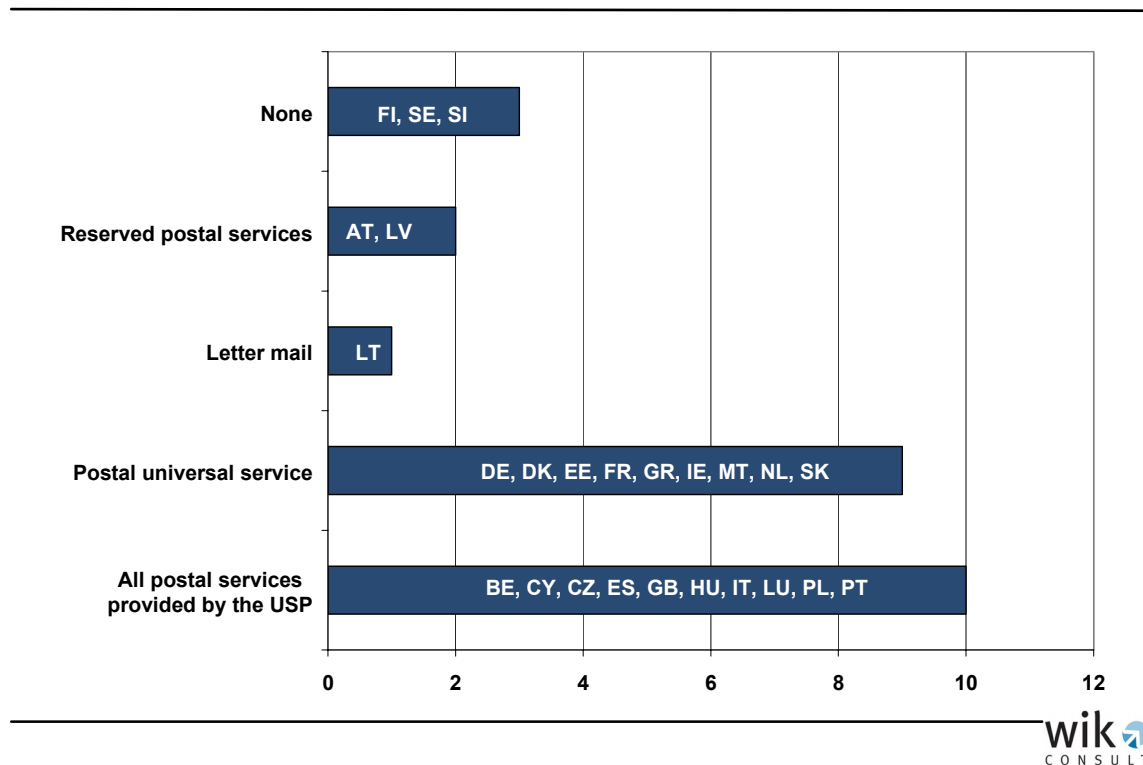
IE, IT, LU, NL, SE, SI), and four in 2002 or earlier (EE, CZ, GB, LV, LT). Five NRAs declared that a general case had never been initiated (CY, HU, PL) or did not answer (BE, MT).

What seems to emerge from these responses is a pattern of a fair amount of attention to general postage rates but substantially less emphasis on special tariffs, terminal dues, or issues of cross subsidy. Looking at the Community as a whole, however, in no area does the level of regulatory enforcement appear to be sufficient to assure implementation of the pricing principles of the Directive.

4.5.4 Value added tax (VAT)

The Postal Directive does not address the applicability of value added tax (VAT) to postal services. Nonetheless, experience has shown that the applicability or non-applicability of VAT affects implementation of several provisions of the Directive, including the affordability of universal services, the effect of the price limit imposed on services which may be reserved for the USP, and the fairness of competition between USPs and CPOs generally.

Figure 4.5.2 Postal services exempted from VAT



Member states have adopted very different approaches to the issue of whether postal services should be exempted from VAT. Some member states (FI, SE, SI) apply VAT to all services provided by the USP. In nineteen member states, all universal postal services provided by the USP are exempt from VAT; in ten of these member states, even non-universal postal services are exempt from VAT if provided by the USP.

There is also a lack of unanimity among member states in regard to the relationship between VAT and the price limit for the reserved area, three times the public tariff for an item the lowest step in the fastest standard category. of service. Suppose the public tariff is € 0.50 and VAT is 20 percent. Does the Directive's price limit on the reserved area mean that the reserved area is limited to services priced below € 1.50 (three times the public tariff excluding VAT) or € 1.80 (or three times the public including VAT)? In this survey, four members (CY, DE, DK, LT) considered the price limit to exclude VAT, one member state (GR) considered the price limit to include VAT, and 14 member declared positively that they had no position.

The straightforward implication from these observations is that it would be desirable for the Directive to provide greater clarity with respect to the relationship between its provisions and value added tax.

Conclusions

With the exception of Poland, all member states have adopted procedures and standards for regulating the prices of key universal services to ensure that they comply with the standards of the Directive. Fifteen member states control the prices of all universal services; a substantial minority, however, control the prices of only a subset of universal services, such as single-piece correspondences or reserved services.

Most member states require the USP to obtain approval of the NRA before each change in prices; six member states make use of price caps.

Special tariffs are generally available in the Community for most types of mail. Only about half of the NRAs, however, are able to confirm that discounts comply with provisions of the Directive relating to the costing, transparency, and non-discriminatory access of special tariffs.

NRAs need to become more active in reviewing the prices of universal services. Only 12 NRAs report conducting any type of formal investigation into the major areas of tariff policy over the last six years. Investigation of special tariffs, terminal dues, and cross subsidy are especially rare.

The relationship between the Postal Directive and value added tax is unclear and should be clarified.

4.6 Transparency of USP accounts

Under the Postal Directive, accounts of universal service providers must conform to standards of transparency described in Articles 14 and 15.

Article 14 sets out principles for the separation of accounts and allocation of costs. There are three substantive requirements.

- A USP must establish separate accounts “for each of the services within the reserved sector on the one hand and for the non-reserved services on the other”.
- “Accounts for the non-reserved services should clearly distinguish between services which are part of the universal service and services which are not.”⁷³
- The USP’s accounts should allocate assignable and common costs according to methods prescribed in the article or an alternative approach that is consistent with these methods and approved by the NRA.⁷⁴

Article 14 also adds a procedural requirement: the NRA must ensure that a competent body, independent of the USP, verifies that the USP complies with the approved cost accounting system and the member state must ensure that a “statement of compliance” is published periodically.

Article 15 requires publication of periodic financial reports by the USP. The USP’s financial accounts must be reviewed by an independent auditor, and they must be published in accordance with the Community and national legislation applicable to commercial undertakings.⁷⁵ There is, however, no requirement that the published accounts provide the separation of costs and revenues required by Article 14.

⁷³ § 14(2).

⁷⁴ § 14(3) - (4).

⁷⁵ § 15.

4.6.1 Accounting principles

The first step towards compliance with the Directive's accounting standards is for the member state to oblige the USP to comply with the substantive norms of Article 14. As shown in Table 4.6.1, all member states, with the possible exception of Sweden,⁷⁶ report that the USP is legally obliged to separate accounts for universal service and non-universal services. Except for the United Kingdom, all member states with a reserved area report that the USP is obliged to separate accounts for reserved and non-reserved services.⁷⁷ All but six member states (CY, ES, LT, LV, MT, SE) report that the USP allocates costs according to the methods of Article 14. Somewhat inconsistently, however, NRAs in two of these member states (EE, IE) also report investigations into whether the accounts of the USP do indeed comply with Article 14. Among the six countries which did not confirm cost allocation according to Article 14, the situation is as follows: The Cypriot NRA reports that cost accounting will meet the requirements of the Directive by July 2005. NRAs in Malta and Sweden are investigating compliance with Article 14. And the NRAs in Latvia, Lithuania, and Spain apparently concede lack of compliance with Article 14 but do not comment on future plans.

76 The Swedish NRA explained the situation in Sweden as follows, "It is true that the Swedish regulator does not require separation of accounts between universal and non-universal services, but every year we demand that the USP shows separate costing for each service within the universal service. To make the yearly review effective we also demand the USP show the costing for the non-universal services provided by the USP. Taking the abovementioned we are of the opinion that the requirements are harder in Sweden than the requirements in article 14."

77 No member state without a reserved area suspended the application of § 14(2) to §14(7) in 2003 as permitted by § 14(8).

Table 4.6.1 Basic accounting standards for USPs

| | USP required to separate univ. & non-univ. servs. | USP required to separate res. & non-res. servs. | USP allocates costs according to Art. 14 | Cost allocation sys. complies with Art 14 verified by | USP cost allocation approved in | Compliance statement published regularly |
|----|---|---|--|---|---------------------------------|--|
| AT | Y | Y | Y | Auditor | 2000 | Y |
| BE | Y | Y | Y | NRA | 2002 | Y |
| CY | Y | Y | N | NRA | Never | N |
| CZ | Y | Y | Y | NRA | 2002 | N |
| DE | Y | Y | Y | NRA | 2002 | N |
| DK | Y | Y | Y | Auditor | 2003 | Y |
| EE | Y | NA | Y | Auditor | Never | N |
| ES | Y | Y | N | NRA | Never | N |
| FI | Y | NA | Y | NRA | 2002 | Y |
| FR | Y | Y | Y | MinPost | 2001 | N |
| GB | Y | | Y | NRA | 2002 | Y |
| GR | Y | Y | Y | NRA | 2001 | N |
| HU | Y | Y | Y | NRA | 2002 | Y |
| IE | Y | Y | Y | Auditor | | |
| IT | Y | Y | Y | Auditor | 2002 | Y |
| LT | Y | Y | N | NRA | Never | N |
| LU | Y | Y | Y | NRA | Never | Y |
| LV | Y | Y | N | NRA | Never | N |
| MT | Y | Y | | NRA | Never | |
| NL | Y | Y | Y | Auditor | 2000 | Y |
| PL | Y | Y | Y | NRA | Never | |
| PT | Y | Y | Y | Auditor | 2002 | Y |
| SE | N | NA | | NRA | 2002 | N |
| SI | Y | Y | Y | NRA | Pre-2000 | N |
| SK | Y | Y | Y | Auditor | 2002 | N |

CY: Accounting systems to comply with new legal obligations by July 2005.

DE: The compliance statement was published once only in their activity report 2000/2001.

EE, IE, MT, SE: NRA is presently reviewing whether cost accounting by the USP complies with Article 14.

Since accounts rendered in accordance with Article 14 are non-public, the most revealing requirement of Article 14 may be the procedural rule that a member state must periodically publish a statement of compliance by a competent body declaring that the USP has adhered to the cost allocation standards of the Directive. As shown in Table 4.6.1, only ten member states (AT, BE, DK, FI, GB, HU, IT, LU, NL, PT) profess to provide regular statements of compliance.

To provide more insight into compliance with the accounting requirements of the Directive, NRAs were asked to declare, for each year from 1998 to 2003, whether the USP prepared properly separated accounts and whether an independent body had actually issued a statement of compliance with the cost allocation rules of the Directive. Fourteen NRAs (BE, CZ, DE, DK, EE, FI, FR, HU, IE, NL, GR, IT, PT, SK) declared that

their USPs separated accounts into universal and non-universal components in either 2002 or 2003.⁷⁸ Of the corresponding 14 USPs, however, only four (GR, IT, PT, SK) responded to this survey with parcel revenues divided between universal and non-universal services. On the other hand, two other USPs (PL, SI) supplied revenues divided into universal and non-universal components even though their NRAs denied this capability or failed to answer this question. The results were similar with respect to the Directive's requirement to divide revenues into reserved and unreserved components. Twelve NRAs said this separation was carried out in 2002 or 2003, but only four of the corresponding USPs provided separated account data in response to this survey and two USPs provided a separation of letter post revenue into reserved and non-reserved portions even though their NRAs did not report this capability.

Table 4.6.2 Separation of accounts and statements of compliance, 2002-2003

| | Either NRA or USP indicates separation of reserved/ unres. servs. in 2002 or 2003 | Either NRA or USP indicates separation of universal/non-univ. servs. in 2002 or 2003 | Competent body verified USP cost allocation in 2002 or 2003 |
|----|---|--|---|
| AT | | | NA |
| BE | Y | Y | Y |
| CY | N | N | N |
| CZ | Y | Y | N |
| DE | Y | Y | Y |
| DK | Y | Y | NA |
| EE | NA | Y | N |
| ES | Y | Y | N |
| FI | NA | Y | N |
| FR | Y | Y | Y |
| GB | Y | | Y |
| GR | Y | Y | Y |
| HU | Y | Y | Y |
| IE | Y | Y | NA |
| IT | Y | Y | NA |
| LT | N | N | N |
| LU | N | Y | N |
| LV | N | N | N |
| MT | N | N | N |
| NL | Y | Y | Y |
| PL | N | N | N |
| PT | Y | Y | Y |
| SE | NA | N | NA |
| SI | N | N | N |
| SK | Y | Y | Y |

⁷⁸ We gave credit for either year to allow for late accounting for 2003.

Figure 4.6.1 Excerpt from public regulatory accounts of Royal Mail, 2003

| | 2003 – 52 weeks | | | | | 2002 – on a 52 weeks basis | | | | |
|--|-----------------|---------------|---------------------------------------|------------------------------------|----------------------|----------------------------|---------------|---------------------------------------|------------------------------------|----------------------|
| | USO £m | Non-USO £m | Regulatory accounts total £m | Excluded and eliminations £m | Group Total £m | USO £m | Non-USO £m | Regulatory accounts total £m | Excluded and eliminations £m | Group Total £m |
| Revenue | 5,588 | 2,463 | 8,051 | 248 | 8,299 | 5,554 | 2,604 | 8,158 | 91 | 8,249 |
| Operating costs ¹ | (5,510) | (2,764) | (8,274) | (222) | (8,496) | (5,545) | (2,973) | (8,518) | (43) | (8,561) |
| (Loss)/Profit from operations ¹ | 78 | (301) | (223) | 26 | (197) | 9 | (369) | (360) | 48 | (312) |
| Pension credit | 104 | 21 | 125 | 121 | 248 | 132 | 52 | 184 | 61 | 245 |
| Exceptional items | (441) | (251) | (692) | (5) | (697) | (304) | (539) | (843) | (255) | (1,088) |
| Share of (loss)/profit in associates and JVs | - | - | - | (30) | (30) | - | - | - | 1 | 1 |
| Operating (loss)/profit | (259) | (531) | (790) | 112 | (678) | (163) | (856) | (1,019) | (145) | (1,164) |
| Margin (%) ¹ | 1.4% | (12.3%) | (2.8%) | 10.5% | (2.4%) | 0.2% | (14.2%) | (4.5%) | 52.8% | (3.8%) |

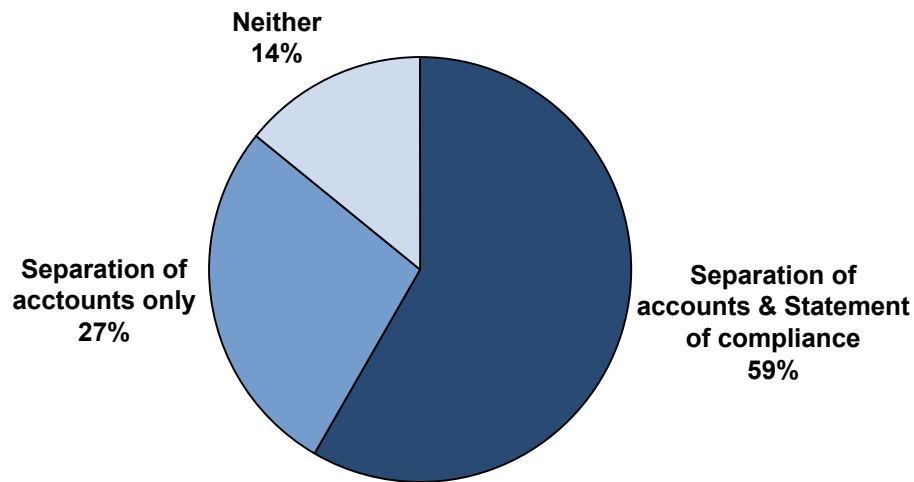
Source: Royal Mail, Regulatory financial statements 2002/2003.

From these survey results, a certain amount of confusion and uncertainty appear evident. For an NRA to declare merely “Yes” or “No” in answer to questions whether separate accounts have been prepared leaves considerable doubt as whether the NRA interprets the requirements of the Directive in the same manner as the Commission and the general public. A common understanding would be greatly facilitated by periodic publication of a summary of the separated accounts. Such a publication would have the added benefit of providing the public with a better appreciation of the cost and efficiency of services which are being operated, to some extent at least, as public services. In addition, CPOs would be given some assurance in respect to issues of cross subsidy. In these respects, the regulatory accounts of Royal Mail, the British USP, appear to offer a desirable extension of the minimum requirements of Article 14.⁷⁹ These accounts are published annually as required by Postcomm, the British NRA. They provide all interested parties a transparent understanding of the manner in which the NRA has implemented the accounting separation provisions of Article 14. See Figure 4.6.1.

If one adopts the optimistic view that either a declaration by the NRA or a division of revenues by the USP in response to this survey may serve as evidence of separation of accounts, then 17 USPs currently prepare properly separated accounts. NRAs also indicate that eight member states have published the statement of compliance required by Article 14. All of these member states are among the 17 whose USPs separate accounts.

⁷⁹ Royal Mail Group, Regulatory Financial Statements 2003. The regulatory accounts of Royal Mail are among the most carefully drawn and transparent in the Community.

Figure 4.6.2 Implementation of accounting principles in EU, 2003



Based on this information, Figure 4.6.2 provides a summary view of the implementation of accounting principles in the Community. In this figure, member states are weighted by population. Only nine member states (BE, DE, FR, GB, GR, HU, NL, PT, SK) can claim both that their USPs separate accounts properly and that independent bodies have published statements affirming compliance with the costing methods of the Directive. These nine states, however, account for more than half of the citizens of the Community. In total, about 85 percent of the Community has apparently taken the first crucial step required by Article 14, separation of accounts.

A further issue raised by this review is the manner in which NRAs ensure that the USP's costs are allocated according the principles set out in Article 14. In many, perhaps most, cases it appears that actual verification of compliance is committed to an independent auditing firm. The NRA may exercise little or no independent judgement about the methods or accuracy of data collection or the appropriateness of using various operational factors (volume, weight, employee time, etc.) to allocate costs to different products. Although the judgements underlying the technicalities of data collection and cost drivers are crucial to the process of cost allocation, in most cases it appears the judgements are made by the USP, not the NRA, and the role of auditor is primarily one of assuring compliance with regulatory accounting standards developed by the USP.

A consideration of the 2003 regulatory accounts of the British USP referred to above illustrates the complexity of the cost allocation task. In the introductory text, Royal Mail notes the "the absence of regulatory accounting guidelines", emphasizes forthrightly that "judgement has been applied in determining the assignment of costs, revenues, assets and liabilities to products", and concedes "there are inadequacies in the current traffic measurement and statistical procedures for stamps and meter traffic". To the

extent permitted by such vagaries, Royal Mail declares that it has allocated costs according to the general principles of its licence, which requires, inter alia, compliance with Article 14 of the Directive. The independent auditor's report, submitted to Royal Mail, not to the NRA, certifies that accounts conform to the technical standards set by Royal Mail. In the same document, Royal Mail expresses its continuing disagreement with Postcomm over certain regulatory policies (involving prices for downstream access) and notes the importance of a monopoly to permit traditional internal cross subsidies. Both of these issues are especially sensitive to accounting policies. Thus, despite the admirable transparency of Royal Mail's regulatory accounts, there appears to be a possibility that these accounts rest upon judgements relating to the allocation of costs that are less than wholly objective and disinterested.

Overall, then, it is unclear whether the allocation of costs has achieved the degree of impartiality and objectivity envisioned in the Postal Directive even in member states with the most sophisticated regulatory frameworks. In other member states, it appears from our review that NRAs rely to a still greater extent on the unguided judgements of independent auditors to assess whether the principles of Article 14 have been met. These observations underscore the practical difficulties encountered, perhaps inevitably, in implementing the accounting principles of Article 14.

4.6.2 Financial accounts of USP

As noted, periodic publication of audited financial accounts of the USP is required by Article 15. All USPs except for PL have complied with this requirement at least for 2002. Three (CZ, PT, SI) have done so for 2002 but not yet published reports for 2003; presumably they will do so. In addition, NRAs reported that two additional USPs (MT, SK) published the requisite audited reports in 2003 even though they did not in 2002.

Conclusions

Virtually all 25 member states legally oblige the USP to prepare accounts that separate reserved services from unreserved services and universal services from non-universal services as required by the Directive. In considering more specific information, however, it appears that an optimistic estimate of the number of USPs that prepared properly separated accounts in 2002 or 2003 would be closer to 17.

All but six NRAs confirm that USPs allocate costs according to the principles laid out in Article 14 of the Directive. Only nine NRAs, however, declare that a competent body published a statement of compliance in 2002 or 2003 attesting to the USP's compliance with the cost allocation principles of the Directive, even though this statement of compliance is required by the Directive.

Even where compliance with the cost allocation principles of the Directive is confirmed, it appears that NRAs rarely involve themselves with the technical issues of cost drivers and data quality. Instead, they may accept the report of an outside auditor, perhaps retained by the USP. It is unclear whether such a procedure provides the level of transparency and objectivity sought by the Directive.

All but a handful of USPs comply with the requirement of Article 15 to periodically publish financial accounts that have been reviewed by an independent auditor.

4.7 National regulatory authorities

Article 22 of the Postal Directive requires member states to “designate one or more national regulatory authorities for the postal sector that are legally separate from and operationally independent of the postal operators”. An independent National Regulatory Authority is one of the lynchpins of the regulatory framework set out in the Postal Directive. The third paragraph of Article 22 declares that 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 basic facts about Community NRAs are set out in Table 4.7.1. Only six NRAs are dedicated to the postal sector alone. Seventeen combine regulation of the post with regulation of the telecommunications sector; some regulate other sectors as well. Among the large member states, only the United Kingdom maintains a dedicated and truly independent postal regulator, Postcomm. Italy and Spain have also established regulators dedicated to postal affairs, but in both cases the regulator is closely tied to the ministry in charge of postal affairs, whose independence from the public postal operator is uncertain. Germany and Poland have entrusted postal regulation to the telecommunications regulator, and France will likely do the same when it establishes a regulator in 2005.

Inauguration of postal regulation in the EU was almost entirely the result of the Commission’s review of postal services and subsequent adoption of the Postal Directive. All but three of 24 NRAs began regulation after publication of the Postal Green Paper in 1992, and 17 were established after the Postal Directive was adopted in 1997.

Table 4.7.1 National regulatory authorities

| | National regulatory authority | Non-postal sectors | Begin postal regulation | Employees (professional) 2003 | Budget EUR000 2003 |
|----|--|--------------------|-------------------------|-------------------------------|--------------------|
| AT | Ministry of Transport, Innov. and Techn.- Dept for Postal Affairs | A | 1999 | NA | NA |
| BE | Belgian Institute for postal services and telecommunications | B | 1991 | 11 (7) | 1,250 |
| CY | Commissioner for Telecommunication and Postal Regulation | B | 2002 | 5 (3) | 256 |
| CZ | Ministry of Informatics - Postal Services Department | A | 2000 | 12 (11) | NA |
| DE | RegTP (Regulatory Authority for Telecommunications and Post) | B | 1998 | 25 (25) | NA |
| DK | Road Safety and Transport Agency, Postal Supervisory Department | G | 1995 | 6 (3) | NA |
| EE | Estonian National Communications Board (ENCB) | B | 2002 | 7 (6) | 64 |
| ES | Ministerio Fomento, Subd. Regulación Serv. Postales | A | 1998 | 52 (52) | NA |
| FI | Finnish Communications Regulatory Authority | B | 1994 | 9 (2) | 1,208 |
| FR | Ministry of Industry | | | | |
| GB | Postcomm | A | 2000 | 37 | 12,998 |
| GR | National Telecommunications and Post Commission. | BG | 1998 | 7 (5) | 642 |
| HU | National Communication Authority | BG | 1990 | 14 (13) | 747 |
| IE | Commission for Communications Regulation | BG | 2002 | 5 (5) | 614 |
| IT | Ministry of Communications | A | 1999 | 20 (6) | 847 |
| LT | Communications Regulatory Authority | B | 2002 | 5 (5) | NA |
| LU | Institut National de Régulation (ILR) | BCE | 2000 | 3 (1) | 475 |
| LV | Public Utilities Commission | BCEF | 2001 | 8 (6) | 1,876 |
| MT | Malta Communications Authority | BG | 2003 | 1 (1) | NA |
| NL | OPTA (Onafhankelijke Post en Telecom Autoriteit) | B | 1997 | 4 (4) | 895 |
| PL | URTiP (Office for Telecommunications and Post Regulation) | BG | 2002 | 26 (26) | NA |
| PT | ANACOM | B | 1981 | 7 (7) | 1,780 |
| SE | National Post & Telecom Agency | B | 1994 | 6 (6) | 898 |
| SI | Agencija za telekomunikacije, radiodifuzijo in pošto Republike Slovenije | BG | 2002 | 2 (2) | NA |
| SK | Postovy urad | A | 2002 | 19 (14) | 241 |

Key to jurisdiction: A = None; B = Telecomm; C = Energy; D = Water ; E = Gas; F = Railway; G = Other
IE, PT: Budget figure for 2002

DE: The German NRA is going to start regulating energy and gas markets in the next months.

4.7.1 Adequacy of resources

Effective postal regulation demands an adequate staff with sufficient resources to evaluate difficult legal and economic issues. The level of resources devoted to postal regulation varies enormously among member states.

The next to last column in Table 4.7.1 shows the number of employees engaged by the NRA. The number in parentheses gives the number of “professional staff” working for the NRA, that is, the number of lawyers, economists, or other persons with advanced degrees or expertise.⁸⁰ The total number of persons devoted to regulation of postal affairs in the EU has more than tripled, from 63 employed by eight NRAs in 1998 to 291 employed by 23 NRAs. In 2003, only six NRAs employed 15 or more persons for postal regulation (DE, ES, GB, IT, PL, SK); they averaged almost 30 employees each. The remaining 17 NRAs averaged less than seven employees each. The final column Table 4.7.1 gives the annual budget of the NRA in thousands of euros. In 2003, the total expenditure by the 15 NRAs for whom figures are available was almost € 25 million. By way of comparison, it may be noted that the United States’ Postal Rate Commission employs 45 persons, of whom 32 are professional staff, and has an annual budget of € 7 million.⁸¹

Adequate resources for the NRAs in the six largest member states is especially important since they collectively oversee more than three-quarters of the Community’s universal postal service. In addition, given the technical complexity of postal regulation, it is inevitable that the largest NRAs must serve as the research and development laboratories for smaller NRAs. The largest NRA in the Community is the UK’s Postcomm. In 2003, Postcomm had 37 employees and an annual budget of almost € 13 million, a figure that includes significant resources for studies by outside consultants. The Italian NRA reported 20 employees and a budget of € 850,000 in 2003. If Postcomm’s budget represents a reasonable level of resources for a large member state to devote to the regulatory tasks of the Directive, then a commitment of less than one-tenth as much would appear to be inadequate. Budgetary comparisons between Postcomm and the NRAs in Germany, Poland, and Spain are impossible, because of an absence of information. The German, Polish, and Spanish NRAs did, however, report staff resources that were not out of line with Postcomm’s. The reported levels of staff thus imply an adequate commitment of resources, although budgetary information would be more informative.⁸²

⁸⁰ Judging from the answers, the distinction between “employee” and “professional staff” was interpreted differently by different NRAs.

⁸¹ Although the PRC provides detailed accounting regulation and ex ante price controls, it does not regulate service quality as required by the Directive.

⁸² With respect to the other large member states: France has not established an NRA, and we have data from Spain.

Among the seven (of eight) medium-sized member states for which data is available, annual budgets for the NRA fall within a narrower range of € 1.8 million (PT) to € 640,000 (GR). Among this group, one of the best established NRAs seems to be Anacom of Portugal, with seven employees. Taking Anacom as a benchmark, it appears that other NRAs from medium-sized states have roughly 33 to 60 percent of the resources of Anacom – judging first by the budget (in PPS) and, if no budget information is available, by the level of employees. By this standard, all of the NRAs of the medium-sized member states appear to be within a broad range of reasonableness.

Among the eight small and three very small member states, NRA resources vary from budgets comparable to those in the medium-sized states (FI, LT) to budgets ranging from small (less than € 500,000) to very small (less than € 100,000). One of the most prominent NRAs among this group has been the Irish NRA, ComReg, with an annual budget of less than € 650,000 and a staff of five. By this measure, it appears that the NRAs in most small member states have reasonably sufficient regulatory resources, with the possible exceptions of Estonia and Slovenia. Among the very small member states, the NRA of Luxembourg stands out in terms of resources, with Cyprus not far behind. The NRA of Malta (no budget, one employee) appears to be in the throes of getting organized.

4.7.2 Independence of NRAs

Independence of the NRA from the postal operator depends on many factors. Ideally, the head of an independent NRA should be not appointed by a minister who is also directly responsible for the success of the USP. Indeed, if the state has an ownership interest in the USP, then a regulator with quasi-judicial independence from the government is to be preferred over a regulator located within a ministry. Nor should the minister responsible for the USP hold the purse strings of the NRA or exercise appeal authority over decisions of the NRA. The head of an independent NRA, or the members of the committee that serves as the head, should hold office for a fixed term of several years and enjoy legal protection against premature dismissal. All things being equal, it seems likely that an NRA headed by a multi-member committee will – like a court composed of several judges – be more stable and independent than a single chief regulator.

Table 4.7.2 Independence of NRAs

| | Appoint NRA | Appoint USP | NRA heads | NRA term (yrs) | Grounds to dismiss | Approve NRA budget | Appeal of NRA decision |
|----|-------------|-------------|-----------|----------------|--------------------|--------------------|------------------------|
| AT | MinPost | Other | 1 | None | None | MinOther | Court |
| BE | Council | Council | 4 | > 5 | Other | Other | Court |
| CY | Council | Other | 1 | 5 | Cause | Parl | Court |
| CZ | MinPost | MinPost | 1 | None | None | Parl | Other |
| DE | Council | MinOther | 3 | 5 | None | Parl | Court |
| DK | MinPost | MinPost | 1 | None | None | MinPost | MinPost |
| EE | MinPost | MinPost | 1 | None | Discetion | MinPost | Court |
| ES | MinPost | MinPost | 1 | None | Discetion | MinPost | MinPost |
| FI | Council | MinPost | 1 | None | Cause | MinPost | Court |
| FR | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| GB | MinPost | MinPost | 7 | 3 | Cause | MinOther | Other |
| GR | Other | Other | > 5 | 5 | Cause | NRA | Court |
| HU | MinPost | MinOther | > 5 | 5 | Other | Council | Court |
| IE | MinPost | MinPost | 1 to 3 | 3 to 5 | Cause | NRA | Court |
| IT | PM | MinOther | 1 | 5 | Discretion | Other | Court |
| LT | Other | MinPost | 1 | 5 | | Parl | Court |
| LU | Council | MinPost | 3 | > 5 | Cause | Council | Parl |
| LV | Parl | MinPost | 5 | 5 | Cause | | Court |
| MT | MinPost | MinOther | 5 | 3 | Cause | MinPost | Other |
| NL | MinPost | Other | 3 | 4 | None | MinPost | Court |
| PL | PM | MinPost | 3 | 5 | Cause | Council | Court |
| PT | Council | | 3 | 5 | Cause | MinPost | Court |
| SE | Council | Council | > 5 | > 5 | Cause | MinPost | Court |
| SI | Council | Other | 1 | 5 | Cause | Parl | Court |
| SK | Parl | MinPost | 1 | 6 | Cause | Parl | Court |

AT: USP head appointed by board commissioned by Ministry for Industrial Holdings.

BE: Royal decree will specify grounds for dismissal.

CY: USP head appointed by Commission of Public Service.

FR: Bill to establish NRA is pending in parliament; may be enacted in 2005.

GR: USP head appointed by joint decision of MinPost and Min Finance; USP head appointed by MinPost from nominees by Parliament.

IT: Head of NRA is Minister of post.

As shown in Table 4.7.2, viewed in these terms, it appears that most member states have vested their NRAs with a reasonable level of independence. In seven cases, however, the independence of the NRA appears to deserve further scrutiny (AT, CZ, DK, EE, ES, FI, IT). In addition, France has not yet established an independent NRA.

4.7.3 Regulatory powers

Table 4.7.3 Regulatory powers of NRAs

| | Require disclosure by USP | Require studies by USP | Require accounts by USP | Levy fines | Obtain judicial enforcement | Cancel USP rates | Set USP rates | Require access to USP |
|----|---------------------------|------------------------|-------------------------|------------|-----------------------------|------------------|---------------|-----------------------|
| AT | X | | X | | | | | |
| BE | X | | X | X | X | | | |
| CY | X | X | X | X | X | X | | |
| CZ | X | X | X | X | | X | X | |
| DE | X | X | X | X | X | X | X | X |
| DK | X | | | | | X | X | |
| EE | X | X | X | | | | | X |
| ES | X | X | X | | | X | | |
| FI | X | X | X | X | | | | X |
| FR | X | X | X | | X | | | X |
| GB | X | X | X | X | X | X | X | X |
| GR | | | X | X | X | | | X |
| HU | X | X | X | X | X | | | X |
| IE | X | X | X | | X | | | |
| IT | X | X | X | X | | X | X | X |
| LT | | | X | X | X | | | |
| LU | | | X | | X | | | |
| LV | X | X | | | | | | |
| MT | X | X | X | X | X | X | X | X |
| NL | X | X | X | X | X | | | |
| PL | X | X | X | X | X | | | |
| PT | X | X | X | X | | X | X | X |
| SE | X | X | X | | | X | | |
| SI | X | X | X | X | | X | X | |
| SK | X | X | X | X | X | X | X | |

The effectiveness of the NRA depends as well on its power to obtain information and enforce its decisions. Table 4.7.3 summarizes the enforcement powers reported by NRAs. The first three columns relate to the collection of data from the USP. Can the NRA require the USP to disclose existing records? Can the NRA require the USP to collect new data, possibly at substantial expense to the USP? Can the NRA require the USP to maintain regulatory accounts in the manner determined by the NRA? The remaining columns refer to possible enforcement actions. Generally, a strong regulator should have authority to levy fines and seek judicial remedies (rather than relying on a public prosecutor) in case of disobedience to its orders. Other remedies, however, will depend on details of the NRA's mission. For example, a NRA might have authority to cancel or set postage rates where existing rates are found to violate price caps or statutory standards but might not need such authority if postage rates must be approved by the NRA before they become effective (ex ante regulation). Likewise, a

NRA may or may not need authority to order downstream access depending upon whether upstream services are within the reserved area.

A rough measure of the adequacy of enforcement authority of the NRA might be constructed by focusing on the general information collection and enforcement powers that the NRA can command. From this perspective, it might be appropriate to consider whether at least four NRAs (AT, DK, LU, and LV) have adequate authority.

Conclusions

An NRA has been established in all member states except France by creating or nominating a government agency to fulfil the duties of a postal NRA (a French NRA is expected to be established in 2005). More than half of the member states have assigned postal regulation to a regulator that also oversees the telecommunications sector.

The resources provided to NRAs vary widely. If the resources of well developed NRAs are used as benchmarks, it appears that the resources available to NRAs are generally adequate with a few possible exceptions. Detailed information about the resources of the NRAs of the largest member states was unavailable in many cases. It should be noted, however, that the resources of these large NRAs are especially important both because of the size of the postal markets they oversee and because of their role as research and development laboratories for smaller NRAs.

The independence of NRAs from influences partial to the USP was evaluated indirectly by considering how closely their institutional arrangements approach those of an ideal NRA. From this perspective, most NRAs appear to be reasonably independent although consideration of greater institutional independence may be appropriate in seven member states.

Most NRAs appear to have adequate enforcement authority to collect information and enforce their judgements, although a review of the powers of at least four NRAs may be appropriate.

5 Sector developments

This chapter reviews the development of the postal sector at European and member state levels. Due to data limitations most of the figures presented in this chapter refer to information provided by the NRAs and USPs of the member states. Although express service operators and other competitive postal operators (CPOs) were addressed in the survey, their participation was very limited.⁸³

The chapter begins with the main developments in the postal markets (section 5.1) analysing the development in

- competition and market shares in the letter post, parcel and express segments,
- business strategies, and
- demand for postal services.

Section 5.2 continues to analyse the situation of the USPs in more detail considering USPs'

- financial development and employment,
- letter post and parcel volume,
- pricing policy, and
- progress in technology and productivity.

The development, in the provision of universal service, is the focus of section 5.3 discussing

- access conditions, and
- quality of service.

Each section provides different facets of the European postal market. At the end this chapter shall give a complete picture of the most important developments in the European postal sector.

⁸³ WIK addressed United Parcel Services (UPS), General Logistics (subsidiary of Royal Mail), DPD (GeoPost – subsidiary of French La Poste FR) and Federal Express (Fedex) as well as various smaller local operators. None of them submitted any answers to the internet survey. The European Express Associations (EEA) has provided two studies on the European express and parcel markets in order to support WIK's research.

5.1 Market development

5.1.1 Competition and market shares

Domestic postal services

Table 5.1.1 Letter post market share of liberalized USPs, 1998-2003

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|----|--------|--------|--------|--------|--------|-------|
| DE | 99.2% | 98.7% | 98.4% | 97.6% | 97.0% | 96.0% |
| DK | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 98.0% |
| ES | | | | | | 90.0% |
| GB | | | | | | 99.7% |
| NL | 98.0% | 98.0% | 98.0% | 98.0% | 95.0% | 95.0% |
| SE | 95.6% | 95.1% | 95.7% | 94.8% | 94.2% | 93.4% |
| SI | 98.0% | 98.0% | 98.0% | 98.0% | 98.0% | 98.0% |

DE: RegTP (2004) – market shares refer to revenues within the licensed area (letter post items weighing up to 1,000g).
 GB: Postcomm (2004) – market share refers to revenues within the licensed area (letter post items weighing up to 350g).
 DK, NL: Data from NRAs.
 ES: Estimate based on information from NRA and Asempre, a trade association of CPOs in Spain.
 SE: Data from research by Robert Cohen et al., U.S. Postal Rate Commission.

All USPs, largely protected by reservation, have maintained dominance in the letter post market. Seventeen NRAs estimated the market share of their USPs at 95 percent on average (estimates ranged from 80 to 100 percent). The market share of competitors is substantially less than 10 percent even in countries with fully liberalized letter post markets. In the United Kingdom, the market share of seven private operators in 2003 amounted to only 0.27 percent of the licensed letter market (by revenue) even though some 30 percent of the market (by value) is open to competition.⁸⁴ In Germany competitors had attained a market share of only 3 percent (by revenue) by the end of 2002. In 2003, about 32 percent of the licensed letter post market in Germany was open to competition, but competitors gained no more than 4 percent of the market.⁸⁵ In the Netherlands, bulk mail, about 48 percent of the market (by volume) is open to private firms, yet competitors have achieved a market share of only about 3.5 percent (by volume).⁸⁶ Even in Sweden, where the market has been fully liberalized since 1993, the market share of competitors was only 7 percent by volume in 2003.⁸⁷ In all of these markets, competitive entry, when it occurred, was largely shaped by regulatory rather than commercial factors (as the three accompanying case studies illustrate).

⁸⁴ Postcomm (2004a); the British licensed area comprises letters weighing up to 350g.

⁸⁵ RegTP (2004); the German licensed area comprises letters weighing up to 1,000g.

⁸⁶ Postal Memorandum (2004).

⁸⁷ PTS (2004).

Case study 5.1 CityMail (Sweden)

The main competitor of Posten AB has been CityMail who entered the market in 1991. The postal monopoly regulation was still active at that time but did not cover bulk mail, so CityMail was able to offer services for computer-addressed mass mailings in the area of Stockholm city centre. Although facing serious financial problems and bankruptcy several times, CityMail was able to enlarge the geographical area of activity to the whole Stockholm region including the suburbs, Malmö, Göteborg and by means of cooperation with other local postal operators the regions of Southern and Western Sweden. This means that CityMail can deliver to approximately 40 percent of all Swedish households. According to CityMail mail can be sent even to other European Countries by use of the delivery system of its current owner Norge Posten (Norwegian Post).⁸⁸

CityMail delivers only pre-sorted mailings with at least 500 items. Customers need to sort their mail to all five numbers of the postal code and book the day of delivery in advance. This allows CityMail to abstain from capital-intensive investments in automatic sorting facilities. CityMail's strategy is based on three main factors.⁸⁹ First, customers can rely on the exact day of delivery of all items three days after the mail has been handed in, a preciseness that Sweden Post offers only at a surcharge. Second, CityMail offers updating and tracing address data as an important component of mail delivery, in order to guarantee their customers effective mailings.

The third factor is the price aspect, since CityMail's prices are significantly lower than those of Posten AB. Customers have to be aware that they can benefit from CityMail's lower prices only by sharing a greater amount of pre-sorting than at Posten AB. Although Posten AB has worksharing discounts for large mailings as well, there are differences concerning the permitted content of mailings and the minimum volumes: Posten AB accepts only direct marketing mail whereas CityMail accepts all mass mailings regardless of content and has a lower minimum volume requirement than Posten AB.

⁸⁸ CityMail (2004): <http://www.citymail.se/>.

⁸⁹ CityMail (2004): Vår affärsidé <http://www.citymail.se/>.

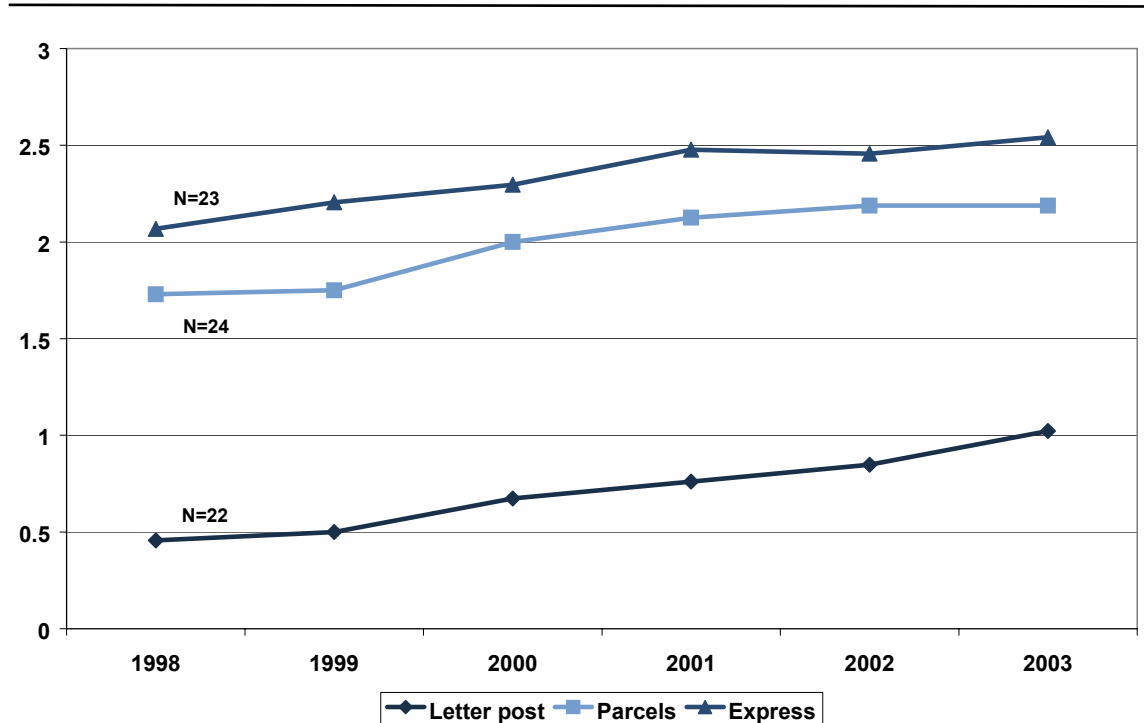
Case study 5.2 Market entry in Great Britain

Postcomm has committed itself to fully opening the market to competition after April 1, 2007. Competition is being introduced through a three-stage transition. During the first stage (January 1, 2003 to March 31, 2005), licences will be issued for delivery of bulk mailings of more than 4,000 items and for collection and consolidation of mail that is ultimately tendered to the USP for delivery. In addition, licences will be granted for niche services, where the niches are defined via the licence conditions. The second stage (April 1, 2005 to March 31, 2007) will open about 60 percent of the UK letter market to competition, by reducing the volume threshold of bulk mail. The third stage, starting on April 1, 2007, will fully open the market. Beginning this year Postcomm has started granting long term licences.

| Licensed services | Licensees |
|--------------------------------------|---|
| Consolidation and bulk mail services | DX Network Services, TPG Post UK, Express Deutsche Post Global Mail (UK), Speedmail International (owned by Deutsche Post), Express Dairies |
| Only consolidation services | UK Mail |
| Niche services | Datarun, Securicor Omega TNT UK/Loyds TSB |

Note: The licence of Hays Commercial Services has been revoked in July 2004.

Figure 5.1.1 Perceived degree of competition in the view of NRAs and USPs – domestic services



Note: Consolidated answers from USPs and/or NRAs. When both NRAs and USPs offered evaluations of market competitiveness, their answers were averaged.
 Missing complete time series information: Letter post – AT, FR; Parcels – AT; and Express – AT, EE, FR.
 (0) No competition; (1) Emerging competition; (2) Substantial competition; and (3) Intense competition level.

To supplement market share data, WIK asked stakeholders for their perception of the competitiveness in each segment of the postal market for each year since 1998. Respondents were asked to choose among four alternatives: (0) no competition; (1) emerging competition; (2) substantial competition; and (3) intense competition. While many respondents were unable or unwilling to provide market share data, most were willing to characterize their perceptions of competition. Results of this survey are shown graphically in Figure 5.1.1.

Stakeholders perceived increasing competition in all segments of the postal market (letter post, parcels and express) albeit starting from different levels. In the letter post market, emerging competition has been reported by stakeholders in member states where no competition was detected a few years earlier.

Table 5.1.2 Estimated share of volumes free for competition depending on the weight threshold⁹⁰

| | 50g | 100g | 350g |
|--------------------------|------|------|------|
| Letter post volume share | 75 % | 82 % | 93 % |
| Open for competition | 25 % | 18 % | 7 % |

Note: Consolidated answers from USPs and/or NRAs. When both NRAs and USPs offered evaluations of market competitiveness, their answers were averaged.
Weighted average based on national letter post volumes;
n=17 NA: AT, CY, CZ, GB, LV, MT, PL, SE.

Nonetheless, the obstacles to enter into the letter post market remain formidable. The lowering of the weight and price limits on the reserved area by the Postal Directive has not yet opened significant portions of the market to competition and will not do so even after a further reduction scheduled for January 1, 2006. Lowering the weight threshold to 50 grams would open only 25 percent of the letter post market to competition (see Table 5.1.2). In addition to regulatory barriers, potential competitors face other hurdles as well. In the United Kingdom, Postcomm has identified several other factors impeding entry including difficulties establishing access conditions, favourable treatment of the USP under VAT laws, and customers' reluctance to change suppliers.⁹¹ Obstructive behaviour by the incumbent may also create an entry barrier. Competitors of Deutsche Post AG are facing numerous problems with respect to their relations to Deutsche Post AG. Difficulties have been observed especially in the field of access contracts (P.O. Boxes, access to sorting centres) and trade mark right. The example of PIN AG demonstrates these problems.⁹²

⁹⁰ See also section 5.1.3.

⁹¹ Postcomm (2004a)

⁹² RegTP (2003) summarizes the main complaints of competitors on the behaviour of Deutsche Post AG.

Case study 5.3 PIN AG (DE)

In Germany, the competitive postal operator PIN AG has been involved in legal procedures with Deutsche Post AG, costing PIN AG a fair amount of money and hampering PIN-AG's progress.⁹³ Legal procedures have been initiated by PIN AG to stop obstructive practices of Deutsche Post. According to PIN AG, DPAG significantly delayed delivery of consignments tendered by PIN-AG. Similar problems arose with access to DPAG's sorting centres. Furthermore, DPAG sued PIN AG for the use of the word "Post". DPAG has applied for a patent to register the word "post" and has sued all postal operators using the word in any application. PIN AG was sued for the expression "the blue post" which seemingly indicates a distinction from DPAG (that uses the colour yellow in its corporate design). A decision was recently rendered by the courts in favour of PIN AG.

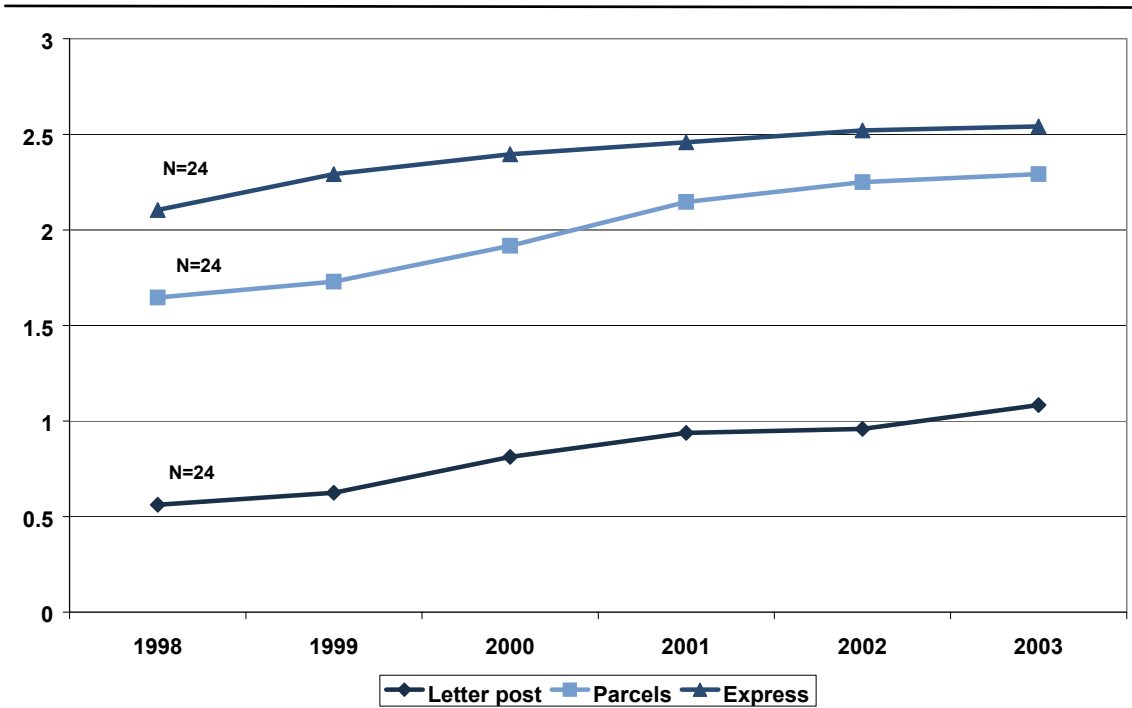
As the case of PIN AG demonstrates, court decisions are very time-consuming and expensive. The majority of the licensees is very small in terms of size and financial power. An uncertain legal situation also hampers the ability to obtain bank credits. Two types of strategies seem to be successful despite these problems. The first possibility is to enter the market with a financially strong partner in the background. EP Europost - a joint venture between Hermes, a German parcel service provider and TPG (NL) – is an example for this strategy. Alternatively, cooperation among local postal operators could be a successful strategy. As mentioned PIN AG is building up a larger network by co-operating with other local postal operators.

In the domestic parcel and express sectors, the level of competition was estimated to be between "substantial" and "intense" although the level of competition in the parcel market was rated lower than in the express market. These perceptions were supported by incomplete estimates of market share. Postal and NRA officials from 12 member states estimated the market share of the USP in the domestic parcel market to be between 20 to 100 percent, with a mean value of about 60 percent. These estimates, however, do not include some of the largest parcel markets. With respect to the express segment, the market share of the USP was estimated by 9 respondents to range between 5 and 35 percent with a mean value substantially below 20 percent.

⁹³ Interview PIN AG, 19 May 2004.

Cross-border postal services

Figure 5.1.2 Perceived degree of competition in the view of NRAs and USPs – cross-border services



Note: Consolidated answers from USPs and/or NRAs.
 NA – AT (all segments).
 (0) No competition; (1) Emerging competition; (2) Substantial competition; and (3) Intense competition

The picture is similar with respect to cross-border postal services (see Figure 5.1.2). In all segments, stakeholders perceive increasing competition on average even though, as with domestic services, the initial level of competition reported at the start of the survey period (1998 to 2003) was quite different. Whereas cross-border parcel and express services are seen as very competitive (between “substantial” and “intense”), competition in the cross-border letter post segment is still considered to be “emerging”.

Table 5.1.3 Estimated market shares – cross-border services

| | Letter post | Parcels | Express |
|-------------------------|-------------|---------|---------|
| Minimum | 60.0% | 5.0% | 2.0% |
| Maximum | 100.0% | 100.0% | 40.0% |
| Average | 89.9% | 48.9% | 9.7% |
| Number of member states | 15 | 10 | 10 |

Note:

Consolidated answers from USPs and/or NRAs.

Line three displays arithmetic (unweighted) averages.

Where both NRAs and USPs from one country offered evaluations of market competitiveness, their answers were averaged.

Estimates of market shares within these segments vary widely. For cross-border services in particular, market share estimates must be considered very rough because of the low number of responses. Moreover, it appears that in their responses most respondents failed to consider parcels outside the universal service.

Conclusions

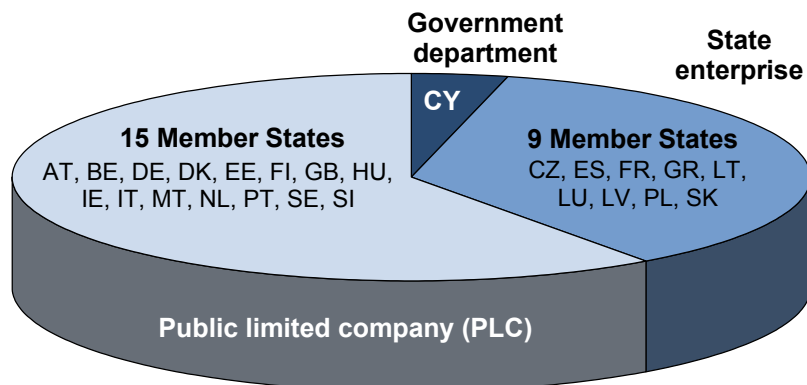
The degree of competition varies substantially between parcels and express markets, on the one hand, and the letter post market, on the other. Nonetheless, in all segments competition is perceived to have increased from 1998 to 2003.

Yet, progress is especially slow in the letter post markets. Even in countries that have substantially or fully liberalized their letter post markets, competition is emerging only gradually. There are lots of potential factors constraining market entry like difficulties to get non-discriminatory access to the USP's network, favourable treatment of the USP under VAT laws, and customers' reluctance to change suppliers. The reasons for the slow progress of competition even in fully liberalized postal markets deserve further consideration.

5.1.2 Organization and business strategies

Corporatization

Figure 5.1.3 Legal status of the USPs (EU-25)



One after another, universal service providers in Europe have been transformed from governmental departments or semi-independent state enterprises into ordinary commercial corporations. Among the EU-15 countries, corporatization was well underway by the early 1990s. In 2002, the Danish USP became a public limited company, leaving only four of the EU-15 member states with a non-corporate USP (Spain, France, Greece, Luxembourg). In the new member states, many governments are still in the process of reconsidering the institutional form of their USPs. On July 1, 2004, Slovenska Posta will be re-established as a joint-stock company, joining the corporate USPs in Estonia, Hungary, Malta, and Slovenia. In the other five new member states, the USP is state enterprise with the exception of Cyprus which provides public postal services by means of a government department.

In some cases corporatization is being followed by sale of shares to the public or a strategic investor. The Dutch and German USPs are already quoted on a stock exchange. The Dutch government is a minority shareholder in its USP (TNT Post Group - TPG), retaining about 34.8 percent of ownership, albeit with a “golden share” providing special rights.⁹⁴ The German government currently holds a majority stake in Deutsche Post AG⁹⁵, but it has declared its intention to reduce its ownership interest in the next few years. In February 2002, Maltapost retained Transend Worldwide, a subsidiary of

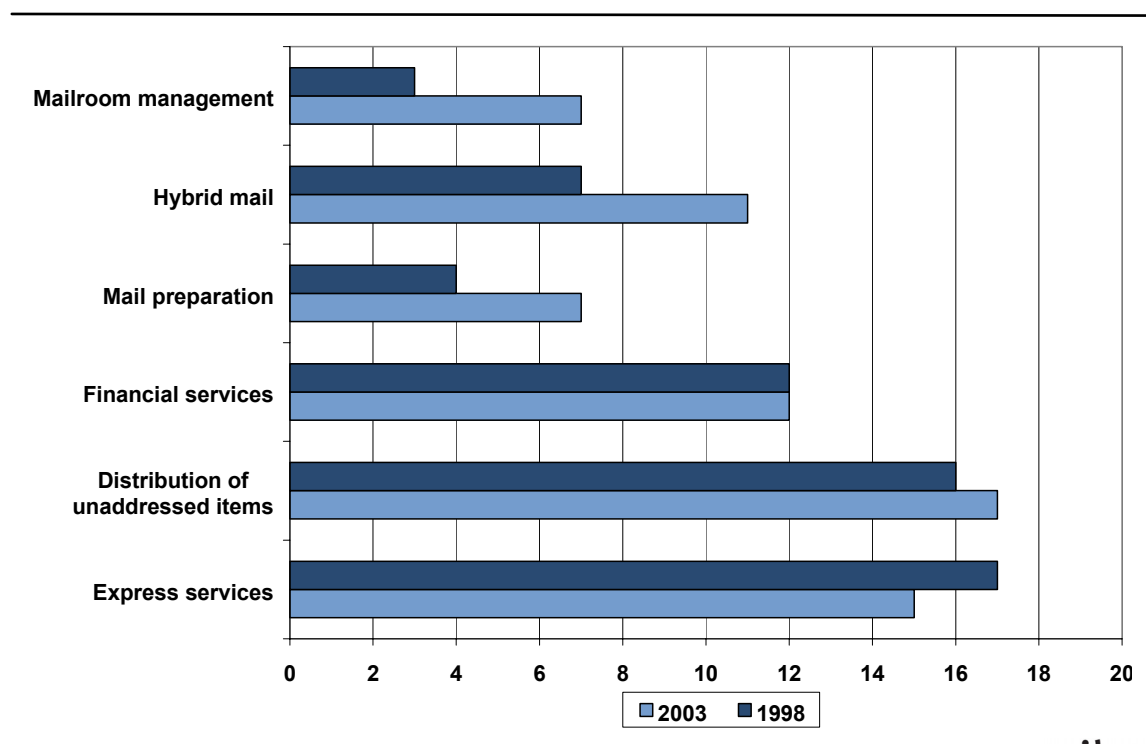
⁹⁴ TPG 2003 annual report, p. 124. The golden share gives the State “the right to approve decisions that lead to fundamental changes in TPG’s group structure”.

⁹⁵ Deutsche Post AG 2003 annual report, p. 18. The State holds directly and indirectly 62.6% of the shares (direct: 20%, indirect 42.6% held by KfW Bankengruppe which is owned by the German State).

New Zealand Post, to a management contract which will expire in March 2005.⁹⁶ As part of this arrangement, Transend purchased 35 percent of Maltapost. In the near future initial blocks of shares⁹⁷ of Österreichische Post AG (Austrian USP) and Post Danmark (Danish USP) may be sold to other postal operators in order to lay the basis for a long term strategic cooperation. Nonetheless, privatization of the USP remains a controversial step in some member states.⁹⁸

Business activities

Figure 5.1.4 Business activities of the USPs



Note: N=19 (NA: AT, CZ, DE, EE, FI, SE)

The business focus of USPs remains services for letters and parcels, but the scope of services offered is expanding beyond traditional bounds (see Figure 5.1.4). USPs are providing more and more **vertically integrated services** such as mail preparation, hybrid mail (printing services), and mailroom management services. This trend exemplifies a broad movement towards more customer-tailored services and efforts to improve customer retention. The majority of USPs also offer express postal services,

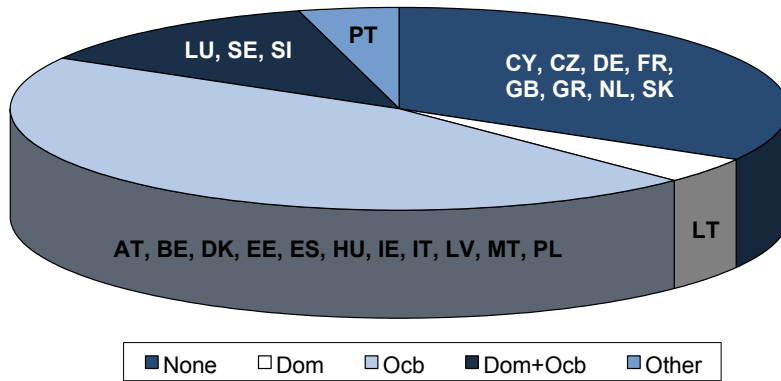
⁹⁶ See "Transend To Hand Over Maltapost Management In Six Months Time" at <http://www.miti.gov.mt>.

⁹⁷ 25% plus one vote.

⁹⁸ The Austrian postal union GPF (Gewerkschaft für Post und Fernmeldebedienstete) is fighting against the selling of a blocking share to foreign investors.

although there is some evidence of retreat from this segment. For example, the USPs of Greece and Luxembourg have abandoned express services.⁹⁹

Figure 5.1.5 Co-operations with regard to the provision of domestic and cross-border express services



Note: Dom – domestic express services; Ocb – outgoing cross-border; Other – co-operation related to parcel and express services; FI – confidential.

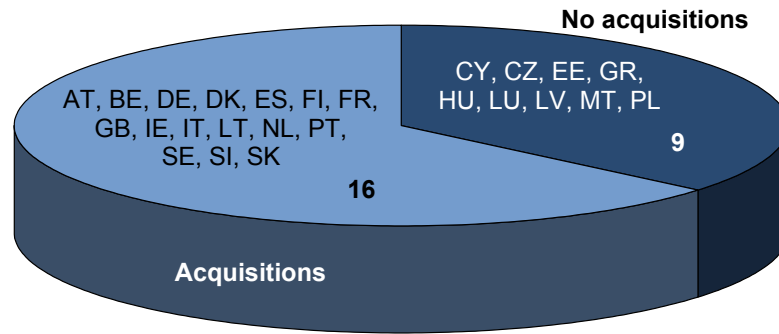
Most USPs now collaborate with other postal operators to provide a portion of their services, especially cross-border express services (see Figure 5.1.5). The most common partners are subsidiaries of USPs: DHL (Deutsche Post AG, DE), GeoPost (La Poste, FR), and TNT (TPG, NL). In addition, some USPs partner directly with other USPs, for example, La Poste (FR) and Posten AB (SE), La Poste and Poste Italiane (IT), and La Poste and Correos (ES).¹⁰⁰ In 2003 La Poste renewed its partnership agreement with the US international parcel courier Federal Express (FedEx) for the next 10 years. The first La Poste-Fedex agreement was concluded early in 2001. This partnership enables both parties to improve their intra-European and international postal and express service portfolio.

⁹⁹ The LU USP cooperates with TNT who provides domestic and inbound express services in LU.

¹⁰⁰ It seems that La Poste intends to end this cooperation since it has bought a stake in SEUR, a competitor of Correos, which shall become the DPD franchisee in Spain,

Acquisition activities

Figure 5.1.6 Acquisition activities of USPs in their countries



Increasingly commercial business strategies have also led to stepped up acquisition activities. A majority of USPs have been active in acquiring other companies in their domestic markets (see Figure 5.1.6). In most cases the value of the acquired company is small compared with the size of the acquiring USP. With the notable exception of the Slovenian USP, USPs in the new member states have been less active in the acquisition market than USPs of the EU-15.

Table 5.1.4 Main operations of acquired companies in national markets

| Operations | No. of USPs acquiring companies | List of USPs active in acquisition of companies |
|-----------------------------|---------------------------------|---|
| Horizontal expansion | | |
| Letter post | 1 | DE |
| Parcels | 10 | AT, BE, DK, ES, FI, FR, IE, IT, PT, SE |
| Express | 10 | BE, DE, FR, IE, IT, LT, NL, PT, SE, SI |
| Unaddressed items | 7 | AT, BE, DE, FI, FR, NL, PT |
| Freight/logistics | 4 | DE, IE, SE, SI |
| Vertical expansion | | |
| Printing services | 5 | DE, FI, IE, NL, SI |
| Mail preparation | 4 | DE, FI, IE, PT |
| Hybrid mail | 3 | NL, PT, SI |
| Mailroom management | 3 | BE, NL, PT |

Table 5.1.4 gives an overview of USPs' acquisition activities. Domestic acquisition targets have included parcel and express services and, especially, companies involved in the distribution of unaddressed items (horizontal expansion). The German USP has even acquired a small German company providing letter services. A second important

objective of some USPs has been to buy companies providing printing, mail preparation, and mailroom management services (vertical expansion).

Figure 5.1.7 Acquisition activities in foreign markets

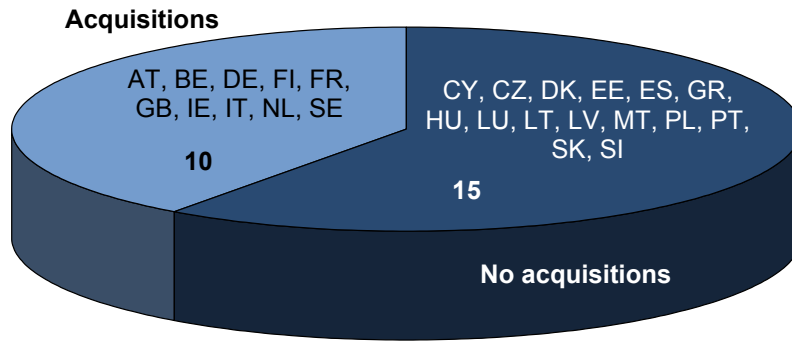


Table 5.1.5 Main operations of acquired companies in foreign markets

| Operations | List of USPs |
|-----------------------------|------------------------|
| Horizontal expansion | |
| Letter post | DE, NL |
| Parcels | AT, DE, FR, GB, NL, SE |
| Express | DE, FR, GB, NL |
| Unaddressed items | DE, NL |
| Freight/logistics | DE, NL, SE |
| Vertical expansion | |
| Printing services | FI, NL |
| Mail preparation | FI, NL |
| Hybrid mail | BE, NL |
| Mailroom management | BE |

Table 5.1.6 Geographical distribution and business focus of companies acquired by the “Big four” (1998 and before until June 2004)

| Business | Company | No. of acquisitions or franchisees | Countries |
|---|------------|------------------------------------|---|
| Letter post and distribution of unaddressed items | DPAG | 4 | GB, NL |
| | La Poste | 0 | |
| | Royal Mail | 0 | |
| | TPG | 15 | AT, DE, GB, IT |
| Activities related to letter post services | DPAG | 0 | |
| | La Poste | 0 | |
| | Royal Mail | 0 | |
| | TPG | 6 | CZ, GB, IT |
| Parcel and express services | DPAG | 17 | BE, DK, ES, FR, GB, HU, IT, NL, PL |
| | La Poste | 30 | AT, BE, CZ, DE, DK, EE, ES, FI, GB (and IE), HU, IT, LT, LV, NL, PL, PT, SE, SI, SK (DPD franchisees) |
| | Royal Mail | 21 | AT, BE, CZ, DE, DK, EE, ES, FI, FR, HU, IE, IT, NL, PL, SE, SI (GLS subsidiaries and associates) |
| | TPG | 5 | DE, FR, IT, LU |
| Logistics | DPAG | 13 | AT (PL, CZ, HU, SI), ES (ES/PT), FI, FR, GB, IT, NO, SE |
| | La Poste | 0 | |
| | Royal Mail | 0 | |
| | TPG | 12 | DE, FR, GB, IT, NO, SE, FI, DK |

Sources: Annual reports, press reports; the number of acquisitions might be higher but the table at least indicates the intensity of acquisition activities.

The largest USPs have also been active in acquiring companies outside their home markets. Deutsche Post AG (DE), La Poste (FR), Royal Mail (UK), and TPG (NL) have all sought to buy foreign parcel and express companies (see Figure 5.1.7 and Table 5.1.5). DPAG and TPG have also invested in companies that distribute unaddressed items. TPG, at least, is pushing further into foreign letter post markets by acquiring companies that provide printing, mail preparation, and mailroom management services. In making foreign acquisitions, TPG and DPAG have concentrated on countries which have liberalized their markets, especially Great Britain, Germany and the Netherlands. In addition, TPG subsidiaries offer letter post services in the main cities of Italy (see Table 5.1.6), and a TPG joint venture¹⁰¹ will be offering letter post service in Austria.

A few smaller USPs have also ventured into foreign markets. While the Austrian and Swedish USPs have invested in foreign parcel and express companies, the Finnish

¹⁰¹ Redmail, a joint venture between TNT Post Group and Styria Medien AG, an important Austrian publisher.

USP has invested in printing and mail preparation services. The Austrian USP has focused on its neighbouring markets in the east (CZ, SK, SI), and Posten AB (the Swedish USP) has sought investments in the Nordic countries. In these countries, Posten AB is part of the European DPD network. Currently, Posten AB is preparing to sell parcel delivery and logistics operations in the Baltic rim, Poland, and Russia to GeoPost (La Poste).

Case study 5.4 Strategy of TPG and Deutsche Post World Net AG

Two main strategic goals are shared two of the biggest European postal operators, TPG and DPAG: extension of their business areas and cost reduction. The companies are intensifying their international activities and trying to lower their costs through cost reduction programs. Indeed, each company is establishing mail delivery services in the other's home market.

Analysts estimate that Deutsche Post AG currently generates the majority of its profit in the German market although the company stresses its international orientation.¹⁰² Deutsche Post AG has increased its presence in international postal markets by acquisition as well as cooperation with other postal operators in the areas of mail, express and logistics. In Europe, the company enters national markets where liberalization allows. For example, Deutsche Post AG holds a licence for bulk mail and consolidation activities in the British market. In the Netherlands, Deutsche Post AG has recently acquired the remaining 30 percent stake of Interlanden, a company active in the distribution of unaddressed items. In 2002, Deutsche Post AG and the Dutch group Wegener N.V., a direct marketing specialist, established a joint venture called Selekt Mail Nederland. It focuses on addressed mail delivery and shall become an important player in the Dutch letter post market. Under the umbrella brand "DHL", the express and logistic parts of the group are currently integrated under a common brand with the goal to become the global leading logistics company. In addition to the expansion strategy, Deutsche Post is implementing the STAR program which aims towards cost reductions and restructuring of the group, in all business areas.

Similar efforts can be observed at the Dutch TPG. The company's cost flexibility program aims at enhancing labour productivity in the mail business only. Compared to Deutsche Post's STAR program, the TPG cost reduction program has a smaller extent. The logistics and express activities of TPG are further developed than those of Deutsche Post and concentrate more on time-sensitive consignments at a higher price. Similar efforts can be observed at the Dutch TPG. The company's cost flexibility program aims at enhancing labour productivity in the mail business only. Compared to Deutsche Post's STAR program, the TPG cost reduction program has a smaller extent. The logistics and express activities of TPG are already further developed than those of Deutsche Post and concentrate more on time-sensitive consignments at a higher price.¹⁰³ The European network of TPG is even more wide-spread and sophisticated than Deutsche Post's, so TPG is seizing opportunities offered by European liberalization. In Germany for example, TPG and Hermes Logistics Group¹⁰⁴ established a joint venture – EP Europost – focusing on addressed mail delivery in 2001. Besides, TPG has acquired several German companies which are active in the distribution of unaddressed items.

¹⁰² ABN AMRO (2003): Postal Services – TPG and DPWN, 28 January 2003 and MRU (2002): Wettbewerbssituation auf den Post- und Expressmärkten in Europa und weltweit, Dezember 2002. See also Case study 5.5.

¹⁰³ ABN AMRO (2003): Postal Services – TPG and DPWN, 28 January 2003.

¹⁰⁴ Hermes is a German parcel service provider owned by a large mail-ordering company (Ottoversand).

Cost cutting and modernization programs

Confronted with stagnating or, in some cases, declining mail volumes and escalating actual and potential competition, most USPs have implemented cost cutting and modernization programs to improve efficiency and profitability. The most important initiatives include:

- **Re-structuring the postal transportation and mail processing network** in order to facilitate the use of sorting technology and to reduce the number of transports.: For example, the Austrian and the Irish USPs recently finished their restructuring programme resulting in a considerably lower number of sorting centres while the German USP substituted most of the night flights by street transport.¹⁰⁵
- **Optimising collection, transport, and delivery** by using sophisticated operation research techniques based on geographical information systems. The German USP significantly decreased (and is going to further decrease) the number of delivery routes in recent years by applying sophisticated route optimization tools and adapting the work organization.
- **Outsourcing** of non-postal services (e.g. information technology) and postal activities with a focus on collection, transport and the retail network.¹⁰⁶
- Making **better use of operational synergies** (e.g. in the delivery of unaddressed and addressed items, delivery of letters and parcels.)

The process of modernization typically begins with restructuring of the transportation and mail processing network, followed by optimization and outsourcing activities. The fact that USPs in several new member states are coming to this process much later than USPs in the EU-15 states may imply a considerable technological and organizational gap. A similar risk might be inferred from the fact that USPs, in new member states, are still state enterprises (or a government department in Cyprus) rather than more flexible, corporatized organizations. The principal exceptions to these concerns seem to be the USPs of the Czech Republic, Malta, and Slovenia, which have already restructured their networks or have plans in hand to do so. To a lesser degree, some USPs in the EU-15 member states face similar problems. The French USP is now planning to modernize and restructure its organization in the next five years. The investment program comprises new sorting technology, modernization of the retail network and optimising the transport and delivery processes.

¹⁰⁵ See also section 5.2.4.1.

¹⁰⁶ See also section 5.3.1.

Conclusions

Transformation of USPs into flexible commercial organizations similar to private companies is continuing. Corporatization is well advanced, and privatization is proceeding steadily if deliberately.

As USP become more like private companies, they are absorbing more and more of the genuinely private portion of the postal sector. Having acquired two of the four largest global express services as well as many smaller parcel companies, USPs in recent years have focused more on the purchase of private companies engaged in upstream and downstream activities related to the domestic letter post (vertical expansion), and acquisition of and joint ventures with foreign companies providing letter post services (geographic expansion). Smaller USPs are increasingly adopting the role of commercial partners with larger, regional postal operators.

Postal transformation has been accompanied by a definite process of modernization and cost cutting that typically begins with restructuring the transportation and mail processing network and moves on to outsourcing and optimization of operations. Many USPs are far advanced in this process, but the lag in modernization in some USPs, especially in the new member states, raises concerns about the opening of a technological and organization gap that may be difficult to bridge.

5.1.3 Demand structure and development

Like most other aspects of the postal sector, demand for postal services is undergoing fundamental changes.¹⁰⁷ A **detailed knowledge of customers' expectations and needs** is becoming crucial not only for operators developing their business plans but also for policymakers seeking to create a market environment that will facilitate better services for users. To date, however, public discussion of changes in demand have focused more on what is good for the USP rather than what is good for the mailer. Only a few associations of large mailers (notably, FEDMA and EMOTA) are in a position to make their voices heard. Recently, however, the British NRA, Postcomm, took an important step towards increased consideration of customer needs in regulatory decision making by commissioning a survey on customers' experiences.¹⁰⁸ Unfortunately, there is no European level equivalent.¹⁰⁹

One feature of demand that can be gleaned from available resources is the breakdown of senders and receivers of the letter post between organizations and businesses ("B"), on the one hand, and individual persons or consumers ("C"), on the other. Using information provided by respondents to this survey, Table 5.1.7 presents WIK's estimates of this four-part division: customarily denominated "BtoB", "BtoC", "CtoB", and "CtoC". In this table, the average value for the EU is shown as well as separate values for member states with high and low letter post volumes.¹¹⁰

107 Estimates presented in this section are robust in the sense that they are based on a reasonably complete data set that includes member states representing the great bulk of EU letter post. However, the extent to which information provided by NRAs and USPs is based on objective studies or intuitive guesses is not entirely clear, so softness in the underlying data may limit the accuracy of the results obtained.

108 Roland Berger (2004).

109 In the present study, WIK urged business mailers and consumers to complete a brief questionnaire placed on the internet. Regrettably, participation was too limited to permit conclusions suited to the scope of this survey. This section therefore relies primarily on information provided by USPs and NRAs that participated in the survey.

110 Each value was derived by consolidating information for each member state in a first step: either the mean value of answers provided by NRA and USP was used where information was available from both parties or the answer from either party was used if both were not available. In a second step, the shares of the four mail streams (per country) were weighted according to the share of a country's LP volume in total EU volume (or in total volume of all "Hi vol"/"Lo vol" countries). Weight? per country was calculated according to data (or best available estimates) on "domestic letter post" volume for 2002. The average number of LP items per capita in the EU was estimated in 2003. The two groups of countries are (1) high volume: BE, DE, DK, FI, FR, GB, LU, NL, and SE; and (2) low volume: AT, CY, CZ, EE, ES, GR, HU, IE, IT, LT, LV, MT, PL, PT, SI, and SK.

Table 5.1.7 Senders and receivers of letter post (mail flows)

| | | Receiver | | | |
|--------|---|----------|-------|---------|-------|
| | | B | | C | |
| Sender | B | EU-25: | 27.0% | EU-25: | 60.5% |
| | | Hi vol: | 28.7% | Hi vol: | 59.1% |
| | | Lo vol: | 16.4% | Lo vol: | 68.8% |
| | C | EU-25: | 6.2% | EU-25: | 6.4% |
| | | Hi vol: | 6.0% | Hi vol: | 6.2% |
| | | Lo vol: | 7.0% | Lo vol: | 7.8% |

Notes:

Average shares estimated using consolidated information from USPs and NRAs.

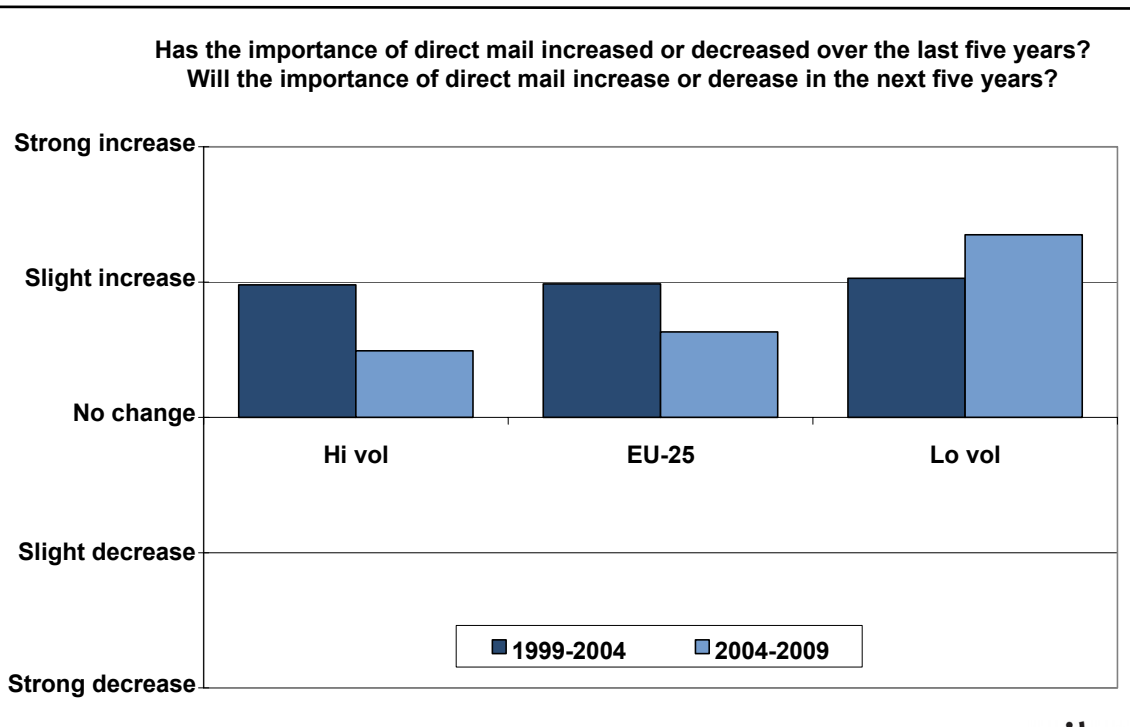
EU-25: Weighted average of 17 MS where information was available (BE, CZ, DE, DK, ES, FI, FR, GB, HU, IE, IT, LU, MT, NL, PT, SE, SK).

Hi vol: Weighted average of MS with per capita volume above EU average (data available from BE, DE, DK, FI, FR, GB, LU, NL, SE).

Lo vol: Weighted average of MS with per capita volume below EU average (data available from CZ, ES, HU, IE, IT, MT, PT, SK).

As Table 5.1.7 shows, postal service is first of all a business service. More than three-quarters of all letter post items in the EU are posted by business senders. The BtoC segment is the most important by far accounting for more than 60 percent of the letter post. Moreover, it appears that the structure of postal demand does not vary significantly between countries that have high and low volumes of letter post. Perhaps the BtoB segment is slightly less important and the BtoC segment slightly more important in low volume countries, but it is unclear whether the underlying data is precise enough to support this conclusion.

Figure 5.1.8 Perceived importance of direct mail



Notes:

Consolidated assessments from NRAs and USPs (ES, SE missing).

EU-25: Weighted average of 23 MS where information was available (ES, SE missing).

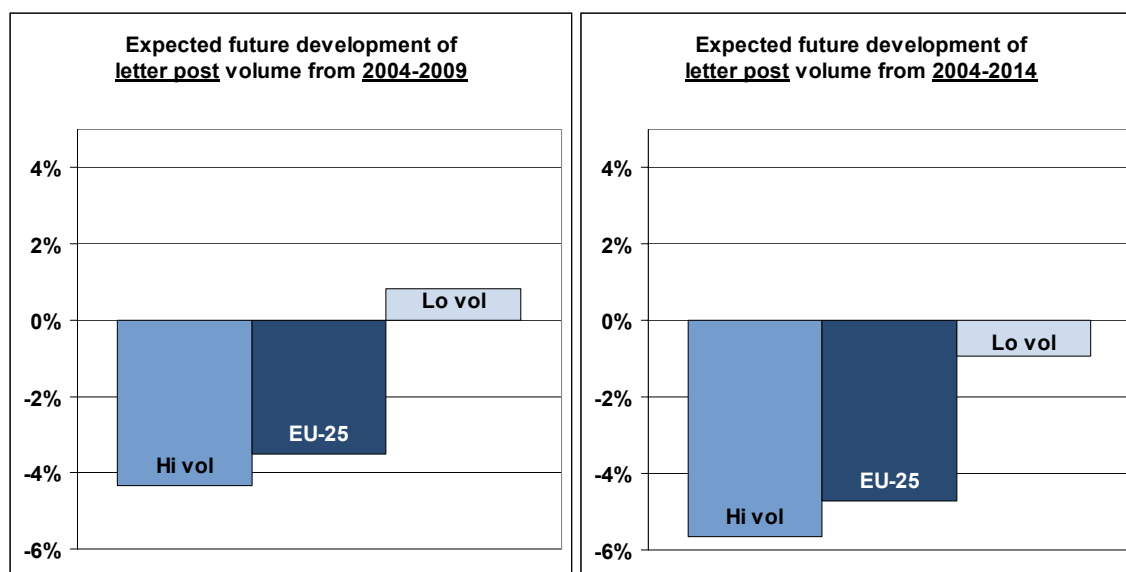
Hi vol: Weighted average of MS with per capita volume above EU average (data available from BE, DE, DK, FI, FR, GB, LU, NL).

Lo vol: Weighted average of MS with per capita volume below EU average (data available from AT, CY, CZ, EE, GR, HU, IE, IT, LT, LV, MT, PL, PT, SI, SK).

Direct mail, addressed advertising, is becoming an ever more significant element of BtoC and BtoB volumes. Most observers believe that direct mail has been a main contributor to the recent volume development in the last five years, in some cases more than compensating for shrinking volumes in other portions of the letter post.¹¹¹ In the future, direct mail is expected to play an even larger role in the letter post, although direct mail is perceived as relatively more influential, for the future, in member states with low present volumes. See Figure 5.1.8.

¹¹¹ In the survey, participants were asked whether, in their view, the importance of direct mail increased or decreased over the last five years and whether they foresee an increase or decrease in the next five years. For each country, WIK has consolidated the answers of both USPs and NRAs in a first step and weighted each “national assessment” according to the letter post volume of the country. The data thus estimates the importance attributed to direct mail by NRAs and USPs in the EU overall, based on information from all but two member states. Although the questionnaire survey specifically requested direct mail volumes in each country, limited participation made robust analysis impossible.

Figure 5.1.9 Future development of letter post (including direct mail)



Notes:

Consolidated NRA and USP assessments.

EU-25: Weighted average of 23 MS where information was available (ES, CY missing).

Hi vol: Weighted average of MS with per capita volume above EU average (data available from BE, DE, DK, FI, FR (only 2009 estimate), GB, LU, NL, SE).

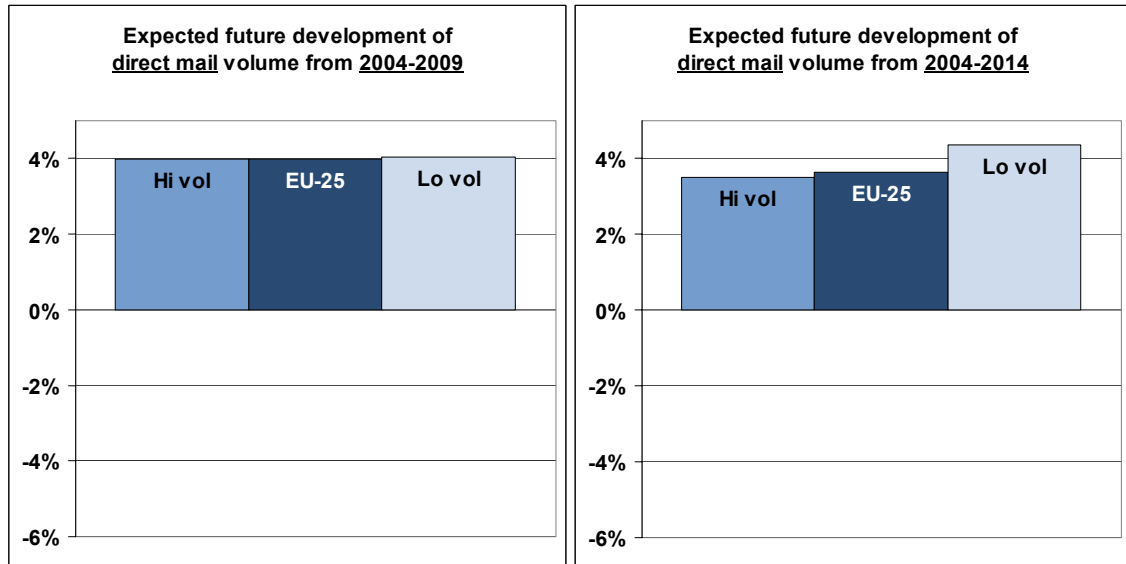
Lo vol: Weighted average of MS with per capita volume below EU average (data available from AT, CZ, EE, GR, HU, IE, IT, LT, LV, MT, PL, PT, SI, SK).

NRAs and USPs presently foresee a modest decline in the volume of letter post items over the next decade caused by a significant decline in the volume of correspondence tempered by a small increase in the volume of direct mail in the short term. For the letter post overall, the collective expectation is for a decline in volume of 4.3 percent by 2009 and 5.6 percent by 2014 (about one half percent per year). Direct mail is expected to grow about 4 percent over the next five years (less than one percent per year) and then remain steady as the markets of large member states become saturated. Expectations for the European market as a whole are largely determined by expectations for member states with the largest letter post volumes.¹¹² Member states with lower volumes, including some new member states, anticipate modest overall

¹¹² The questionnaire asked each participant for its best available estimate for the letter post volume in five and ten years respectively. In making these forecasts, respondents were asked to assume average economic growth, i.e. not to include predictions they may have on exogenous demand shocks or short term influences on volumes that are likely to level out over time. In order to merge these national forecasts into an expectation for future volume development in the EU, WIK first obtained country estimates by merging, where available, different answers from each of the 23 countries where at least one party (NRA or USO) provided an answer. In these judgements, the answers of USPs and NRAs were in close agreement. The forecasts by country were then weighted according to the (domestic) letter post volume of each country in order to assess the future development of letter post volume the EU in total as well as in two sub-groups: countries with per capita volumes above and below EU average ("Hi vol" and "Lo vol").

growth in the short term and continued development of direct mail after five years. See Figure 5.1.9 and Figure 5.1.10.

Figure 5.1.10 Future development of direct mail



Notes:

Consolidated NRA and USP assessments.

EU-25: Weighted average of 23 MS where information was available (ES, SE missing).

Hi vol: Weighted average of MS with per capita volume above EU average (data available from BE, DE, DK, FI, FR, GB, LU, NL).

Lo vol: Weighted average of MS with per capita volume below EU average (data available from AT, CY, CZ, EE, GR, HU, IE, IT, LT, LV, MT, PL, PT, SI, SK).

Table 5.1.8 Main drivers of letter post volumes, next five years

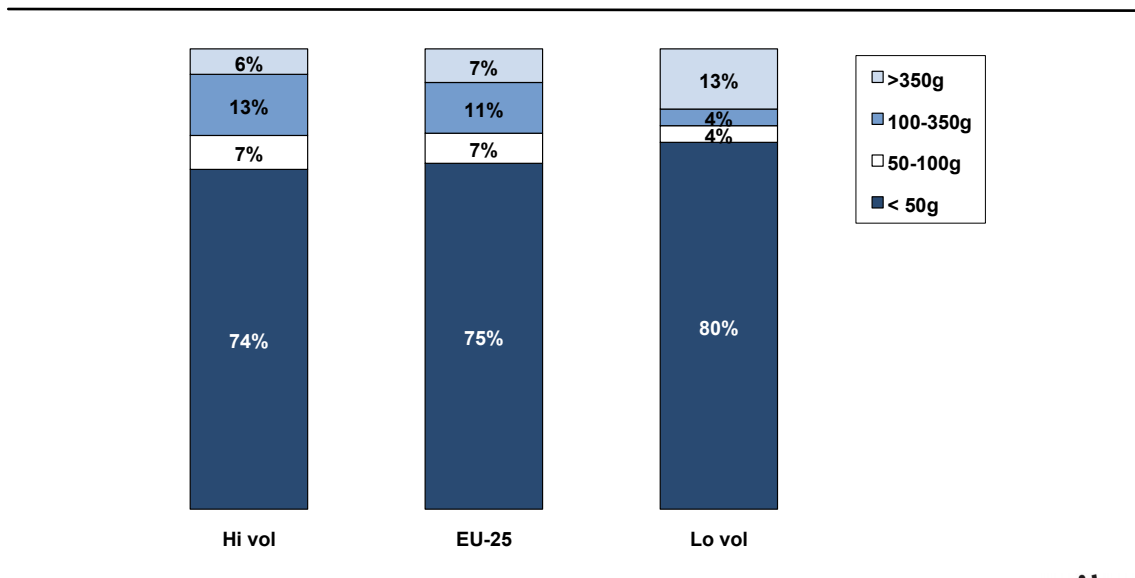
| | | Share of respondents considering this factor as the most influential for future volumes | | | N |
|--------------------------|--------|---|--------------------|---------------|----|
| | | E-Substitution | Economic dev. /GDP | Other answers | |
| Household correspondence | EU-25 | 78% | 20% | 3% | 40 |
| | Hi vol | 85% | 15% | 0% | 13 |
| | Lo vol | 74% | 22% | 4% | 27 |
| Business correspondence | EU-25 | 60% | 38% | 3% | 40 |
| | Hi vol | 77% | 23% | 0% | 13 |
| | Lo vol | 52% | 44% | 4% | 27 |
| Direct mail | EU-25 | 15% | 80% | 5% | 40 |
| | Hi vol | 15% | 85% | 0% | 13 |
| | Lo vol | 15% | 78% | 7% | 27 |

Notes:

40 respondents are NRAs and/or USPs from 23 member states (all but GB, SE).

Expectations about future mail volumes appear to result primarily from expectations about the effects of electronic substitution on different components of the letter post. Table 5.1.8 displays the share of respondents who consider electronic substitution or general economic growth to be most important factor in determining the future of different types of mail.¹¹³ In the minds of most respondents, electronic substitution will decide the future for correspondence whereas the volume of direct mail will continue to rise or fall with the general economy. Interestingly, respondents appear to judge private correspondence more vulnerable to electronic substitution than business correspondence. In member states with lower letter post volumes, electronic substitution for correspondence is perceived to be less of a threat than in the Community as a whole.

Figure 5.1.11 Structure of USP letter post volume by weight: Shares of total volume below 50g / 100 g / 350g



Notes:

Consolidated NRA and USP assessments,

EU-25: Weighted average of 17 MS where information was available (BE, DE, DK, EE, ES, FI, FR, GR, HU, IE, IT, LT, LU, NL, PT, SI, SK).

Hi vol: Weighted average of MS with per capita volume above EU average (data available from BE, DE, DK, FI, FR, LU, NL).

Lo vol: Weighted average of MS with per capita volume below EU average (data available from EE, ES, GR, HU, IE, IT, LT, PT, SI, SK).

113 In the survey, questionnaire respondents were asked to name the factor that, in their view, will be the most influential for letter post volumes on the next five years, i.e. until 2009. Different assessments were requested for three segments of letter post: items of correspondence sent by businesses, items of correspondence sent by private households and direct mail. In each case, respondents were asked to either choose one of two listed options as the most influential factor determining future volumes (“electronic substitution” or “general economic growth”) or to provide other factors. In addition the answers are broken down into two groups of countries: those with per capita volumes above and below EU average.

The distribution of the letter post among the customary weight steps is of particular importance to the Postal Directive because the strategy for introducing more competition has been to gradually withdraw the reserved area weight step by weight step. Our survey indicates that even after the weight limit on the reserved area is reduced to 50 grams at the beginning of 2006, three-quarters of the letter post will remain within the maximum reservable area permitted by the Directive. The proportion is even higher (80 percent) for member states with low mail volumes. See Figure 5.1.11. Indeed, the reduction in the weight limit of the reserved area from 100 grams to 50 grams in 2006 will affect a smaller portion of the letter post than the reduction in 2003 from 350 grams to 100 grams (6.5 versus 11 percent).¹¹⁴

Conclusions

NRAs and USPs presently foresee a modest 5 percent decline in the volume of letter post items over the next decade caused by a significant decline in the volume of correspondence tempered by a small increase in the volume of direct mail in the short term. A relative decline of correspondence as a component of the letter post is anticipated because respondents expect electronic substitution to affect correspondence more drastically than direct mail. Decreases in correspondence and a levelling off of direct mail appear more likely in countries with higher volumes.

As direct mail becomes the major portion of the letter post, the role of letter post will shift away from two-way communications and towards one-way distribution. The organization to individual (BtoC) segment of the letter post already accounts for more than 60 percent of total volume, and its share is likely to increase.

About 75 percent of letter post items weigh less 50 grams, and only about 7 percent weigh between 50 and 100 grams. These findings imply that the reduction of the weight limit for the maximum reservable area on January 1, 2006, is likely to be minimal and less than the effect of the previous reduction from 350 grams to 100 grams.

114 In order to assess the impact of the different weight thresholds applied to the reserved area, NRAs and USP were asked by WIK to provide information regarding the share of total letter post items weighing less than 50g, less than 100g and less than 350g. Answers were received from at least one party in 17 member states, including DE, ES, FR, IT, and NL. These member states represent more than 70 percent of the EU's total domestic letter post volume. Averages were derived by merging NRA and USP answers for each country at first. These values for 17 countries were then weighted according to the 2002 letter post volume of each country. Again, average shares of mail in each weight category were calculated for countries above and below EU average per capita volume in addition to the total EU average.

5.2 USP development

5.2.1 Overall situation of USPs

5.2.1.1 Financial development: revenues and profits

Table 5.2.1 Revenue development of the USPs (1999-2002)

| Revenues | CAGR (1999-2002) | Growth rate 2001-2002 |
|---|------------------|--|
| Total Revenues (EU-25) | 10.6 % | 8 % |
| Postal Revenues (EU-25) | 7.3 % | 10.2 % |
| Postal revenues excl. DPAG and TPG | 4.5 % | 0.6 % |
| Postal revenues excl. DPAG, La Poste, Royal Mail, TPG (EU-21) | 4.0 % | 3.7 % |
| Letter post revenues (DPAG, La Poste, Royal Mail, TPG) (1) | 2.3 % | 2.7 % Growth rate 2002-2003 -2.6 % |

Note:

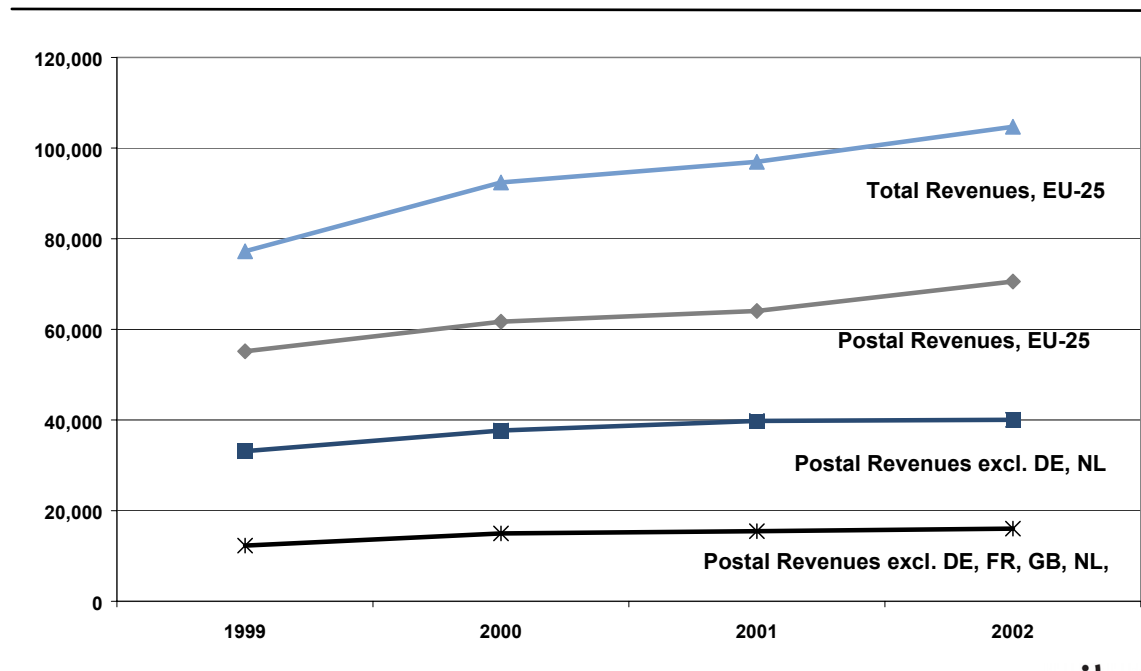
(1) DPAG, La Poste and TPG publish the revenues of their mail segment in their annual reports. These revenues generally refer to letter post (domestic and cross-border) and distribution of unaddressed items. Since Royal Mail has not published separate revenues figures for letter post and parcels, WIK used universal service revenues published in their regulatory financial statements as an approximation of letter post revenues.

Between 1999 and 2002, the total revenues of Community USPs – increased by more than 10 percent per year.¹¹⁵ This figure includes revenues coming from all corporate activities including financial and logistics services. Revenues from postal services alone (letter post, parcel, and express) grew by about 7.3 percent per year (see Table 5.2.1). Since the postal revenues of DPAG, TPG, La Poste, and Royal Mail were significantly affected by acquisitions as well as normal growth in universal services, this table includes separate lines showing the development of postal revenues without DPAG and TPG (the most active in the acquisition market) and without all four acquisition-minded USPs. As these calculations imply, the postal revenues of Royal Mail and La Poste

¹¹⁵ Data presented in this section of the report is based mainly on USP answers to the WIK survey and on secondary sources such as USP annual reports. The figures presented usually refer to company group revenues, not just to company revenues. For most USPs this distinction is not important, but for those active in acquisitions – Deutsche Post AG and TPG, and to some degree Royal Mail and La Poste – group figures deviate substantially from those associated to the postal operator. . Moreover, group financial figures refer to worldwide activities and not only to services provided in the Community. Although the WIK survey sought financial figures isolating commercial activities in the EU-15 and EU-25 countries, these breakdowns were not provided.

have grown at a pace that is in line with other Community USPs. As the final column in this table indicates, postal revenues grew more strongly after 2001. See also Figure 5.2.1. It is worth noting that the approximated letter post revenues of the four biggest USPs grew at a considerably lower rate than overall postal revenues. Between 2002 and 2003 these revenues even declined. This development reveals that there has been a shift towards parcel and express revenues not only driven by acquisitions but also by a relative and absolute decline in letter post revenues.

Figure 5.2.1 Total and postal revenues, EU-25 (MIn EUR)



Notes: BE, DK, SE: data exclusively from annual reports;
AT, CZ, DE, FI, IE, NL: partly completed by annual report information.

Table 5.2.2 Distribution and development of USPS' revenues – EU-25 (2002)

| Group | Total Revenue (EUR) | USPs | Total revenue share | CAGR 99-02 | GDP (nominal) share |
|-----------|---------------------|--------------------------------|---------------------|------------|---------------------|
| Very low | < 100 Mln | CY, EE, LT, LV, MT | 0.16% | 5.25% | 0.48% |
| Low | 100 Mln - 1 Bln | CZ, GR, HU, IE, LU, PT, SI, SK | 3.44% | 8.41% | 6.44% |
| Medium | 1-2 Bln | AT, BE, DK, ES, FI, PL | 8.82% | 3.52% | 17.68% |
| High | 2-10 Bln | IT, SE | 9.52% | 3.07% | 15.77% |
| Very high | >10 Bln | DE, FR, GB, NL | 78.06% | 12.73% | 59.64% |

Notes: BE, DK, SE: exclusively data from annual reports;
AT, CZ, DE, FI, IE, NL: partly completed by annual report information

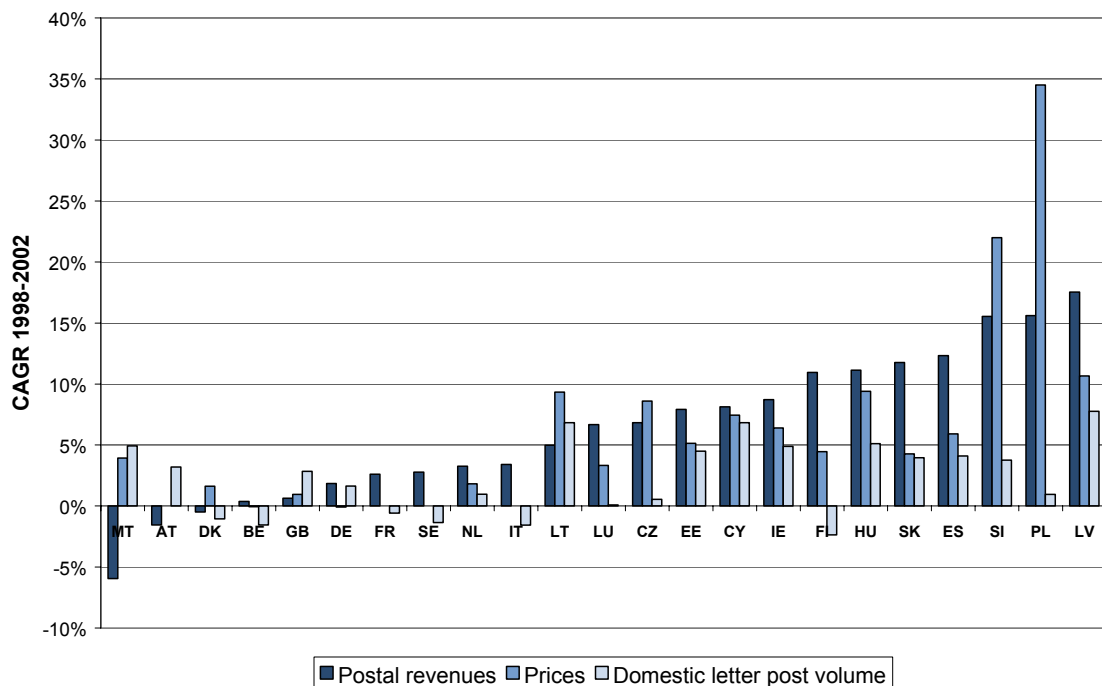
Table 5.2.3 Distribution and development of USPS' postal revenues by groups (2002)

| Group | Postal Revenues (EUR) | USPs | Postal revenue share | CAGR Postal revenues 99-02 | CAGR Total revenues 99-02 |
|--------------|-----------------------|------------------------------------|----------------------|----------------------------|---------------------------|
| Very low | < 100 Mln | CY, EE, LT, LV, MT, SK | 0.28% | 8.57% | 6.67% |
| Low | 100 Mln - 1 Bln | CZ, FI, GR, HU, IE, LU, PL, PT, SI | 5.55% | 10.33% | 8.17% |
| Medium | 1-2 Bln | AT, BE, DK, ES | 8.35% | 2.26% | 2.06% |
| High | 2-5 Bln | IT, SE | 8.88% | 2.11% | 3.07% |
| Very high | >5 Bln | DE, FR, GB, NL | 76.94% | 8.27% | 12.73% |
| Total | | | 100.00% | 7.25% | 10.57% |

Notes: BE, DK, SE: exclusively data from annual reports;
AT, CZ, DE, FI, IE, NL: partly completed by annual report information

Given the great differences in size, revenues are divided very unequally among USPS. DPAG, La Poste, Royal Mail, and TPG collect more than three-quarters of all corporate (see Table 5.2.2) and postal (see Table 5.2.3) revenues earned by Community USPS. While the dominance of these USPS has been due primarily to the size of their home markets, this relationship is weakening as these companies develop extensive operations in other countries. In the period 1999 to 2002, the postal revenues of the “big four” grew at an average annual rate of 8.3 percent, with La Poste trailing the pack at less than two percent per year. The postal revenues of the small USPS grew at a similarly impressive rate. Mid-sized USPS had much less success, however, with the notable exception of the Spanish USP which realised an average annual growth rate of more than 15 percent between 1999 and 2002.

Figure 5.2.2 Development of postal revenues, prices, and letter post volume (CAGR 1998-2002)



Notes: CAGR: Compound average growth rate;
 Prices: 20g FSC, national currency, nominal prices;
 Postal revenues in national currency; members of the EURO-zone in €;
 DE, FR, NL: postal revenues = revenues from the mail segment (based on their financial statements);
 DK, GB (2002): postal revenues = revenues from universal service (based on their regulatory financial statements);
 GR, PT: confidential (postal revenues).

Although the majority of the USPs were reluctant to allocate postal revenues by product, it is possible to gain some insights by combining information on postal revenues with data on letter post volumes and prices (both issues will be developed in the following sections). Domestic letter post volume will be assumed to approximate overall volume development, and the annual average growth rate of the 20 gram first class letter tariff will assumed to approximate overall price development.¹¹⁶

Figure 5.2.2 shows the results of this analysis for postal revenues. From this figure, it is apparent that the reasons for postal revenue growth vary considerably from USP to USP. In some member states, considerations other than volume and price play a dominant role – see for example MT, BE, GB, FR, SE, and IT. For other USPs

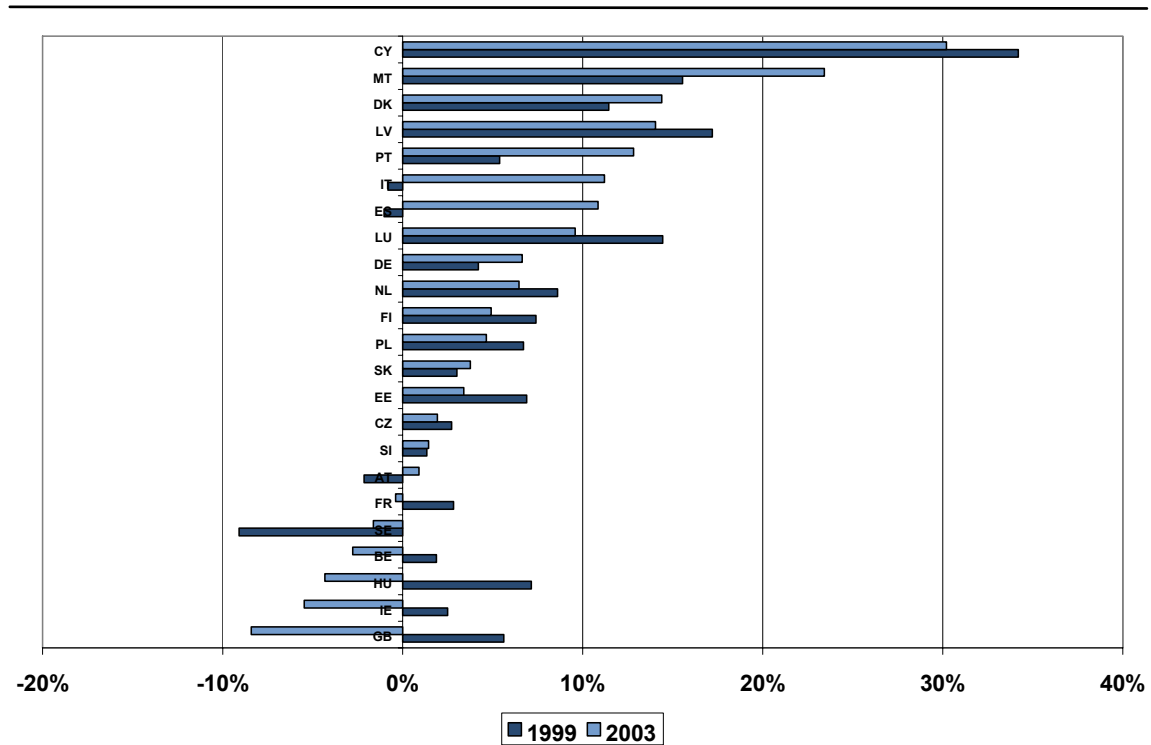
¹¹⁶ The best indicators would be letter post revenues and letter post revenue per item to identify the main driver for the revenue development. See also WIK-Consult (2003a), p. 30.

especially the new member states, the increase in postal revenues appears to be predominantly driven by prices and volumes. Simple regression analysis shows that the overall impact of price increases seems to dominate the effect of changes in letter post volume.¹¹⁷

Differences between the growth of postal and overall corporate revenues have made USPs more or less dependent on postal services as a source of revenue. For the “big four”, USPs postal revenue has become relatively less important, while the opposite is true for the small USPs. The mid-sized USPs have generally experienced little change. More specifically, DPAG and TPG, have substantially reduced their dependence on postal revenues (see Case study 5.5), as has the Italian USP which focuses more on financial services. Meanwhile, the Swedish USP Post is reemphasizing postal services, and substantial shifts towards increased dependence on postal revenues have been experienced by seven USPs (EE, ES, FI, GR, LT, PL, SI).

117 Estimated regression equation using the CAGR 1998-2002 of all member states: Postal revenues = 0.028 (0.013) + 0.49 (0.12) Prices + 0.36 (0.32) Letter post volume. The standard deviations are put in parentheses. While the standard deviation of the price variable is rather low, the one of the letter post volume is very high. This implies that the influence of volume on postal revenues appears to be more coincidental.

Figure 5.2.3 Profitability of the USPs (EU-25) – 1999 and 2003



Notes: Profitability = (total revenues – operating expenses)/total revenues [EBIT/revenues]
 IT: EBITA/revenues
 BE, CY, CZ, FR, GR, HU, IT, LU, PL, SK - 2002 figures
 BE, DK, SE: data exclusively from annual reports;
 AT, CZ, DE, FI, IE, NL: partly completed by annual report information;
 GR, LT: confidential (operating expenses).

Profitability also varies enormously among the USPs. In the most recent accounting period for which figures are available, six USPs (BE, FR, GB, HU, IE, SE) lost money, while the other 19 reported profits (see Figure 5.2.3). The Austrian and the Slovenian USPs became profitable in 2003 after suffering losses since 2000. Among the largest USPs, DPAG and TPG enjoyed an overall profit rate of about six percent in 2003, while Royal Mail realized significant losses and La Poste marginal losses. Remarkably high profit rates have been achieved by seven USPs (LU, ES, IT, PT, DK, MT and CY).¹¹⁸ Looking at the development of profitability over time, six USPs (AT, BE, FR, GB, HU, IE, SE) appear to be facing more serious problems than others. The Austrian USP has recently finished a restructuring program which may improve profits in the coming years. The future prospects of the USPs in Belgium, France, Ireland, and the United Kingdom are less hopeful. Losses at Royal Mail decreased considerably in 2003 but remain high, and losses at the Belgian, French, and Irish USPs have worsened in

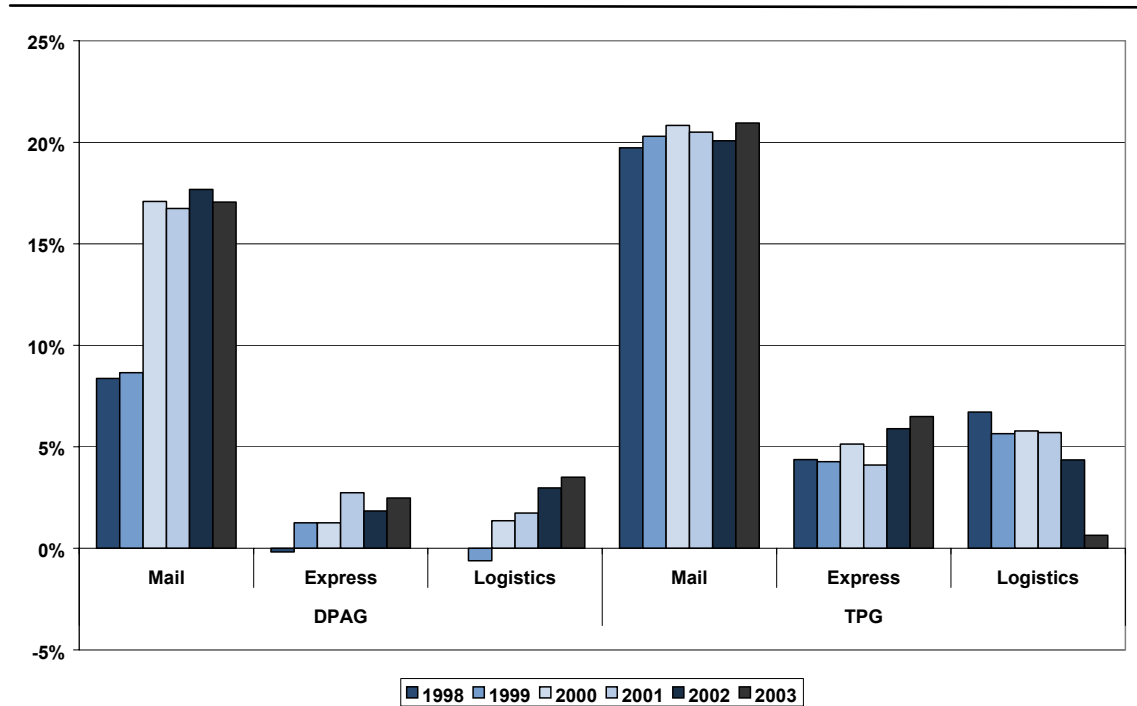
¹¹⁸ The nominal profit rate of the Cypriot USP is extremely high, but given the fact that it is a government department, the nominal figure may be misleading.

recent years.¹¹⁹ In 2003 Posten AB (SE) started an all-embracing cost cutting programme reflected by considerable improvements in their recently published financial figures.¹²⁰

Case study 5.5 Revenues and profitability of DPAG and TPG

Respondents were very reluctant to provide revenue and expense data by service segment so that an analysis of the profitability of individual postal services is impossible at EU-25 level. Nonetheless, the desirability of such analysis is evident from the annual reports of DPAG and TPG. In their annual reports, both make clear that overall corporate profits derive disproportionately from mail services rather than express or logistics services (see Figure 5.2.4). It is striking that DPAG's profit rate considerably increased in 2000 the year of its IPO. The IPO of the Dutch USP was in 1998.

Figure 5.2.4 Profitability of DPAG and TPG – 1998-2003 (EBITA in % of segment revenues)

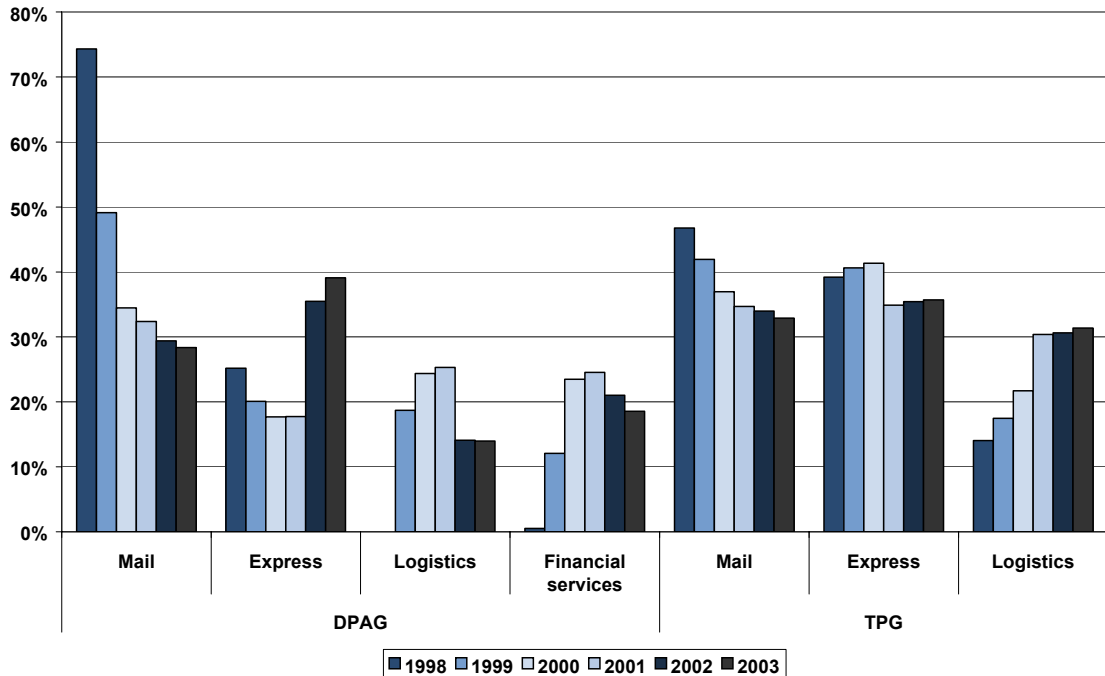


Source: Annual reports

¹¹⁹ However, as already outlined, La Poste (FR) is planning to restructure and modernize its postal organization in the next five years.

¹²⁰ According to the figures provided in the 2003 annual report and the financial statements of the first quarter of 2004.

Figure 5.2.5 Revenue structure of DPAG and TPG



Source: Annual reports

Both companies have reduced mail revenues as a share of total revenues, mainly as a result of acquisitions (see Figure 5.2.5). DPAG started its expansion strategy later than TPG so the mail revenue share in 1998 (more than 70 percent) is significantly higher than the respective share realized by TPG (about 45 percent). The jump in the DPAG's express revenue share in 2002 is partly a result of shifting business departments from the logistics to the express segment. It also reflects the integration of DHL International in the corporation.

Conclusions

Since 1998, Community USPs have realized significant gains in both overall corporate revenues and postal service revenues. Although acquisitions explain much of this growth, postal service revenues have increased for most USPs. For the four largest USPs (DPAG, La Poste, Royal Mail, TPG) letter post revenues have grown at a significantly lower rate than overall postal revenues and actually declined between 2002 and 2003.

The “big four” USPs collect more than three-quarters of all USP revenue, a share that is disproportionate to the relative size of their national economies, because of their relatively higher commitment to parcel, and express operations and a willingness to venture outside their home markets.

With a few exceptions, Community USPs are profitable today and have increased profitability since 1999. The examples of DPAG and TPG indicate that the letter post is by far the most profitable line of business for the largest USPs despite the fact that these USPs are generally becoming less dependent on the letter post as a source of revenue.

5.2.1.2 Employment

Based on survey results and a review of annual reports, WIK estimates that Community USPs employed about 1.85 million persons in 2002. Total USP employment increased by 5 percent from 2000 to 2002 due mostly to acquisitions by the largest USPs. Setting aside acquisitions, the majority of USPs have reduced employment. In the new member states, USP employment has been fairly stable with the exception of Malta. The Slovenian USP increased employment between 2000 and 2002, while the USPs of Estonia, Hungary, and Latvia have started to cut back on employment significantly since 2002.¹²¹

Table 5.2.4 EU-25 Total USP Employment (headcount) – UPU and WIK results (2000-2002)

| | UPU | WIK |
|------------------------------|---------------|--------------|
| 2000 | 1,473,107 | 1,757,082 |
| 2001 | 1,434,344 | 1,740,007 |
| 2002 | 1,434,401 | 1,847,623 |
| Growth rate 2000-2002 | -2.63% | 5.15% |

Note: WIK headcount information is based on survey answers and on annual report information (AT, DK, FI, SE), missing UPU information has been completed for DK (2002), FI (2001), IT (2000), SE (2000-2002), SI (2000 and 2001) by WIK headcount information.

WIK's estimates for company group employment differ significantly from figures for employment by postal administrations available from the Universal Postal Union.¹²² According to UPU data, USP employment in the provision of postal services in the Community was about 1.4 million in 2002, and this figure represents a decline in employment since 2000 of 2.6 percent. See Table 5.2.4. Comparing the UPU and the WIK figures in detail, it appears that the largest USPs (DPAG, La Poste, Poste Italiane, Royal Mail, and TPG) exhibit the most significant differences in growth rates. See Figure 5.2.6 and Table 5.2.5.

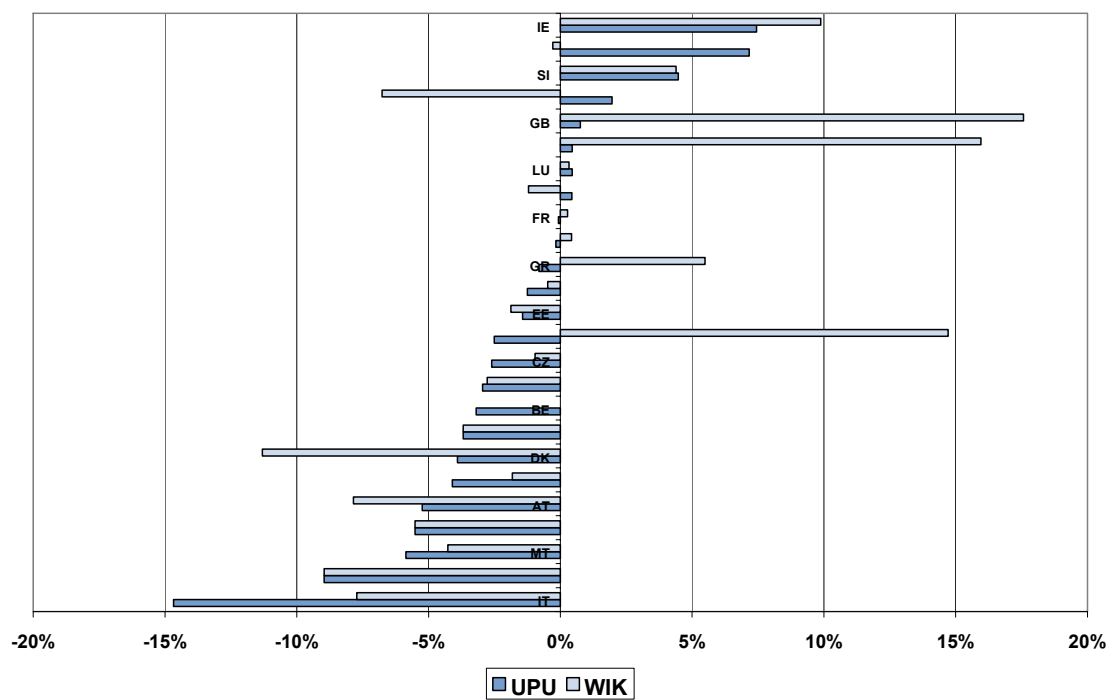
¹²¹ From 2002 to 2003, they have reduced their employment by 2.46% (EE), 5.89% (HU), 9.03% (LV). For PL and CZ, 2003 figures have not been submitted.

¹²² There are three main data sources for employment figures of USPs used in this section: the WIK survey, annual reports, and statistics of the Universal Postal Union (UPU). Survey answers and annual reports refer to employment in all postal and non-postal activities of the USP. UPU employment figures usually refer to employment in postal services. In technical notes, the UPU indicates that employment figures (total, 2.1; full-time, 2.2; and part-time, 2.3) give the number of physical persons employed by postal administrations. UNI Postal provided calculations mainly but not only based on UPU figures which highlight the difference to the figures presented by WIK. According to their figures total employment decreased 2.18% between 2000 and 2002.

Table 5.2.5 Employment figures of selected USPs
(UPU and WIK, 2002)

| | UPU | WIK | Difference |
|---|--------------|--------------|--------------|
| DPAG | 221,300 | 371,912 | -150,612 |
| La Poste | 291,594 | 323,375 | -31,781 |
| Poste Italiane | 148,224 | 160,427 | -12,203 |
| Royal Mail | 211,860 | 334,952 | -123,092 |
| TPG | 63,539 | 150,365 | -86,826 |
| All EU-25 USPs | 936,517 | 1,341,031 | -404,514 |
| Share of total employment/difference | 65.3% | 72.6% | 97.8% |

Figure 5.2.6 Development of USP employment (2000-2002) – UPU and WIK survey



Note: BE – confidential (WIK-survey)

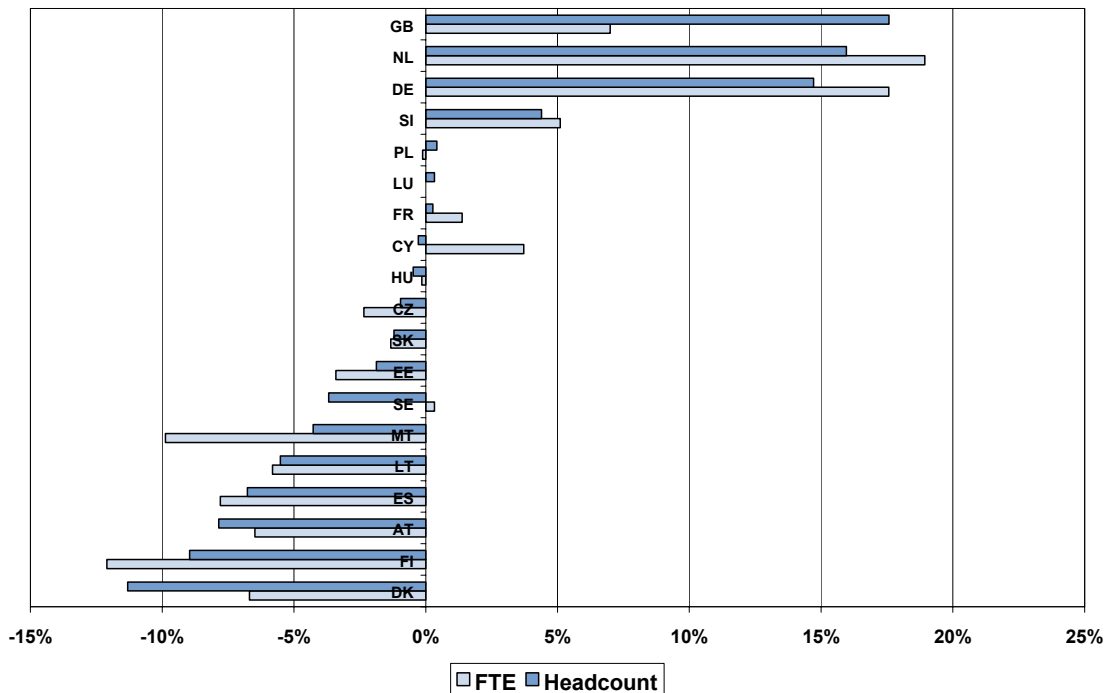
Table 5.2.6 Development of full-time and part-time employment (2000-2002)

| | Full time | Share | Part time | Share | Total |
|------------------------------|---------------|--------|--------------|--------|---------------|
| 2000 | 937,629 | 85.66% | 156,917 | 14.34% | 1,094,546 |
| 2002 | 888,057 | 84.14% | 167,423 | 15.86% | 1,055,480 |
| Growth rate 2000-2002 | -5.29% | | 6.70% | | -3.57% |

Source: UPU; DE, DK, NL, SE, SI – not included because of missing values.

UPU employment figures also suggest a shift towards greater use of part-time employees in the provision of postal services. As summarized in Table 5.2.6, UPU records provide separate figures for the number of full-time and part-time employees. Based on calculations by UNI Postal, full-time employment, in the provision of postal services dropped about 5.5 percent, while part-time employment increased 13.7 percent.¹²³

Figure 5.2.7 Development of total employment – FTE and Headcount (WIK survey, 2000-2002)



Notes: GR, IE, IT, LV – no FTE figures available
BE, PT (FTE) – confidential.

¹²³ Full-time employment dropped about 66,000 while part-time employment increased about 35,000 (UNI Postal, 2004).

The WIK survey also sought to quantify the use of part-time employees by requesting numbers of employees by headcount and full-time equivalents (FTE). Differences in the growth rates of employment measured by headcount and FTE should also reveal changes in use of part-time employees.¹²⁴ As shown in Figure 5.2.7, in most member states these growth rates are very different. The share of part-time employees has been considerably reduced in six USPs (AT, CY, DE, DK, NL, SE) between 2000 and 2002. In the same period, the share of part-time employees has increased significantly in three USPs (FI, MT, and especially GB). Based on the WIK data, it is impossible to conclude whether the overall share of part-time employment by Community USPs in the provision of all types of postal and non-postal services has increased or not.

Table 5.2.7 Civil servants – development and share (headcount, 2000-2002)

| Country | 2000-2002 | Share of total employment 2002 |
|-------------------------|---------------|--------------------------------|
| AT | -13.89% | 54.84% |
| BE | confidential | |
| CY | 5.40% | 29.91% |
| DE | -12.39% | 19.67% |
| ES | confidential | |
| FR | -6.06% | 66.41% |
| GR | confidential | |
| IE | -13.38% | 35.81% |
| LT | confidential | |
| LU | 0.37% | 98.55% |
| Weighted average | -7.83% | 45.90% |
| EU-25 | | 21.45% |

Civil servants are still employed in ten USPs (AT, BE, CY, DE, ES, FR, GR, IE, LT, LU). Between 2000 and 2002 the number of civil servants declined continuously by nearly 8 percent (see Table 5.2.7). The share of civil servants in Community USPs declined from 52.3 percent in 2000 to 45.9 percent in 2002. Thus the trend of reducing the share of civil servants is still ongoing even if there are some exemptions.

124 Growth rate (FTE)= growth rate (Headcount) – Employment structure has been unchanged.
 Growth rate (FTE) > growth rate (Headcount) – Part time employment has been reduced relative to full time employment.
 Growth rate (FTE) < growth rate (Headcount) – Part time employment has been increased relative to full time employment.

Table 5.2.8 USPS' postal employment – FTE

| | EU-25 | EU-17 |
|--------------------------|---------------|---------------|
| 2000 | 1,133,957 | 574,588 |
| 2001 | 1,118,928 | 562,822 |
| 2002 | 1,108,052 | 554,501 |
| 2003 | | 533,012 |
| Growth rate 00-02 | -2.28% | -3.50% |
| Growth rate 00-03 | | -7.24% |

Notes: EU-17 – AT, BE, CY, DE, DK, EE, ES, FI, GB, HU, IE, LT, LU, LV, MT, PT, SI;
WIK-survey: BE (2003, FTE estimated), CY, ES, FR, GB, GR (headcount), HU, IE, IT, LU, LV (2003, headcount), MT, NL, PT (2003), SI;
WIK-estimations: AT (FTE), BE, LV, PT (2000-2002);
Annual report information: AT, DK, DE, FI, SE.

Putting together these different sources of information, WIK's best estimates for the number of employees engaged in the provision of Community postal services are presented in Table 5.2.8.¹²⁵ Based on these estimates, it appears that USP postal employment has decreased more than 2 percent since 2000. Taking into account 2003 figures provided by 17 USPs (EU-17), it appears that the decline in postal employment increased in 2003.¹²⁶

¹²⁵ In order to get at least an estimation at the EU-25 level, total employment was used as a proxy for postal employment for those USPs that did not provide any postal employment figures. With respect to the German USP, its mail segment employment figures were used because express segment employment includes a significant share of non-European employment. Furthermore, considerable shifts in the employment level occurred due to ongoing re-organization, of the express and logistics segment of DPAG.

¹²⁶ WIK also asked the USPs for EU-25 postal employment (headcount and FTE) attributed to the mail, parcel and express segments of the corporation. Unfortunately, only half of the USPs provided figures.

Conclusions

Total USP employment in the EU was approximately 1.85 million (headcount) in 2002. From 2000 to 2002, overall USP employment increased by roughly 5 percent due mostly to acquisitions by the five largest USPs. Based on UPU figures, however, USP employment decreased by more than 2 percent. There is an ongoing trend of substituting full-time employment with part-time employment. The share of civil servants employed at USPs is still declining.

It is unclear, however, how postal employment in European USPs (i.e. employment related to the provision of postal services in terms of the Postal Directive) developed over this period since many USPs failed to provide data on their employment by segment. There are indications that employment in this core activity of USPs slightly decreased from 2000 to 2003. Over this period, USP postal employment decreased about 1 to 2 percent per year according to WIK's best estimates. In this survey, no information was available on employment by competitive postal operators.

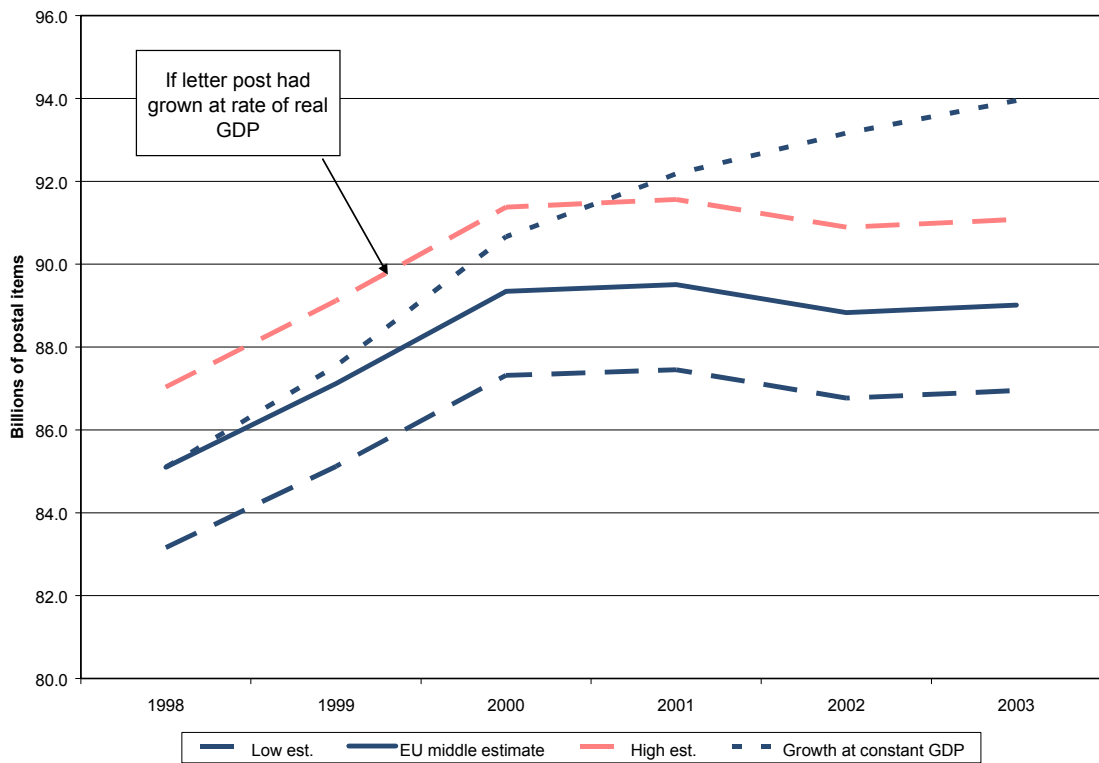
5.2.2 Mail volumes

5.2.2.1 Letter post

Domestic letter post

The domestic letter post is the *raison d'être* of the public postal operator and the most basic of the services offered by a USP. In all but one member state (ES), virtually all domestic letter post services are provided by the USP. In almost all member states, the domestic letter post accounts for more than 90 percent of all letter post items handled by the USP. Because of the importance of the domestic letter post, most USPs have been granted special or exclusive rights.

Figure 5.2.8 EU domestic letter post, 1998-2003



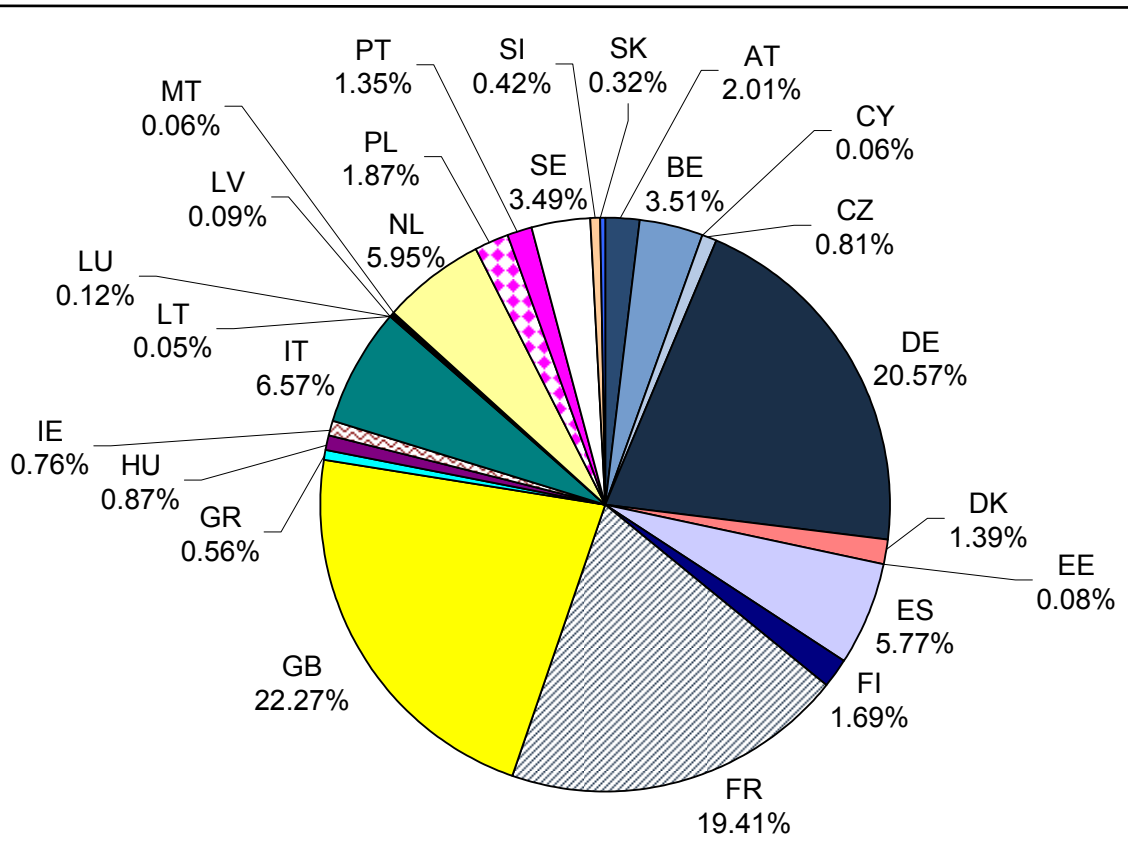
Based upon a review of available information,¹²⁷ WIK estimates that the total volume of domestic letter post in the Community (including the new member states) in 1998 was about 85.1 billion items, rising to 89.3 billion in 2000, then declining slightly to 88.8 billion in 2002.¹²⁸ Actual volumes, however, may be as much as 2.3 percent more or less than these estimates. We believe that the overall domestic letter post in the Community grew about 4.4 percent from 1998 to 2002, an average annual rate of about 1.1 percent. If, using less complete data, we extend these estimates into 2003, the total letter post volume would come to 89.1 billion items; overall growth from 1998 would be 5.0 percent, an average annual rate of about 1.0 percent.¹²⁹ As Figure 5.2.8 makes clear, virtually all volume growth took place before 2001, after which letter post volumes remained essentially unchanged. This figure also shows how growth in the volume of letter post compared with growth in the gross domestic product (GDP) measured in constant euros. If the letter post had increased at the same pace as real GDP, total volume would have reached more than 94 billion items by 2003.

127 Volume data for the domestic letter post was somewhat more forthcoming than volume information overall. Fifteen USPs provided substantially complete volume data for the domestic letter post for the years surveyed, 1998 to 2003. Even so, because of lack of cooperation from the largest USPs, this survey relies upon incomplete submissions or secondary sources to develop estimates for more than 80 percent of the Community's domestic letter post. In several cases, in order to develop estimates for the period 1998 to 2003, it was necessary to rely on multiple time series that referred to different mail streams (or appeared to do so). For example, it might be possible to calculate the annual growth in the letter post for the period 1998 to 2000 from UPU data and the annual growth rate in domestic letter services from USP annual reports for the period 2001 to 2003. Although the growth rates derived from the two data sets may be comparable, the base volumes for the data sets may be incompatible. Without a declaration from the USP, it is impossible to know which base volume corresponds to the domestic letter post as that term is (implicitly) defined in the Postal Directive. Different USPs and NRAs have different operational definitions for the "domestic post". Some include newspapers while others do not. Some include outgoing cross-border mail, some incoming cross-border mail, and some both. In providing statistics for the "domestic letter post", respondents may not have always distinguished clearly between their working definitions of the domestic post and the precise definitions implied in the Directive. Other sources of uncertainty derive from changes in volume measurement systems without recalibration of earlier data and combination of domestic letter post volumes with other product volumes (such as cross-border mail or unaddressed mail). In order to estimate annual growth of domestic letter post, we used the annual growth rate of the real GDP, in place of large changes in volumes that appeared to be due to changes in measurement systems. See Appendix A for additional notes on the availability of postal volume data for this study.

128 Estimates for 2003 are based on estimated volumes for about 75 percent of the Community letter post. Hence, the 2003 figures are especially uncertain.

129 The estimate for 2003 is based on estimates for USPs representing less than 70 percent of total EU domestic letter post.

Figure 5.2.9 EU domestic letter post: USP shares, 2002



As providers of domestic letter post services, Community USPs vary markedly in size. The three largest USPs (DE, FR, GB) each have about 20 percent of the total Community letter post market. Collectively, they controlled 62.2 percent of the letter post in 2002, a percentage that is essentially unchanged from 1998 (61.6 percent). The next ten USPs each supply less than 7 percent but more than 1 percent of the Community letter post; collectively they comprise almost one-third of the whole. The remaining 12 USPs share about 4 percent of the Community domestic letter post. See Figure 5.2.9.

Figure 5.2.10 MS domestic letter post: items per capita, 2002

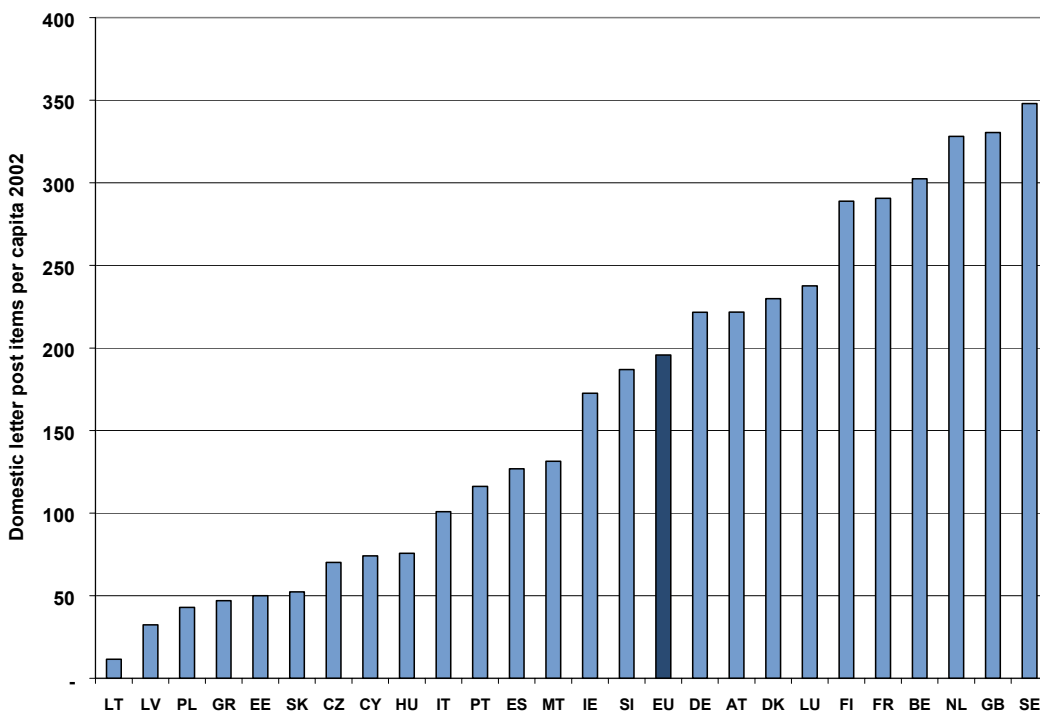


Figure 5.2.11: MS domestic letter post: items per €1000 GDP, 2002

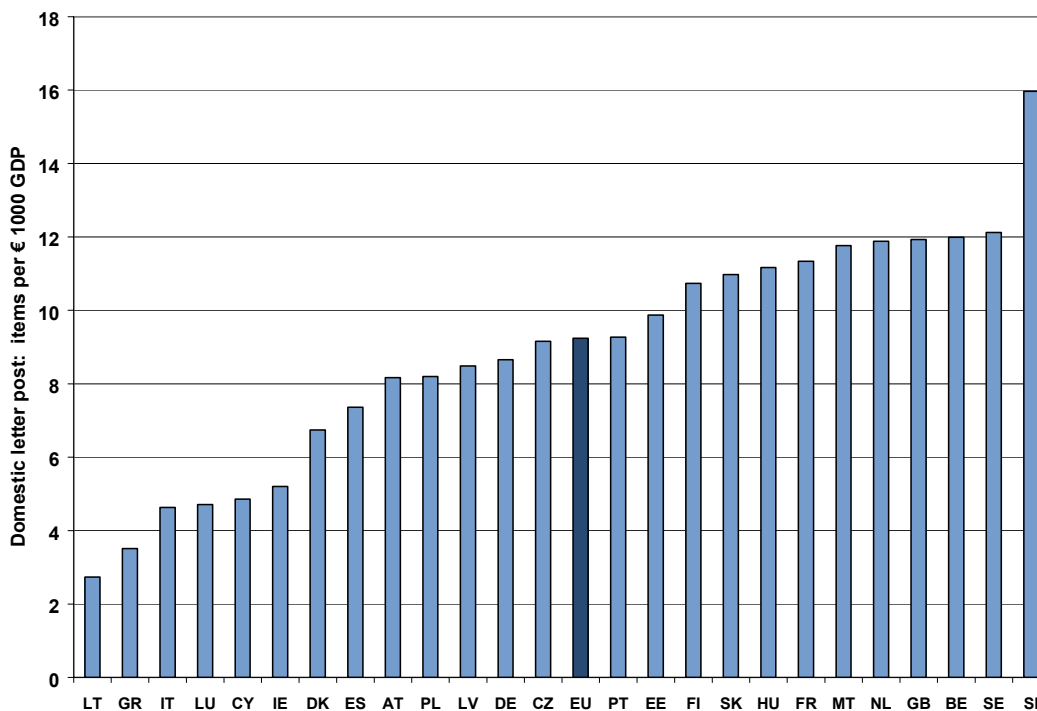
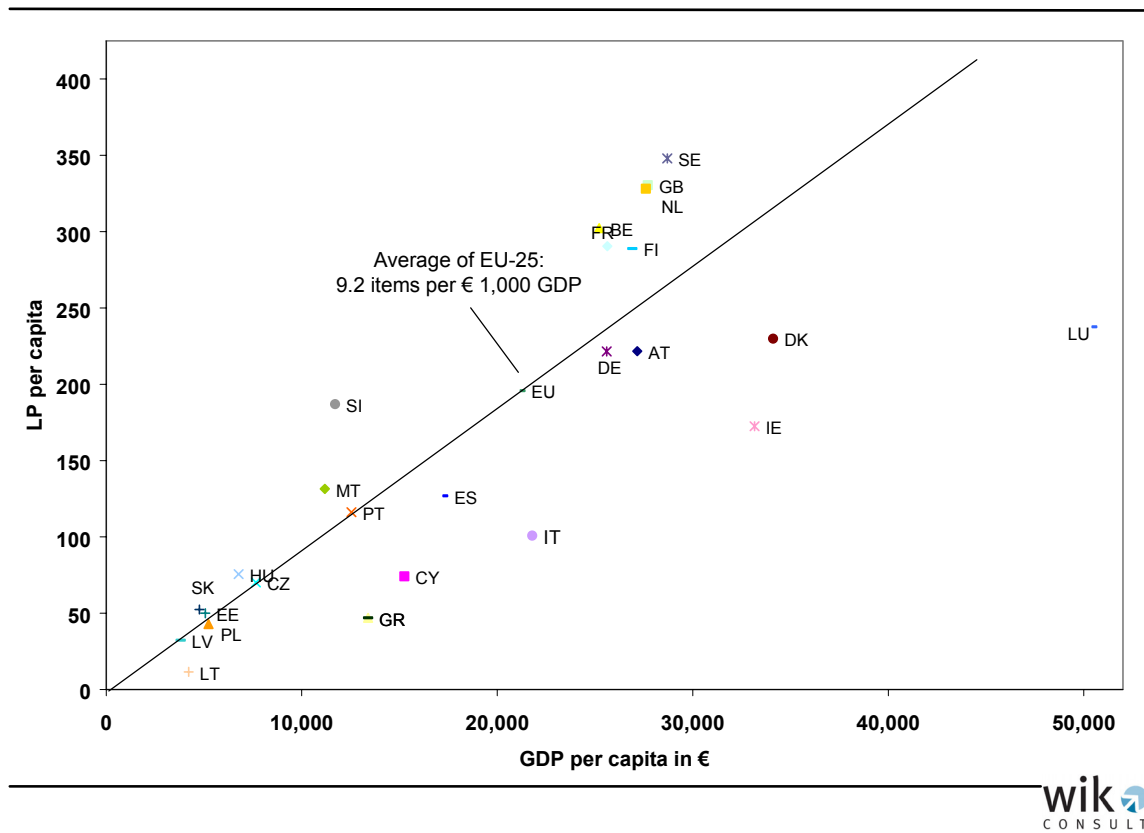


Figure 5.2.12 MS domestic letter post: LP per cap v. GDP per cap, 2002



The intensity of use of postal services also differs significantly between member states. In eight member states, the average number of domestic letter post items per year is less than 100 per person; in four member states, it is less than 50. On the other hand, in five member states, the average is more than 300 letter post items per capita. See Figure 5.2.10. These differences appear to be due primarily to differences in the level of economic development. If the number of letter post items per capita is divided by the average GDP per capita, the result is an index expressing the number of letter post items per unit of GDP. As Figure 5.2.11 shows, differences in the intensity of postal services become much more muted when considered in this light. The great majority of member states fall within a range of 6 to 12 letter post items per 1000 euros of GDP. Figure 5.2.12 shows the intensity of letter post usage in scatter chart format that takes into account both population and economic activity.

Figure 5.2.13 MS domestic letter post: average annual growth, 1998-2002

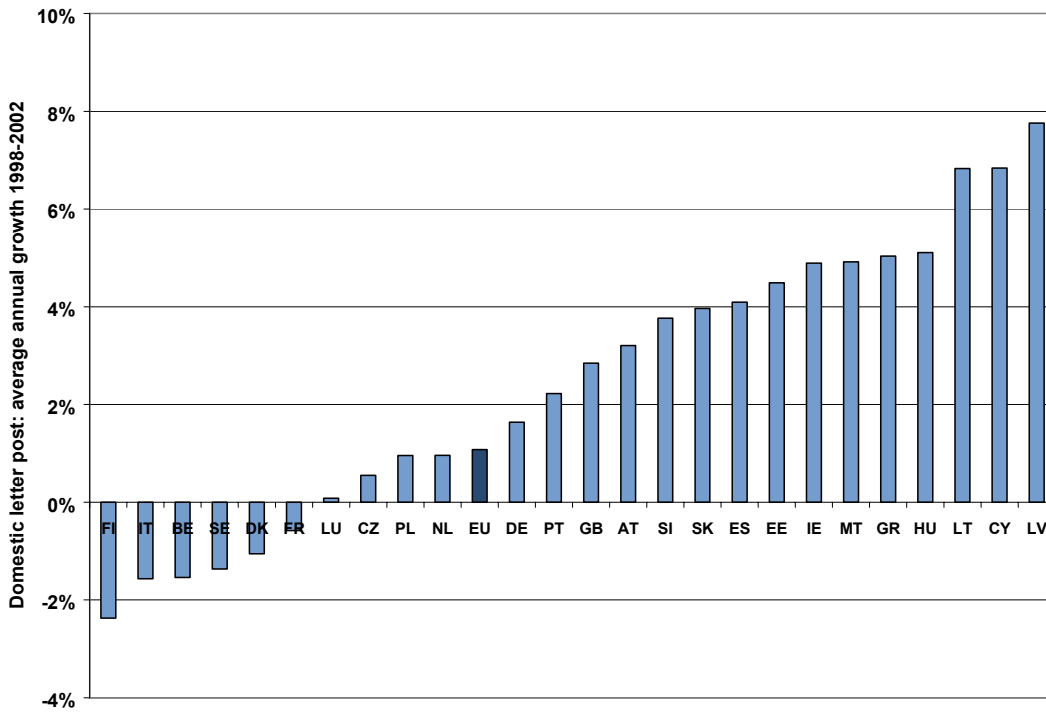
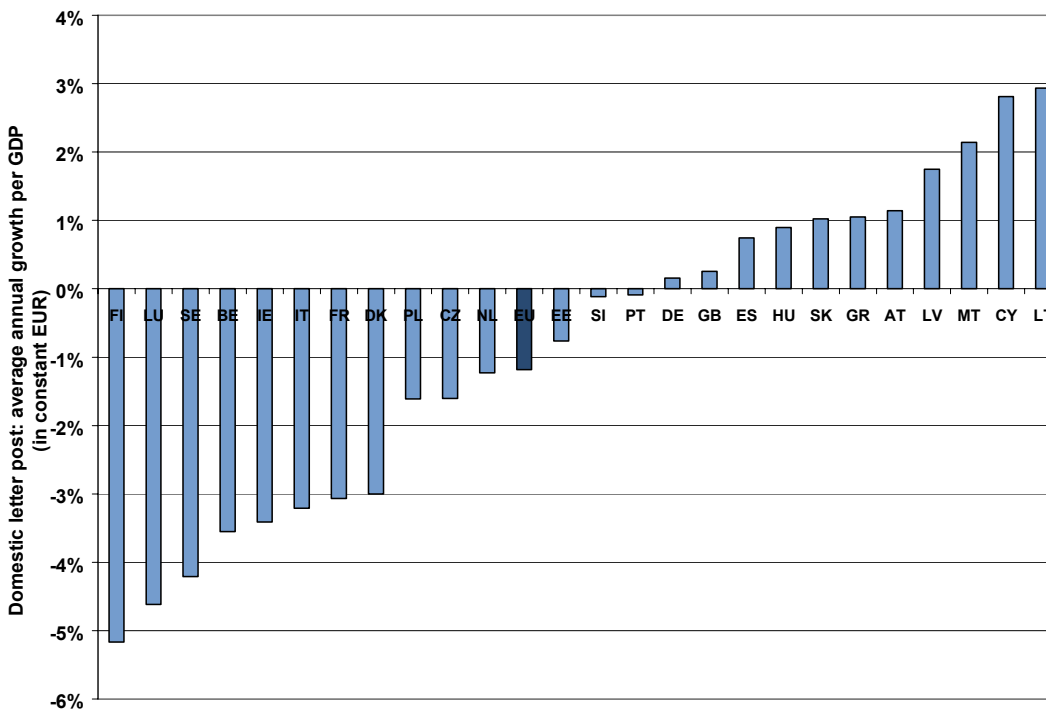


Figure 5.2.14 MS domestic letter post: average annual growth in items per GDP (constant €), 1998-2002



Growth rates of letter post in the member states for the period 1998 to 2002¹³⁰ are displayed in Figure 5.2.13. Since letter post volume is primarily a result of economic activity, the rate of growth in the letter post has historically followed the rate of growth in real GDP in broad terms.¹³¹ As Figure 5.2.8 implies, this close relationship may be in changing. Figure 5.2.14 shows the average growth rate in letter post volume per unit of real GDP from 1998 to 2002. In almost half of the member states, and in the Community as a whole, the volume of letter post appears to be falling behind growth in real GDP. Moreover, the fact that this trend is most noticeable among the most advanced economies suggests that letter post will become a less important element of the overall economy in the future. Nonetheless, it should be pointed out that the letter post volumes in Germany and the United Kingdom appear to have increased more than real GDP over the period 1998-2002.

The changing role of the letter post is revealed further by consideration of its major components: correspondence, direct mail, and periodicals (newspapers, magazines). Unfortunately, only a small number USPs, representing less than 20 percent of the total Community letter post, provided information on the components of their letter posts. From this fragmentary information, it appears that the proportion of direct mail in the letter post ranges from over 50 percent in some member states to less than 25 percent in others. For these USPs collectively, direct mail experienced no growth from 1998 to 2002, although direct mail grew significantly in some member states. In general, it appears that USPs in the most advanced economies tend to have the highest proportion of direct mail in the letter post.¹³²

Cross border letter post

The cross-border letter post is the feature of universal postal service that knits together the Community. Due to incomplete data, however, we can only summarize the development of mail volumes for a subset of Community USPs. The subset consists of 14 USPs. Twelve USPs (CY, EE, ES, FI, GR, HU, IE, LT, LU, PL, PT, SI) provided volume data for the outgoing and incoming cross-border letter post for the years 1998 through 2002. In addition, we have relied on UPU data of uncertain reliability for two more USPs (CZ, IT). These 14 USPs accounted for only 21 percent of the Community

130 As explained above, in several cases these estimates are based on assumptions used to reconcile incompatible time series; hence, they must be viewed as approximations only.

131 Since 1981, the volume of domestic letter post per unit of GDP (measured in constant monetary units) for the three largest EU post offices (DE, GB, FR) has risen only about 9 percent. Although this average masks significant differences between the individual posts, the broad correlation between real GDP and letter post volume appears clear enough. This estimate is based on UPU statistics for the domestic letter post (with unaddressed mail subtracted from the total reported by the French USP where possible) and the GDPs of DE, GB, and FR measured in constant U.S. dollars.

132 We further requested USPs to separate unreserved from reserved service volumes for items of correspondence and direct mail. Only four USPs responded, representing about 3 percent of the Community letter post.

domestic letter post in 2002, but there is no way to know whether they represent a similar percentage of the Community cross-border letter post.

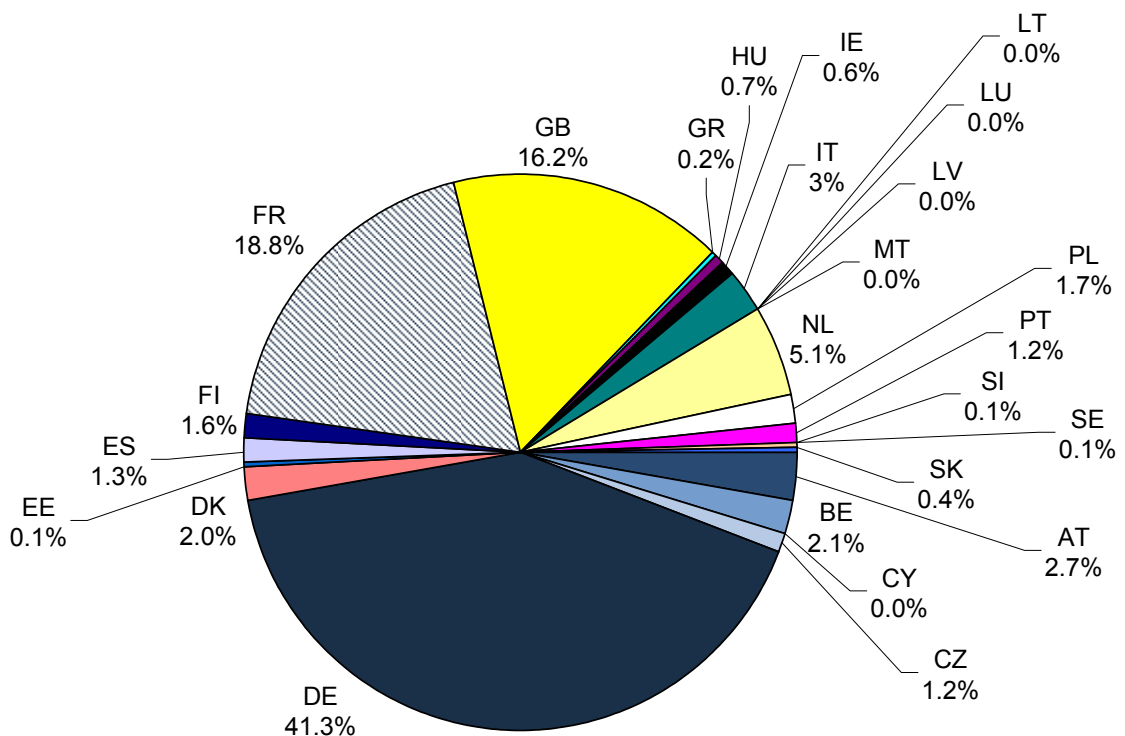
For these 14 USPs, the volume of outgoing cross-border was about 0.72 billion items in 2002, or 3.9 percent of the domestic letter post. Overall, the outgoing cross-border letter post declined about 1.6 percent from 1998 to 2002 even though domestic letter post grew by 4.7 percent during the same period. The volume of incoming cross-border was about 0.82 billion items in 2002, or 2.1 percent of the domestic letter post. Incoming cross-border volume increased by about 8.3 percent.

Given the incomplete nature of this subset, further analysis does not appear useful. There is no reason to believe that this group is typical of the Community cross-border market.

5.2.2.2 Parcels

Parcel services are competitive in all member states, often fiercely so. Based on data supplied by the USPs and several secondary sources (including but not limited to UPU data), the only year of the survey period for which a relatively complete picture of the domestic parcel post market can be drawn is 1999. In that year, WIK estimates that USPs transported about 1.5 billion domestic parcels, plus or minus 3 percent. This figure does not include parcel operations outside the USPs' home markets.

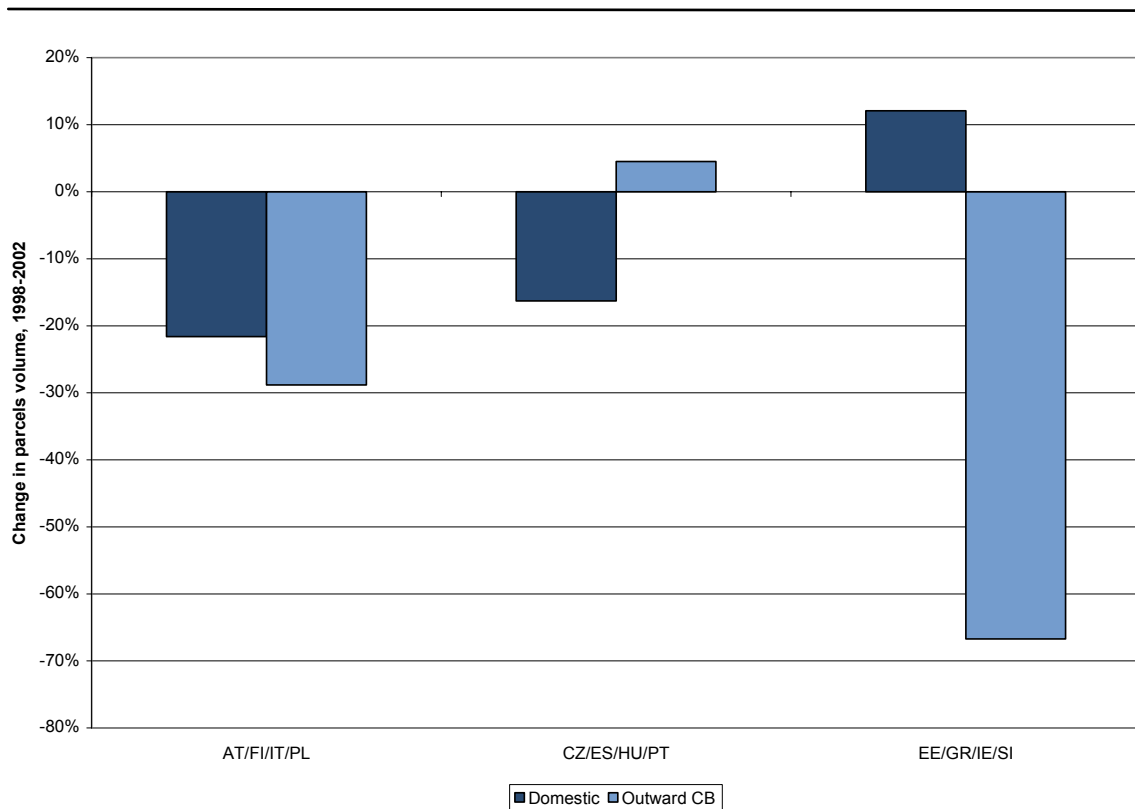
Figure 5.2.15 EU parcel post: USP shares, 1999



Based on the evidence from 1999, it appears that there is a tendency for larger USPs to enjoy a higher market share than would be expected from their position in the letter post market. The German and U.K. USPs, in particular, reported disproportionately large volumes of parcels. The German USP carried more than 40 percent of all postal parcels but only about 22 percent of all letter post items. The three largest USPs (DE, FR, GB), each carried more than 200 million parcels and collectively represented 76 percent of postal parcels market (compared to 62 percent of the letter post). The next 10 USPs carried 22 percent of all parcels but 30 percent of letter post items. The remaining 13 USPs shared only two percent of the parcels market although they provided seven percent of the letter post market.

In 1999, 20 USPs (excluding BE, DE, DK, NL, SK), dispatched about 8 million outgoing cross-border parcels and received about 12.7 million incoming cross-border parcels. If these USPs comprised the same percentage of the cross-border market as in the domestic market (a rough assumption at best), the Community cross-border postal parcels traffic consisted of about 16 million outgoing items and 25 million incoming. Given the fact that most cross-border parcels are probably exchanged among member states, the actual number for both segments is likely in between these two figures. Thus, on these figures, the cross-border market represents only about 1.3 percent of the total market for postal parcels, far less even than in the letter post segment.

Figure 5.2.16 Decline in the parcel volumes of medium and small-sized USPs, 1998-2000



Since 1999, the dominance of the largest USPs appears to have increased. It is no secret that they have aggressively expanded their efforts in the parcels market by acquisition and otherwise, and fragmentary data appear to confirm significant increases in parcel volumes.

Meanwhile, the parcel business of the next tier of USPs – 25 to 50 million parcels per year – does not seem to be doing well. If, in the absence of complete market data, we

take the USPs of Austria, Finland, Italy, and Poland as representative of this tier, it appears that their collective domestic parcel volume dropped 22 percent between 1998 and 2002 and their outbound cross-border volume declined 29 percent.

USPs in the 10 to 20 million parcels per year range likewise seem to be experiencing declines, although not quite so steep. Four medium to small sized USPs for which data are available (CZ, ES, HU, PT) all saw domestic parcel volumes decrease from 1998 to 2002, by an average of 16 percent (4 percent per year). On the other hand, three of four also saw increases in outbound cross-border traffic, for an average gain of 4.5 percent. Among the small USPs, the parcels picture is more mixed still. The USPs of Greece and Ireland are losing ground, while the USPs of Estonia and Slovenia (starting from smaller bases) are improving.

What conclusions can be drawn from this data? Probably not much. We are not confident that the data correctly separates domestic universal service parcel services from the operations of foreign subsidiaries. Nor do we believe that cross-border parcel data that lacks figures from the German and Dutch USPs is meaningful.

In the broadest terms, there seems to be tendency for large USPs and small USPs to enjoy greater success than medium-sized USPs. If true, this tendency seems consistent with the observation that the parcel business can ride on the back of the letter post for only so long before it requires its own transportation and sorting infrastructure separate from the letter post. The largest USPs (certainly including the German USP) seem to be investing in a separate parcels networks. The smallest USPs do not need to do so, and medium-sized USPs cannot afford to. If so, the success of the small USPs is an illusion, the parcels business is becoming centralized in hands of fewer operators. In other respects, as well, there may be economics of scale in the parcel business. Expertise learned in one member state, for example, may be transferable to a second member state. In the United States, the emergence of one dominant parcel service (United Parcel Service) suggest that there may be economics of scale in the parcels business just as in the letter post.

A second, separate possibility is increasing regionalization. That is, an increasing percentage of parcels may be moving over regional rather than national networks. Such a trend would be facilitated by declining transportation costs and network economies. If the parcel business is becoming more regionalized, the average trip length per parcel should increase. Likewise, the ratio of cross-border to domestic volume should increase. There are possibilities, however, that the data neither confirm nor reject. In any case, is clear that regionalization is different from, even though related to, a tendency towards consolidation of local operators.

There may also be network economies as well; that is, a larger network may stimulate a disproportionate increase in the traffic across the network. The absence of cross-border

volume suggests otherwise, but this may imply no more than a shift from the national “parcel post” to a cross-border subsidiary of Deutsche Post AG or TPG.

In sum, what is known about the postal parcels market suggests a puzzle with many missing pieces. The decline of volume reported by several USPs, the common perception of increased competition,¹³³ and the decision by the largest USPs to acquire parcels companies in many member states¹³⁴ – all suggest substantially increasing concentration in the EU parcels market, but the paucity of available data permits no more than surmise.

Conclusions

The domestic letter post volume in the EU rose from roughly 85.1 billion items in 1998 to roughly 88.3 in 2002 and perhaps 89.3 billion items in 2003. The three largest USPs have 62 percent of the EU letter post

Despite the close correlation between letter post volume and economic growth in prior decades, since 1998 the letter post has grown at only half of the rate of real GDP, a discrepancy that has widened sharply as letter post volumes have remained flat since 2000. Uncertainty in the data, however, make it impossible to be definite about fine trends.

The volume of letter post per capita varies greatly among member states, from 12 to 350 items per year. This range is primarily a result of differences in economic activity. In the great majority of member states, the volume of letter post falls within a range of 6 to 12 items per € 1,000 GDP. In general, member states with the highest growth rates in letter post volume are those with the lowest present volumes per capita.

There is insufficient data to draw conclusions about the cross-border letter post.

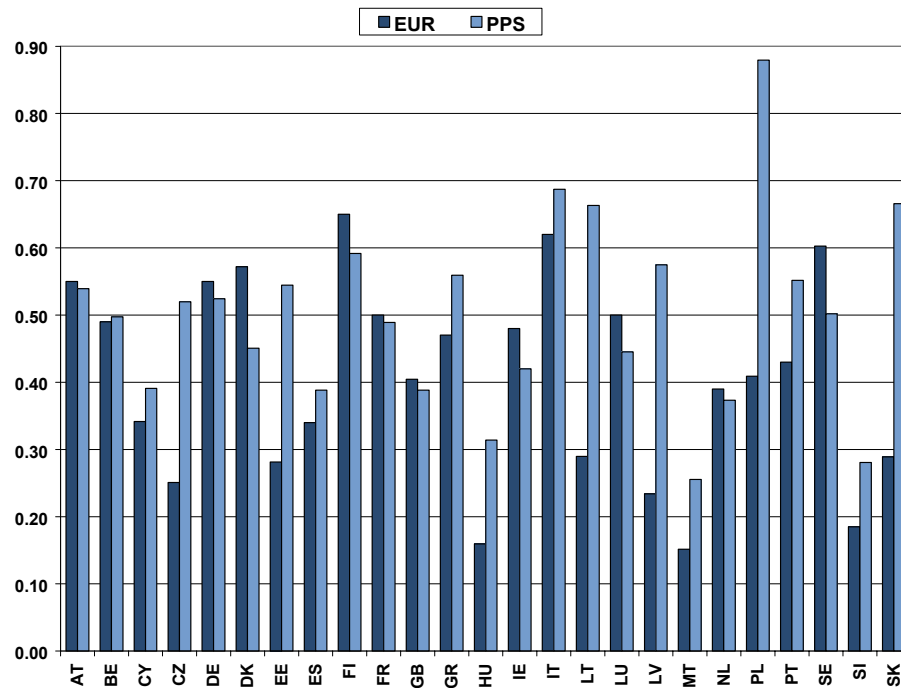
Available data suggests that the postal parcels market is more concentrated than the letter post market, with the top three USPs handling 76 percent of the parcels carried by USPs. Parcels data is more uncertain than letter post data and time series statistics are missing. Based upon incomplete information, there seems to be a tendency towards to the consolidation of parcel post operations in the hands of the largest USPs.

¹³³ See section 5.1.1 above.

¹³⁴ See section 5.1.2 above.

5.2.3 Price performance

Figure 5.2.17 USP tariffs for 20g letter of fastest standard category, 2003, in EUR and PPS



Notes:

Tariffs converted to EUR using average exchange rate for 2003. Tariffs converted to purchasing power standards (PPS) using purchasing power parities (PPP) for 2003, from Eurostat NewCronos.

Public tariffs used for this figure include VAT for the following countries: FI (22%), Sweden (25%) and SI (20%).

For many USPs, public tariffs used in this figure are subject to different conditions regarding letter format.

5.2.3.1 Public tariffs for letter post

The most basic measure for postal prices is the public tariff charged by the USP for collection and delivery of a postal item of the lowest weight step transmitted by the fastest standard category of service (FSC). Figure 5.2.17 presents this charge for each member state, expressed in both normal Euros and PPS, a standardized adjustment for differences in purchasing power among member states.¹³⁵ As this figure shows, nominal tariffs range from a low of € 0.15 in Malta and to a high of € 0.65 EUR in

¹³⁵ One PPS equals € 1.00 at average purchasing power in the Eurozone. The postage rate in PPS indicates of how the price of basic postal service compares to the general domestic price level.

Finland.¹³⁶ With respect to affordability, the PPS columns in this figure suggest that, despite low nominal tariffs, postal service is relatively costly to consumers in several new member states.

A simple comparison of 20 gram first FSC prices does not tell the whole story. In many member states, a second class, lower priority service is also offered for letters; in at least four member states (FI, IT, PT, SK) second class letters account for more than half of letter post volumes.¹³⁷ Moreover, postal tariffs that include VAT are not comparable to those that do not, although presenting tariffs exclusive of VAT would also be misleading since the USP and many customers can reclaim much – but not all – of the tax.¹³⁸ Comparability of tariffs is further limited by the fact that format requirements vary among USPs. For example, a large-sized letter of 20 grams may be carried at the basic rate by one USP and surcharged by another. A more realistic benchmark of prices would take into account the share of mail delivered by each basic letter product.¹³⁹

Figure 5.2.18 illustrates development of the 20 gram FSC tariff in each member state from 1998 to 2003. In this period, basic letter post tariffs increased in all member states but two. In Italy, the USP did not change the tariff. In Germany, the USP reduced rates following a decision by the NRA. In real terms (after adjusting for inflation), the basic letter post rate has increased moderately in most member states, although real price declines were recorded in five (DE, NL, IT, PT and SK). In some member states (CZ, GR, HU, IE, PL, SI), public postal tariffs rose especially sharply. While these increases started from a low base price – suggesting a catch up effect rather than excessive increases – in some cases this rise in postal tariffs has raised concerns among large customers as well as other stakeholders in the sector.¹⁴⁰

Price performance overall does not seem impressive when compared to falling real prices in sectors, such as telecommunications, which compete with postal services in the broader communications market. Public tariffs, however, may mask a significant reduction in the average price of postal services, realized in the form of deeper and more abundant discounts for large users. A reduction in average prices would, if achieved, ultimately benefit the consumer as well, but this survey did not yield sufficiently detailed information to assess this possibility.

136 Price includes VAT.

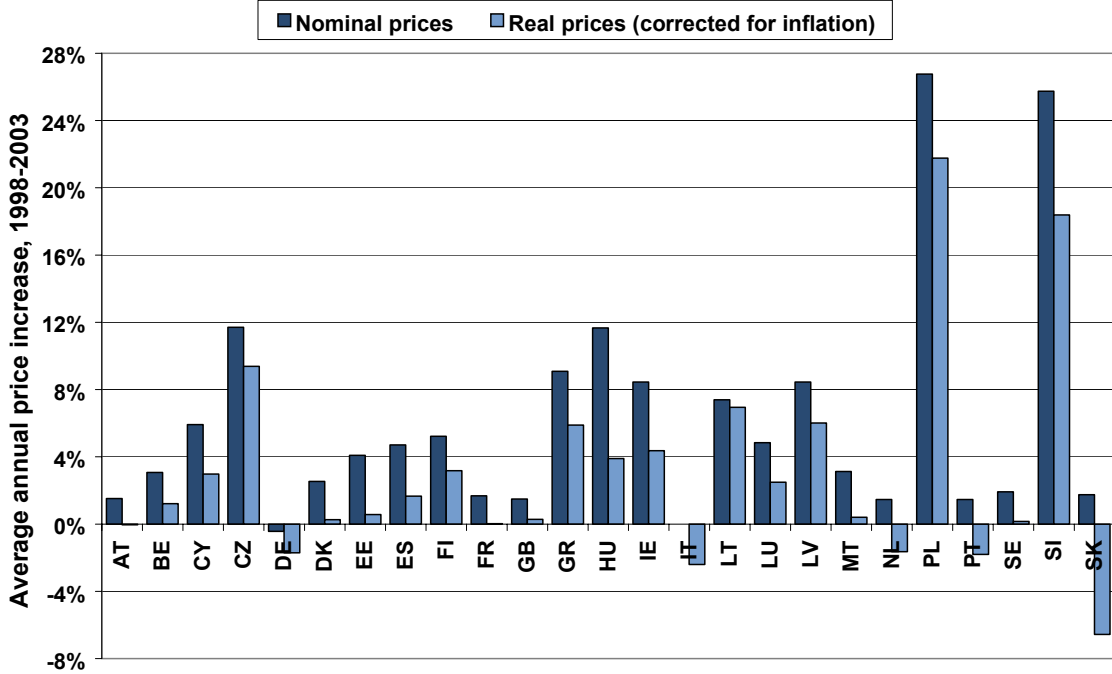
137 According to USP information. Second class mail is likely to be equally very important in GB, SE and PL -but no data on the on shares of second class mail was provided by USPs to WIK.

138 In three member states, VAT is included in tariffs for non-reserved services (i.e. letter above 100g) but not for reserved low weight letters: AT (20% VAT), LU (15% VAT), LV (18% VAT).

139 For a limited number of countries, a similar approach is used by the German NRA (RegTP) in the price comparisons published in RegTP's annual reports.

140 See e.g. FFPI (2004).

Figure 5.2.18 Average annual increase of USP tariffs for 20g letter of fastest standard category, 1998-2003



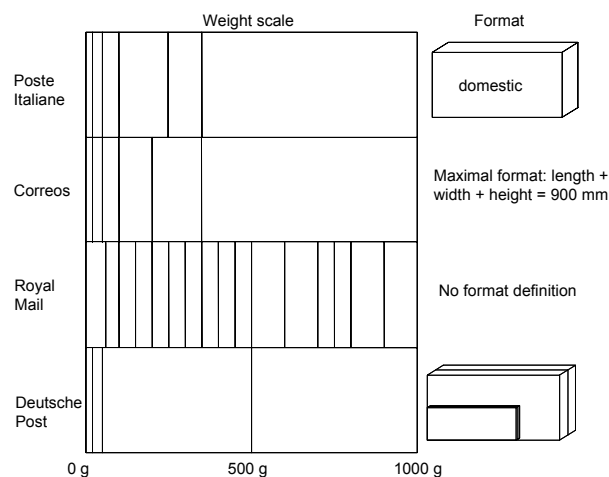
Notes:

A distinction between first class and second class services was introduced by USPs in PL and SK during the period from 1998 to 2003.

Case study 5.6 Weight steps and format requirements in USP tariffs

Traditionally most European USPs used a tariff structure that was based on weight and distance.¹⁴¹ First attempts to introduce format requirements into the price structure were made in the late 1960s (UPU and Australia Post). Since the 1970s several European USPs have introduced additional components to their price structure, including discounts for presorted and/or metered mail as well as volume discounts.¹⁴² Those components encourage customers to optimize mail by increasing the share of mail that may be handled by automated machinery.

The chart below illustrates different price structures by comparing weight and format criteria applied by four USPs: Poste Italiane (IT), Correos (ES), Deutsche Post (DE) and Royal Mail (GB). Royal Mail's prices depend solely on weight; there are no format requirements. There are 16 weight steps up to one kilogram.¹⁴³ Deutsche Post uses four weight steps and four different format categories. Poste Italiane and Correos use relatively similar weight and format scales: six weight steps and one maximum format requirement for domestic letters.¹⁴⁴



Variety in format and weight categories complicates comparisons of national tariffs. For example, Deutsche Post charges the same price for a letter weighing 55 grams or 455 grams, whereas Royal Mail charges more than five times the lower tariff for a 455 gram letter. By contrast, Deutsche Post will charge four times the lowest tariff if the size of a 20 gram letter exceeds standard format C6¹⁴⁵, while Royal Mail would still charge the lowest tariff.

¹⁴¹ Differences concerning speed of delivery (priority/non-priority) are a different component of tariffs structures but are left aside in this case study.

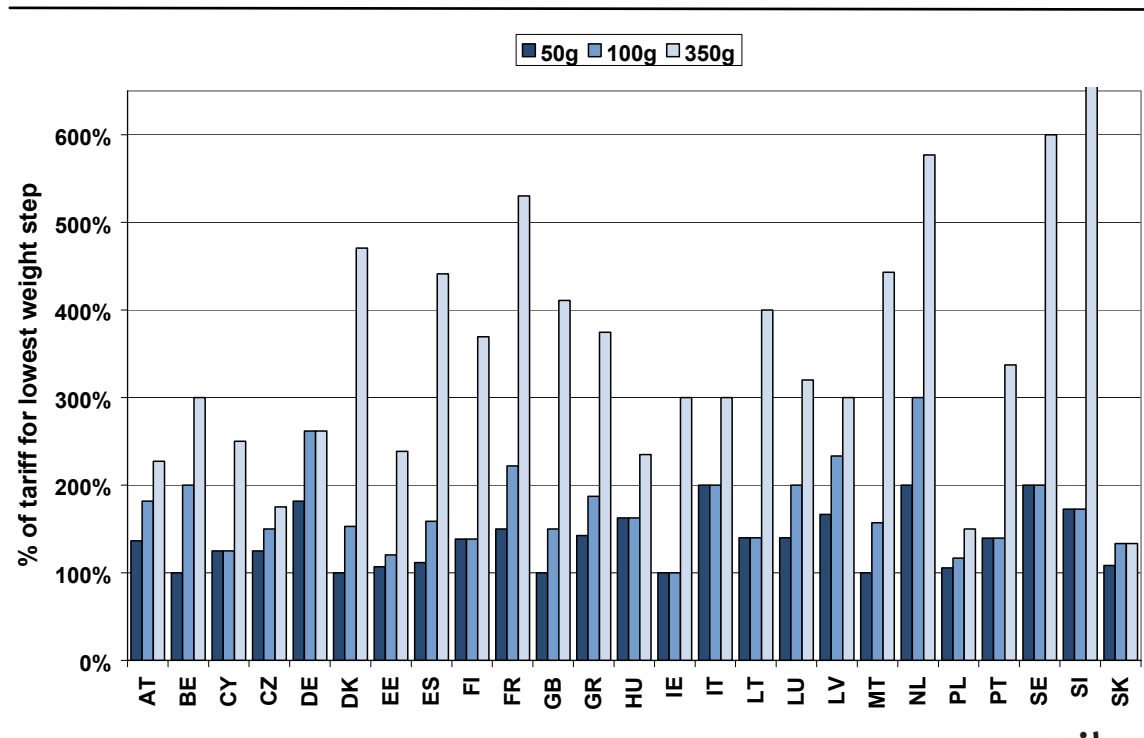
¹⁴² See Hearn/Devereux (2004).

¹⁴³ Royal Mail intends to introduce size based pricing in 2005. Royal Mail has proposed three formats: letter (0-100g), large letter (two weight classes, 100-250 and 250 to 500g), and packets (500-1,000g). Currently, the proposal is under consideration by the Postcomm and Postwatch.

¹⁴⁴ Poste Italiane classifies international mail into three different formats.

¹⁴⁵ Plus an additional surcharge if the letter is oddly shaped enough so that the sum of length, size and width exceed 90cm.

Figure 5.2.19 USP tariffs by weight: tariffs for 50g, 100g, and 350g as % of lowest weight step, 2003



Notes:

SI: 350g letter is charged 9.55 times the tariff for a 20g letter (Scale reduced to increase legibility of the figure).

Figure 5.2.19 shows how postal tariffs rise with the weight in different member states. For FSC letters weighing 50, 100, and 350 grams, this figure indicates the relation of the tariff to the first weight step. In Sweden, for example, the charge for a 350 gram is 600 percent of the tariff for a 20 gram letter. The figure also shows that in four countries (BE, DK, GB, MT), the USP's first weight step goes up to 50 grams (i.e. the ratio for the 50 gram rate is 100 percent). Indeed, in Ireland, the first weight step for letters goes up to 100 grams. Assuming the distribution of letter volume among weight steps does not vary substantially among member states, the average public postage rate is lower than a comparison of 20 gram tariffs implies in countries where heavier letter are relatively less expensive.

5.2.3.2 Special tariffs for letter post

Both USPs and competitive operators seek to discriminate among different customers in the pricing of products for understandable reasons. One consideration is that the cost of providing postal services may vary among different senders. For example, sorting machines can process printed letters better than handwritten letters. Some senders reduce sorting costs by presorting their mail. The cost of mail processing also depends

on the way postage has been paid (stamp, metered, PPI).¹⁴⁶ Another consideration is that senders have distinct demand patterns. Customers may be more or less sensitive to variations in price, routing time, or other product characteristics. By developing products tailored to the demand characteristics of different customers, postal operators can stimulate overall demand.

European USPs have developed a variety of products and discount schemes. This survey requested information on three types of reduced tariffs: discounts for correspondence (related to volume, pre-sorting and/or transportation to specific USP facilities), direct mail tariffs, and tariffs for second class letters. Volume discounts and direct mail rates are typically limited to large business mailers. Second class rates are usually available to all mailers at all times, and thus are not, strictly speaking, a discount. Second class tariffs are included in this section since in some member states they are, like other business rates, used by large mailers and advertisers in the absence of more targeted special tariffs or direct mail products.

Table 5.2.9 Overview of bulk discounts, direct mail and second class tariffs offered by USPs

| Maximum discounts for bulk correspondence | | Direct mail tariff as % of FSC tariff | | Second class tariff as % of FSC tariff | |
|---|-------------|---|-------------|--|-------------|
| | No. of USPs | | No. of USPs | | No. of USPs |
| No discounts | 1 | No DM | 1 | No 2nd class | 12 |
| 0-15% | 5 | >85% | 4 | > 85% | 5 |
| 15-30% | 7 | 70-85% | 5 | 70-85% | 4 |
| 30-45% | 2 | 55-70% | 2 | 55-70% | 4 |
| > 45% | 1 | < 55% | 2 | < 55% | 0 |
| N=16 (CY, DE, DK, FR, GB, GR, HU, IE, LU, LV, PL, PT, SE, SI, SK) | | N=14 (BE, CZ, DE, DK, FI, GB, GR, IE, PL, PT, SE, SI, SK) | | N=25 | |

Notes:

Consolidated answers from USPs and/or NRAs.

Direct mail tariffs relate to 20g DM items in a tender of 1,000 pieces.

Second class tariffs are for 20g.

Table 5.2.9 gives an overview of the variety of discounts offered by USPs in the EU. The two columns on the left summarize the survey results with respect to the highest discount available for bulk correspondence. As the table shows, the maximum discount for correspondence ranges from zero to roughly 50 percent. A typical value would be 20 to 30 percent. Most discounts require presorting, and some depend upon transportation

¹⁴⁶ Pitney Bowes uses the term “channel pricing” and argues that by choosing adequate payment channels, postal operators may at the same time reduce their cost and adopt to the needs of SMEs; see Walsh (2004).

by the sender.¹⁴⁷ The share of correspondence carried at discount rates appears to vary from 10 to 90 percent depending on the member state. Based on a limited number of responses, it seems that large discounts for bulk mail are more prevalent in western and northern member states.

The two middle columns in this table present an overview of tariffs for a mailing of 1,000 direct mail items. In large countries, substantially lower tariffs are usually available for larger mailings. Again, a limited number of responses limits the conclusions that can be drawn. It is apparent, however, that direct mail rates are substantially lower than first class letter rates in many member states, and less than half as much in some. Variation among USPs may be explained by two factors. First, some USPs are especially eager to get direct mail to create additional volume and therefore grant larger discounts. Second, tariffs for first class letters in some countries are so low (perhaps due to regulation) that the USP has limited leeway to discount further for direct mail.

Finally, the right columns on the right in Table 5.2.9 indicate price levels for letters sent by the second fastest standard category. Tariffs for second class products range between 66 and 95 percent of the corresponding first class tariff. The share of correspondence transmitted at second class rates varied from 24 to 95 percent among seven USPs that provided data. Unsurprisingly, the share was significantly higher in countries where second class tariffs are relatively low. Generally, this survey suggests significant demand for letter services with a longer transit time than first class mail.

From table 5.2.9 it appears that almost all USPs apply prices that are significantly below first class letter rates to a substantial share of mail. These “discounts” are granted in different ways and using different products. It may be noted that, despite the Directive’s insistence on cost orientation and transparency of special tariffs, information on discounts was regarded as commercially sensitive by a number of USPs and provided in confidence only by others. In some cases, this information was apparently unavailable to NRAs.

Case study 5.7 USP tariff rebalancing in Sweden

In Sweden, the first EU postal market to be completely liberalized, the USPs tariff structure has changed significantly in the competitive environment. The general trend was a rebalancing of public and special tariffs. From 1993 to 2002, the first ten years after liberalization, the USP’s public tariffs increased by 75 percent while bulk mail tariffs decreased by approximately 50 percent (according to an estimate by the chairman of the Swedish competition authority).¹⁴⁸

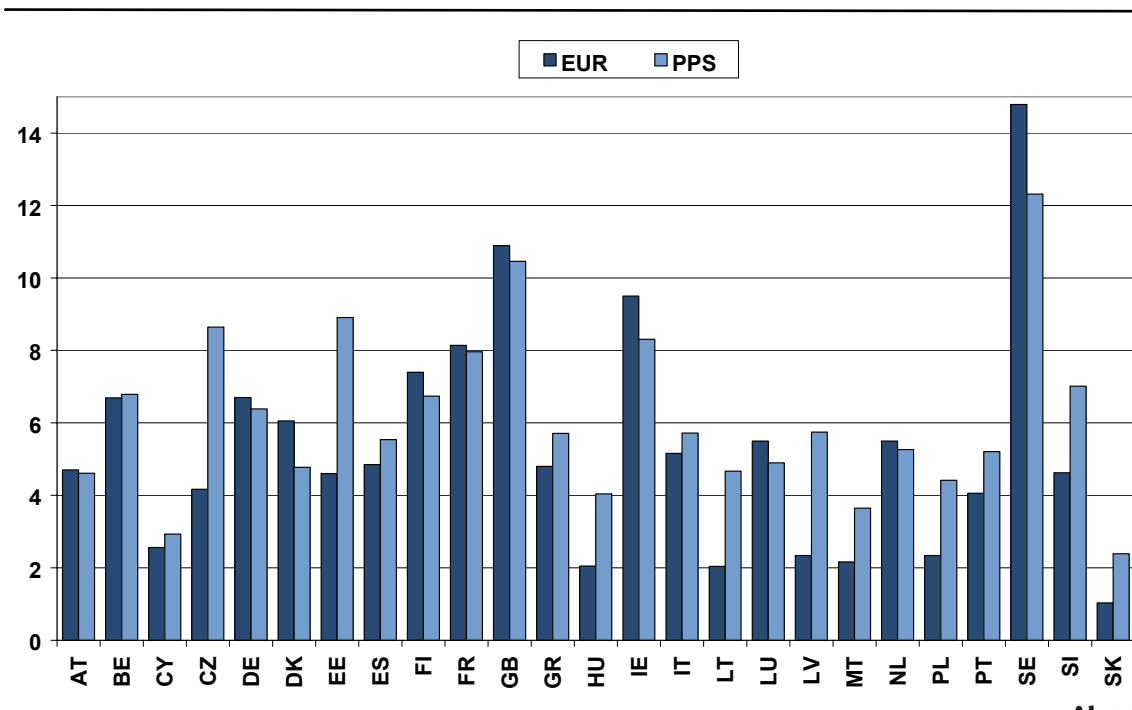
¹⁴⁷ An overview of the types of discounts available is provided in a previous section of this report, see table 4.5.2 (Types and transparency of special tariffs).

¹⁴⁸ Bergman (2002).

5.2.3.3 Public tariffs for parcels

For parcel services, price comparisons are significantly more complex because there is much more variation between parcel products offered by European USPs. Very different tariffs are available for parcels depending on, among other things, weight, size, routing time, destination, and mode of collection. Some of these offerings could be considered express products, reflecting the blurring boundaries between the parcels and express segments.

Figure 5.2.20 USP tariffs for a 5 kg domestic parcel (lowest available public tariff), 2003, in EUR and PPS



Notes:

Tariffs relate to the lowest public tariff available for a 5 kg parcel. Characteristics of the products may vary substantially.

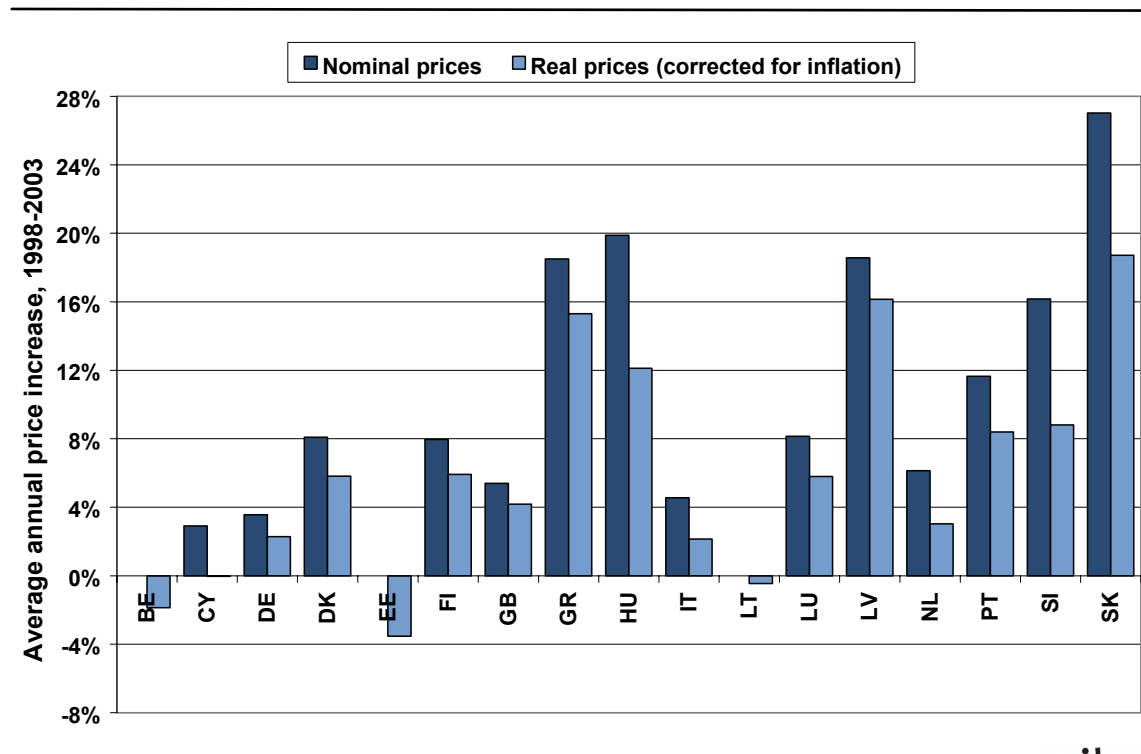
Tariffs converted to EUR using average exchange rate for 2003. Tariffs converted to purchasing power standards (PPS) using purchasing power parities (PPP) for 2003, from Eurostat NewCronos.

Public tariffs used for this figure include VAT for some countries – see Figure 4.5.2 (Postal services exempted from VAT) above.

Given the Directive’s emphasis on affordable universal services, this survey focused on the lowest available public rate for parcels. Figure 5.2.20 illustrates the lowest rate available to the general public in the various member states for domestic delivery of a 5 kilogram parcel. Tariffs presented in this figure should be compared with caution since they may relate to very different products. Some tariffs include universal delivery while

others do not.¹⁴⁹ Routing times for parcels also vary substantially. These differences in service have a significant effect on the cost of parcel delivery that may explain some of the variation in parcel tariffs. Nonetheless, the figure clearly shows that there is wide variation in the lowest available public tariffs for parcels. It is surprising at first glance that tariffs differ so significantly even between member states that may be considered quite similar, for example, between Finland and Sweden or between Denmark and the UK.

Figure 5.2.21 Average annual change in public tariffs for domestic parcels, 5kg (lowest available tariff), 1998-2003



Notes:

No information on 1998 parcel tariffs available for USPs from AT, CZ, ES, FR, IE, MT, PL, and SE.

Figure 5.2.21 present the average annual increase of the lowest parcel tariffs available over the six year period from 1998 to 2003. It shows that there have been significant tariff increases in a number of countries. However, increases were most significant in countries where tariffs are relatively low (GR, HU, LV, SK).

149 See section 4.2.

Conclusions

There are substantial differences in tariff structure and tariff levels among Community USPs. Variation is even greater with respect to special (discount) tariffs.

The basic tariff for a 20 gram letter sent by the fastest standard category of universal service ranges from € 0.15 to € 0.65. Adjusting for differences in purchasing power, the range narrows to € 0.26 to € 0.69 (treating the Polish rate of € 0.88 as an outlier).

In nominal terms, the basic letter rate increased in all but two member states from 1998 to 2003; in inflation-adjusted terms, rates increased in 19 member states. Increases in public tariffs, however, may mask reductions in the average price of postal services, realized in the form of deeper or more abundant discounts for large users. Discounts for bulk and direct mail are widely used in most member states and appear to be largest in western and northern member states.

Public tariffs for parcels have increased more substantially than letter post tariffs. In the period 1998 to 2003, public parcel tariffs increased in 15 of 18 member states for which information is available. In 10 member states, public parcel tariffs increased by more than 5 percent per year on average in real terms. Here too, increases in public tariffs do not necessarily indicate increasing overall price levels since decreasing tariffs for business senders may have had an opposite effect.

5.2.4 Technological and productivity developments

5.2.4.1 Technology and automation

The postal value chain – collection, sorting, transport and delivery of postal items – is labour intensive. Machines can automate mail sorting, but the decision to introduce sorting technology for letters and flats (large envelopes) depends on several factors. The most important are the mail volume per sorting point, the cost of labour, and the cost and availability of investment financing.

Table 5.2.10 Reductions in the number of sorting centres (1998-2004)

| | 1998-2001 | 2001-2004 | 1998-2004 | 1998-2004 |
|-----|-----------|-----------|-----------|--|
| Yes | 8 | 9 | 12 | AT, CY, DE (already started before 1998), DK, FI, FR, GB, GR, IE, IT, LT, MT |
| No | 14 | 13 | 10 | BE, EE, ES, HU, LU, LV, NL (done before 1998), PT, SI, SK |
| N | 22 | 22 | 22 | |

Notes: NA – CZ, PL, SE

To enhance mail volume per sorting centre, most USPs have reorganized their postal networks to reduce the number of sorting centres. In some countries this process started long before 1998 (e.g. DE and NL). In most of the new member states, however, the reorganization process has been started only recently. In France, the USP has recently announced its intention to restructure its mail processing activities over the next six years.

Table 5.2.11 Introduction of sorting technology

| | Before 2001 | 2001-2004 | Planned | Not planned | NA |
|---------------------------|---|------------------------|--|--------------------------------|----------------------------|
| Automated letter sorting | 16 | 3 | 2 | 1 | AT, CZ, SE |
| | BE, DE, DK, EE, ES, FI, FR, GB, HU, IE, IT, LU, NL, PT, SI, SK, | CY, GR, PL | LV (2005-2007); LT (later than 2007) | MT | |
| Flats sorter | 9 | 6 | 3 | 4 | AT, CZ, SE |
| | BE, DE, FI, FR, GB, IT, LU, NL, PT | DK, ES, HU, IE, PL, SI | 2005-2007: GR, LV; later than 2007: LT | CY, EE, MT, SK | |
| Delivery sequence sorters | 3 | 1 | 6 | 8 | AT, CZ, FR, IE, PL, SE, SI |
| | DE, DK, PT | NL | 2005-2007: GR, LU; later than 2007: BE, GB, LT, SK | CY, EE, ES, FI, HU, IT, LV, MT | |
| Automated parcel sorting | 13 | 2 | 1 | 5 | AT, CZ, GB, SE |
| | BE, DE, DK, EE, ES, FI, FR, HU, IE, NL, PT, SI, SK | GR, PL | LU (2005-2007) | CY, IT, LT, LV, MT | |

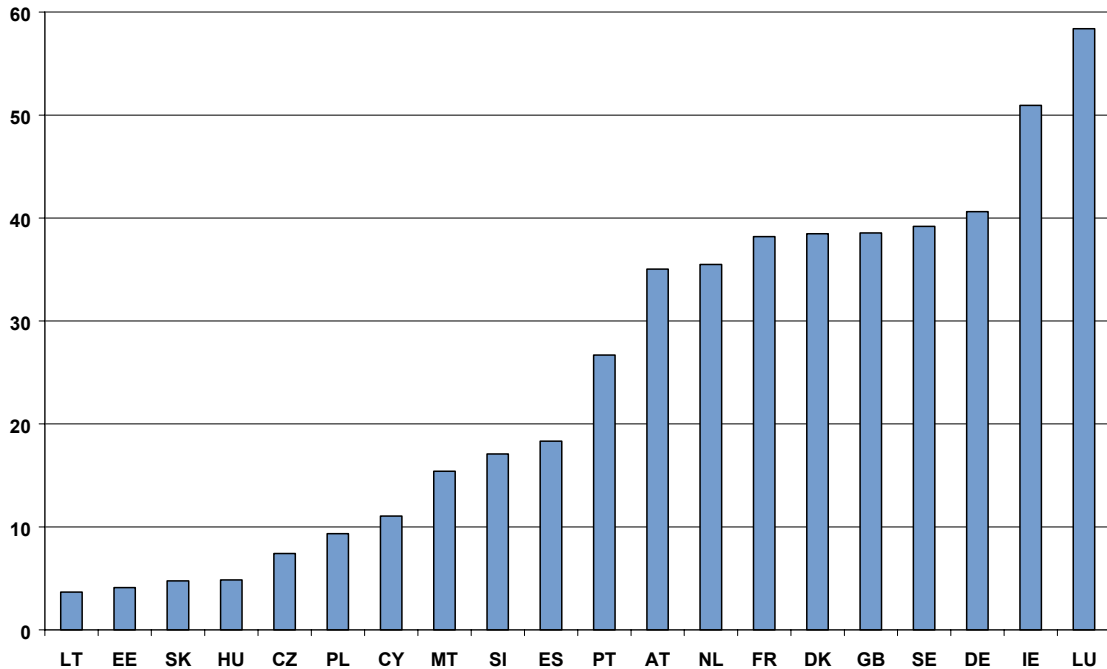
Sources: WIK survey except for DE (annual reports)

If they can be justified, sorting machines for letters, flats, and parcels represent one of the most important process innovations that a USP can make (see Table 5.2.11).

Today most USPs sort letters automatically, although with varying success. The share of letters sorted automatically ranges from about 20 percent to more than 90 percent. Since 1998 the overall share of letters sorted automatically has increased continuously. For USPs that introduced automated sorting in 1998 or earlier, the percentage of letters sorted by machines has grown from about 60 percent (1998) to more than 70 percent in 2004.¹⁵⁰ Automated sorting of flats is much more limited, probably due to relatively low volumes. Fifteen USPs have introduced sorting machines for flats while three USPs plan to do so and four have decided not to use this technology. Automated sorting to the final delivery sequence is a relatively new technology. Use of such technology depends on high mail volume per delivery route. For this reason, only a handful of USPs have introduced delivery sequence sorting (DE, DK, NL, and PT) while eight (of 18) USPs plan not to do so.

¹⁵⁰ This figure is based on answers of 10 USPs which introduced sorting technology before 1998 (BE, DE, DK, ES, FI, FR, HU, IE, LU, SI). If the answers from responding USPs who have not yet introduced sorting machines are included, the average was 36 percent in 1998 and nearly 50 percent in 2001 (n=15). If the answers of USP are weighted by domestic letter post volume (2002), one could conclude that about 70 percent of letters are sorted automatically.

Figure 5.2.22 Employment expenses per employee (2002, thou EUR per FTE)



Notes:

GR, IT, LV – no FTE figures submitted;

FI – missing employment expenses;

BE – employment figures are confidential;

BE, DK, IE, SE – employment expenses coming from annual reports;

AT, DK, FI, GB, SE – FTE figures based coming from annual reports. It widely appears that employment costs are not an important factor in deciding whether to introduce letter sorting machines or not. Even in countries with low costs per employee like LT, EE, SK and HU (see Figure 5.2.22) sorting machines have been introduced. It seems therefore that the decision is mainly volume driven.

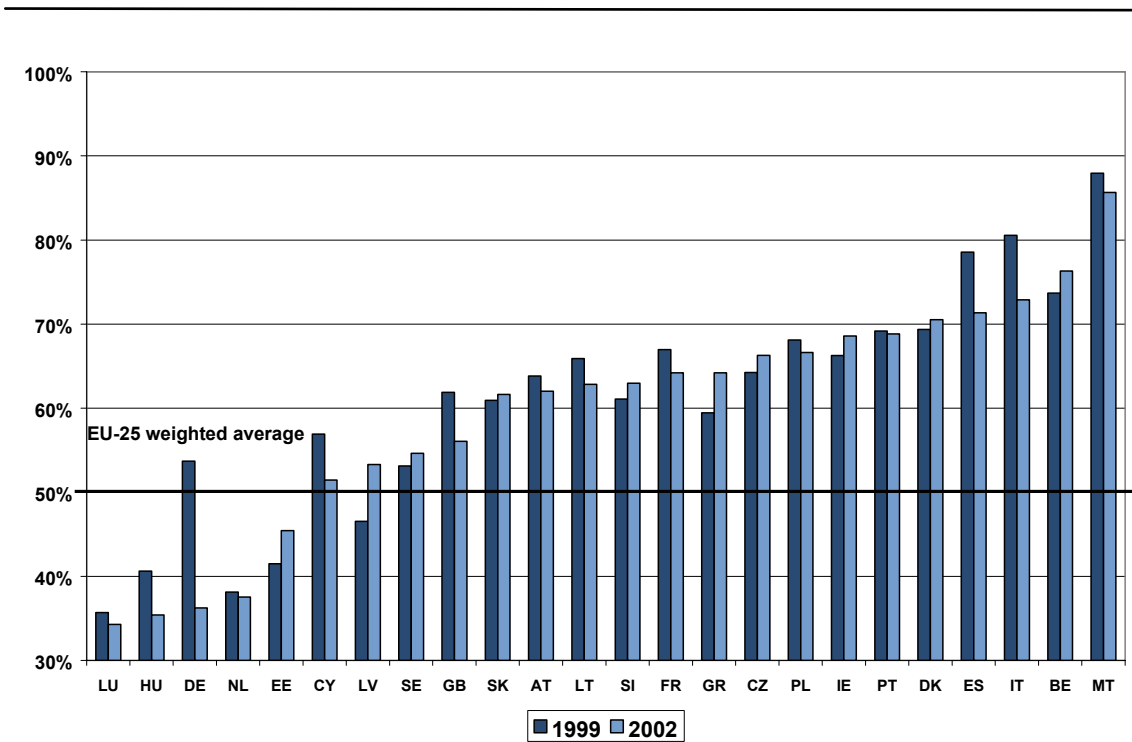
In most countries automation technology has been introduced regardless the level of labour costs (see Figure 5.2.22). This result is surprising. For example, the Lithuanian USP, which faces very low labour costs, plans to introduce sorting machines for letters. With respect to flat and parcel sorting technology, however, there appears to be a stronger relationship between volumes, labour costs, and use of technology.

Collection and delivery networks have also been undergone a restructuring and optimization process in order to enhance network efficiency. This process typically includes application of operations research methods to optimize collection and delivery routes, implementation of corporate-wide data systems (e.g. DE, HU), and improvements in the retail network. In Lithuania a new postal code system has been introduced, while in Portugal the existing postal code system has been extended from

four to seven digits. In Ireland, the only member state without a postal code system, there has been extensive discussion about introduction of such a system.¹⁵¹

5.2.4.2 Productivity

Figure 5.2.23 Share of employment expenses in total operating expenses (1999 and 2002)



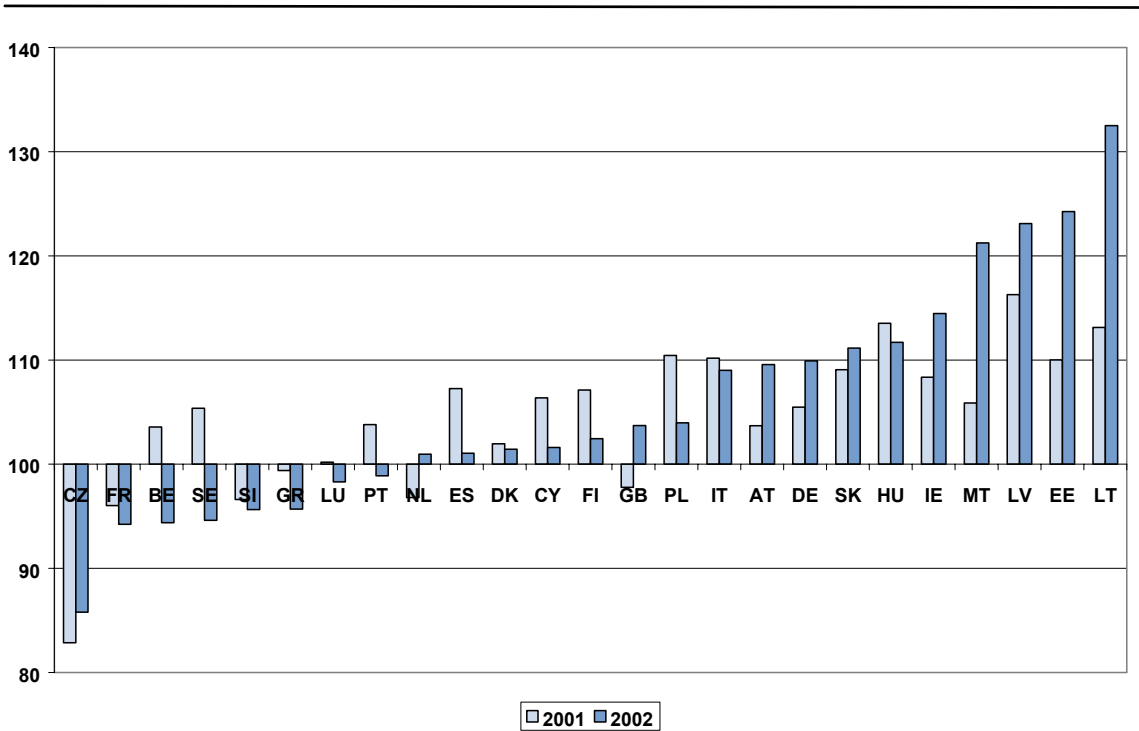
Notes: FI – missing employment expenses;
 BE, DK, IE, SE – employment expenses from annual reports;
 AT, BE, CZ, DE, DK, IE, LU, SE – operating expenses from annual reports.

Depending on the corporate structure and business activities of a USP, employment cost as a share of total operating expenses ranges from below 35 percent to more than 85 percent (see Figure 5.2.23). In general, the more a USP is focused solely on postal services, the higher the proportion of expenses devoted to labour. For example, the very low share of employee costs reported by the LU USP results from the fact that it also provides telecommunication services. Likewise, the German and the Dutch USPs have modified their corporate structures so they are dominated by express and logistics which are less labour intensive than letter post services. In Hungary and Estonia, the

¹⁵¹ The Irish USP is still refusing doing so (after extensive investments in OCR technology).

low percentage of employee costs are due mainly to low wage levels (see Figure 5.2.22).

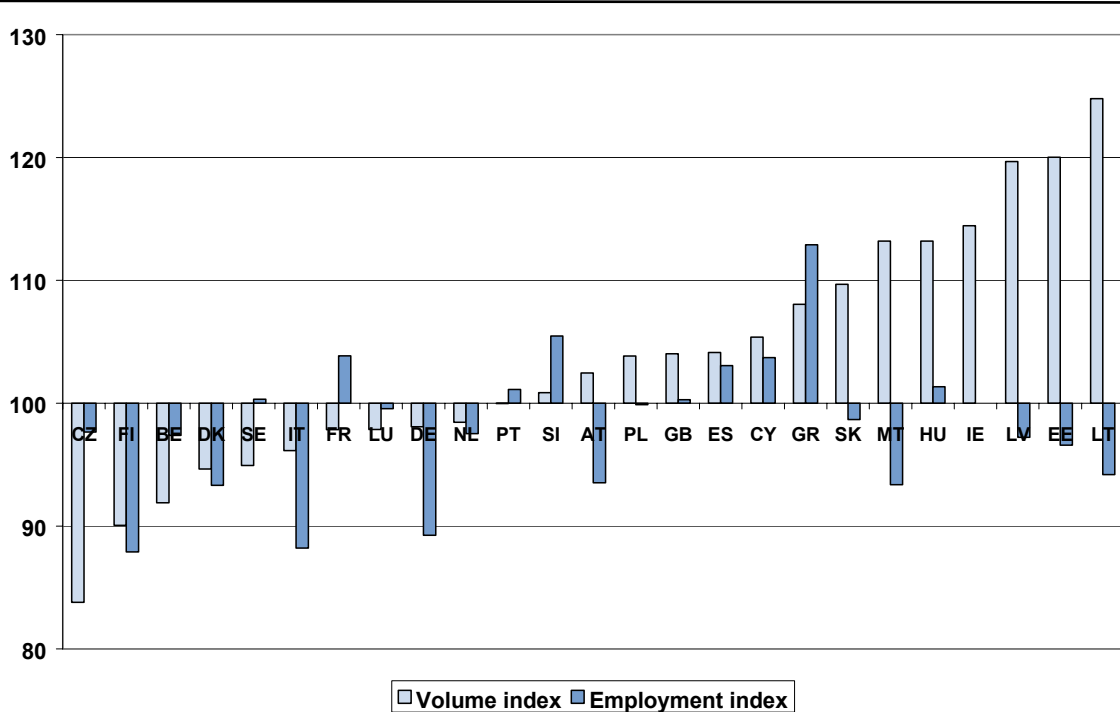
Figure 5.2.24 Labour productivity index (letter post per FTE 2000-2002, 2000=100)



Notes: Calculation of employment figures see section 5.2.1.2.
Volume figures are based on calculations for domestic letter post presented in section 5.2.2.1.

For postal services, the most common indicator of productivity is the average number of postal items per employee (labour productivity). One must keep in mind, however, that postal services are characterized by considerable economies of scale and scope. Hence, an increase in mail volume does not cause a proportional increase in the number of employees. Therefore labour productivity by itself does not indicate the efficiency of a postal service. Changes in labour productivity are more informative (see Figure 5.2.24).

Figure 5.2.25 Index of postal employment and letter post volume (2002, 2000=100)



Notes: Calculation of employment figures see section 5.2.1.2
 Postal volume figures are based on calculations presented in section 5.2.2.1.

Figure 5.2.25 shows how the volume of letter post items and the number of employees have changed from 2000 to 2002 in each member state. A greater increase in the letter post volume than in the number of employees implies an increase in labour productivity. The most striking increases in labour productivity can be observed in EE, LT, LV and MT. In these countries changes in labour productivity were driven mainly by substantial increases in mail volumes combined with moderate decreases in employment. For the German USP an increase in labour productivity was caused by a significant reduction in postal employment combined with moderately increasing letter post volumes. In France and Sweden letter post volumes went down while employment increased slightly resulting in decreased labour productivity. The Danish, Finnish, and Italian USPs faced decreasing letter post volumes and avoided declining productivity only by strongly reducing postal employment. The Czech USP was not as successful; it was unable to offset decreasing volume by a corresponding reduction in employment.

USPs with limited possibilities for saving costs were also unable to compensate for losses in letter post volume.¹⁵² Nonetheless, if USPs are weighted by their domestic letter post volumes, overall labour productivity in the EU increased about 3.5 percent between 2000 and 2002 despite decreasing letter post volumes in some member states.

Conclusions

Postal networks in the Community have undergone significant restructuring from 1998 to 2002. USPs have reduced the number of sorting centres in order to create critical mass for sorting automation and to reduce transportation costs. Most USPs have increased use of sorting machines; some have introduced automated sorting down to delivery sequence. Information technology has been used to optimize postal delivery routes and thus reduce transportation and distribution costs. For some of the smallest member states, there are less benefits from automation due to low economies of scale and low wage levels.

As a result of increased automation, the share of labour cost in total expenses has decreased for most USPs. For those USPs that made significant acquisitions, a further decrease resulted from the integration of less labour intensive operations.

Significant increases in labour productivity (domestic letter post items per full time employee) were realized by most USPs from 2000 to 2002. These productivity gains resulted more from reduced employment rather than from volume increase.

¹⁵² For example Posten AB (SE): Although its postal operations have already been well-organized the company started a further cost cutting programme in 2003 predominantly focussing on the administration.

5.3 Universal service

5.3.1 Access to universal service

The requirements of business customers and consumers concerning access to the postal network differ considerably. Businesses are normally situated in densely populated areas where access to post offices is easy. This is more important for small companies than for large. Large companies often tender large volumes of presorted mail and therefore need access to sorting centres or special access points. Small and medium-sized business customers as well as consumers make use of post offices or even street letter boxes.¹⁵³ Consumers, moreover, may have a particular need for access to post offices outside the usual working hours.¹⁵⁴ Postal agencies often linked to stores like supermarkets or groceries have been used to offer postal services outside the usual business hours in some member states.

Decreasing the number of access points – post offices or street letter boxes – usually gives rise to public discussions and erodes customer satisfaction. An example is the experience of Posten AB (see Case study 5.8). Postal access is especially important in rural areas where post offices have preserved their social function as a meeting point.¹⁵⁵ For large business customers, access to sorting facilities and other special post offices will become more and more important. As these large customers account for the bulk of the mail, USPs have adequate incentives to meet the needs of this group. Incentives to provide access for small and even medium-sized business customers, and especially for consumers, are less apparent.

¹⁵³ Roland Berger (2004).

¹⁵⁴ Like in Belgium opening hours may pose an access problem if post offices do not offer extended business hours and working people cannot get there before the office closes. Test-Achats (2003).

¹⁵⁵ Postwatch (2003).

Case study 5.8 Public access in Sweden

The Swedish situation is marked by a strong contrast between actual changes in the postal outlet network and the perception of postal users who show increasing dissatisfaction with access possibilities. This is reflected by low evaluation results concerning the service level of Sweden Post compared to other European universal service providers.¹⁵⁶ The reason for substituting post offices by agencies are increasing costs due to declining mail volumes and declining demand for financial services provided by post offices. This development is strongly linked to the observation that the frequency of customers' post office visits declined.¹⁵⁷ In contrast to their in fact diminishing demand for services provided by post offices customers and consumers are discontent with the substitution of post offices by postal agencies. Customers benefit from extended opening hours on the one hand but experience deteriorations if post offices in their neighbourhood are closed and replaced by more remote agencies on the other hand.¹⁵⁸

Case study 5.9 Access to universal services in Germany: the Quelle co-operation

German legislation requires the USP to maintain at least 12,000 postal outlets. It further requires that no less than 5,000 outlets be operated by staff that is directly employed by the USP.

The substitution of traditional post offices by postal agencies gained a new aspect in 2003 when Deutsche Post entered a cooperation with chain store Quelle. Under this co-operation, postal services are provided in some of the chain's stores – mostly in small towns – and local store owners have become part-time employees of Deutsche Post. Their employment contracts specify very limited working hours in order to avoid liability to social insurance and thus to reduce labour costs ("insignificant employment"). Despite the limited working hours the store owners are considered to be directly employed by and the Quelle store thus fulfil the conditions for a "post office" (operated by USP staff).

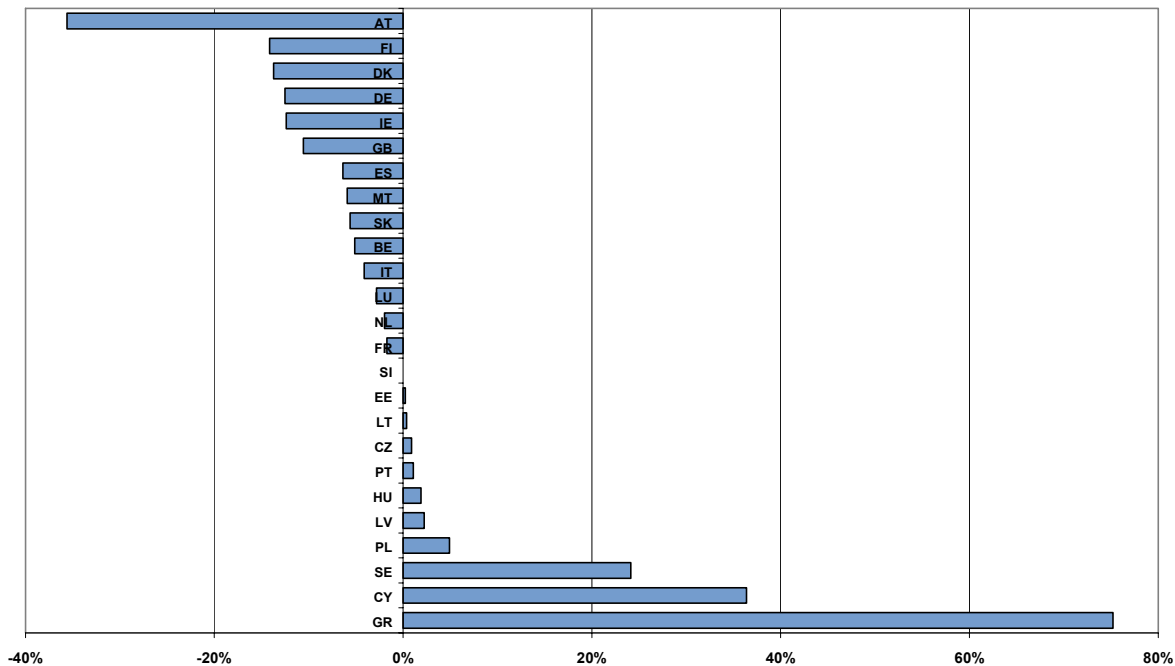
It was questioned in public debate whether these types of postal outlets offer the same service level as traditional post offices. In particular, shop owners are recommended to offer postal services only in a time-slot of one hour daily that shop owners should announce to its customers. By contrast, however, German NRA RegTP affirmed that in reality postal services are offered during the whole opening hours of the Quelle stores in question and that there was no deterioration of the access quality.

¹⁵⁶ Eurobarometer (2003).

¹⁵⁷ PTS (2003a), p. 6.

¹⁵⁸ Interview with PTS, 30 March 2004.

Figure 5.3.1 Change rate of postal outlets per 10,000 inhabitants at MS level, 1998-2003



Secondary data sources: GB (2002), PL (1998-2001), SK: UPU
 CZ (1998-2000): Annual reports
 CZ (2001): estimated by WIK
 CZ (2002), PL (2002): WIK (2003a)
 SE: Eurostat
 Population and country size: Eurostat

In the majority of member states the number of mail boxes was stable between 1998 and 2002.¹⁵⁹ Only the German and Swedish USPs significantly reduced the number of street letter boxes (albeit in compliance with regulatory requirements). In the majority of the member states, however, the number of postal outlets has decreased (see Figure 5.3.1). Only a handful USPs (CY, GR, PL, SE) have significantly raised the number of outlets, mainly by establishing postal agencies.¹⁶⁰ The decline of postal outlets in Austria is noteworthy. The Austrian USP reduced the number of post offices in the year before the universal service ordinance entered into force.

¹⁵⁹ The 2003 figures are incomplete.

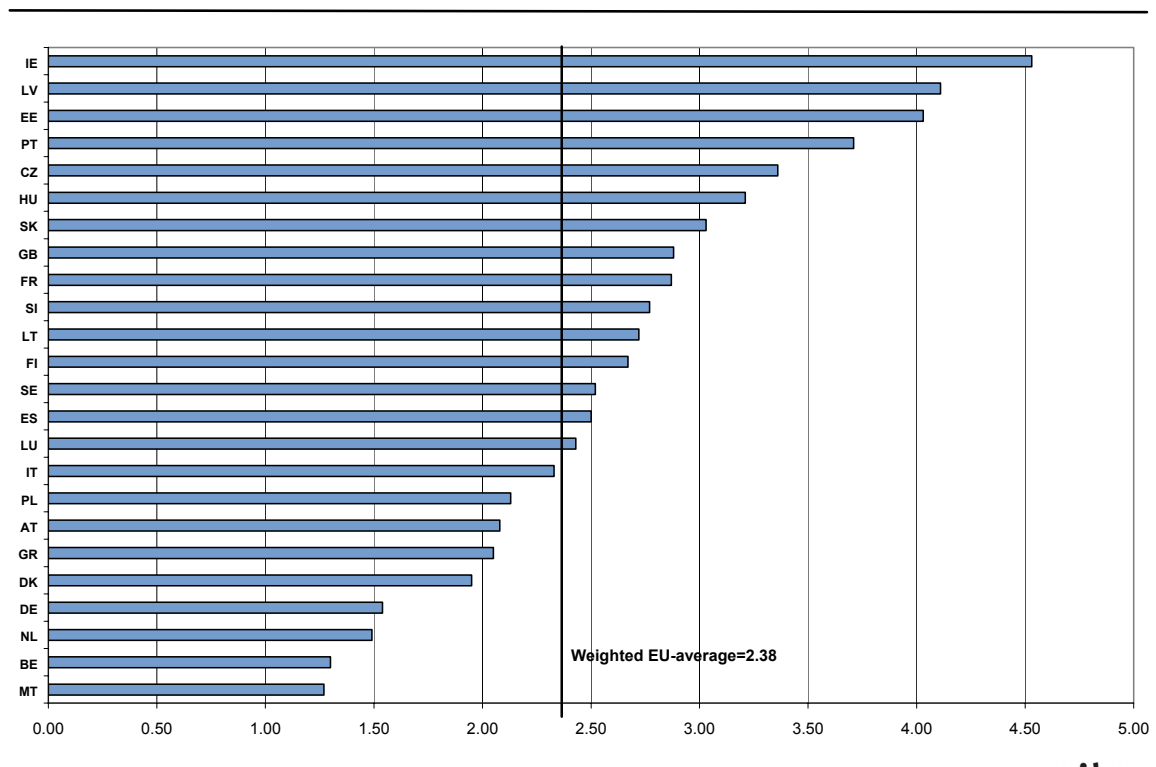
¹⁶⁰ Cyprus is a special case. About 95 percent of the postal outlets are so-called agents owning small businesses. Besides providing basic postal services these agents are also responsible for the delivery and collection of mail in their villages. This is the reason why Cyprus has the by far highest number of postal outlets per 10,000 inhabitants (15.7 in 2002).

Table 5.3.1 Development of the postal network - EU-25 (1998-2002)

| | 1998 | 2002 | CAGR (1998-2002) |
|---------------------------------------|---------|---------|------------------|
| Post offices | 74,075 | 67,033 | -2.5% |
| Share of total | 65.5% | 61.4% | |
| Post agencies | 38,944 | 42,222 | 2% |
| Share of total | 34.5% | 38.6% | |
| Postal outlets | 113,019 | 109,255 | -0.8% |
| Postal outlets per 10,000 inhabitants | 2.52 | 2.40 | -1.1% |

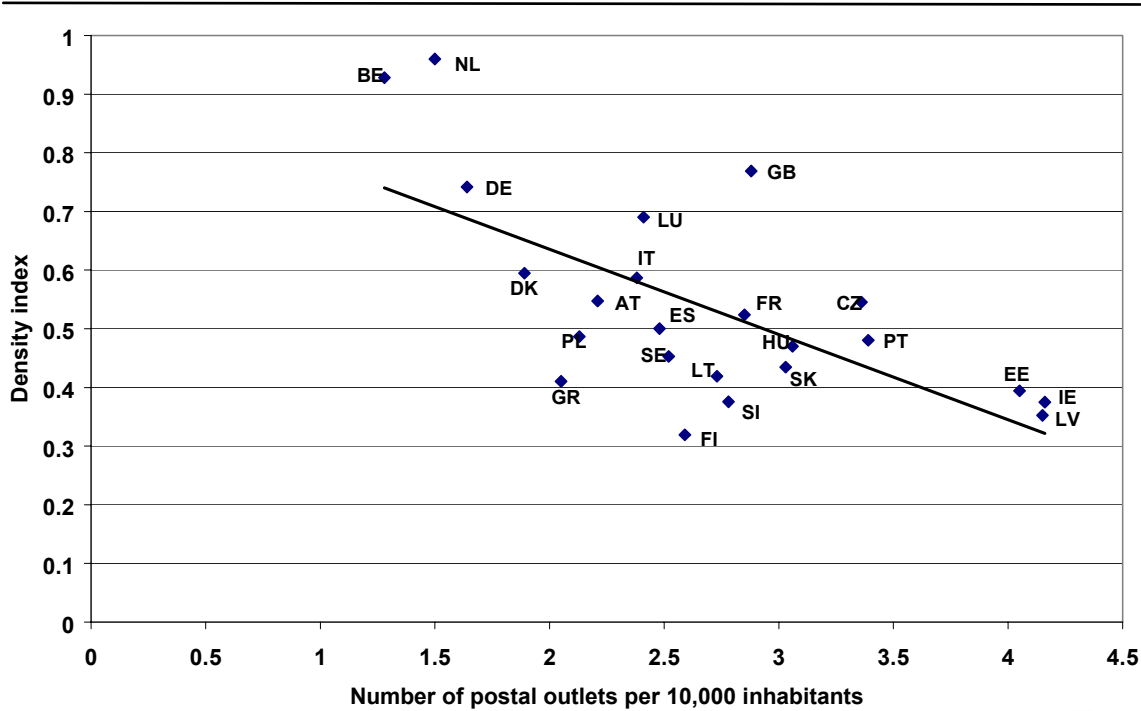
In the Community as a whole, the overall number of postal outlets decreased by 5.2 percent between 1998 and 2002, an average annual decline of 0.8 percent (see Table 5.3.1). Simultaneously, the number of postal agencies considerably increased reflecting the ongoing trend of substituting post offices by postal agencies in order to save costs.

Figure 5.3.2 Postal outlets per 10,000 inhabitants (2002)



Note: CY is excluded because of its high value of 15.7 postal outlets per 10,000 inhabitants.

Figure 5.3.3 Number of postal outlets per 10,000 inhabitants in relation to an index comprising population density and degree of urbanization (2003)



Notes: Excl. MT and CY (outliers)
 CZ, GR, PL, SE, SK: 2002 figures
 Calculation of the index: The figures on degree of urbanization and population density per square km are normalized between 0 and 1. The index has been calculated as simple average of both figures.

Secondary data sources: SK: UPU
 CZ (2002), PL (2002): WIK (2003a)
 GB (2003): AR Post Offices 2002/2003
 SE: Eurostat
 Population and country size: Eurostat
 Degree of urbanization: United Nations (2001)

Figure 5.3.2 presents the number of postal outlets per 10,000 inhabitants in each member state. The range goes from more than 4 postal outlets per 10,000 inhabitants in Ireland¹⁶¹ to about 1.3 in Malta and Belgium. Differences in population density and in the degree of urbanization partly explain this variance. For each member state, Figure 5.3.3 plots the density of the postal access network against an index for the geographic density (combining population density and degree of urbanization – see notes to the figure).

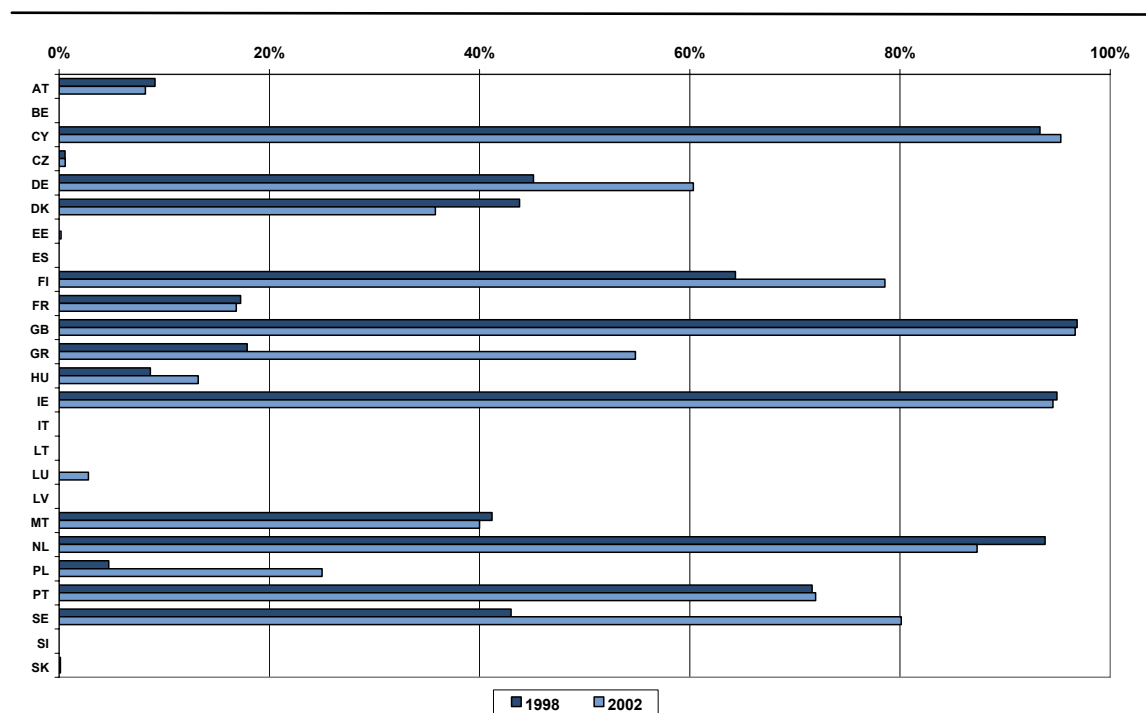
In general, there is in fact a negative correlation between the density index (see regression line in the chart) and the number of postal outlets per 10,000 inhabitants,

¹⁶¹ Cyprus is out of range as explained above.

that is, with increasing density the number of postal outlets decreases. Nonetheless, the variance is still very high indicating that additional factors influence the density of access points (e.g. political and social restraints faced by the USPs).

While the total number of postal outlets has declined, the number of postal agencies increased between 1998 and 2003 (see Table 5.3.1). Nonetheless, use of postal agencies varies greatly among USPs. Twenty USPs (all but those from BE, ES, IT, LT, LV) have established postal agencies; USPs from Luxembourg and Slovenia have started doing so only recently. The USPs from Germany, Finland, Greece, Poland, and Sweden have extended the number of agencies while simultaneously reducing the number of post offices. Only the Dutch USP has reduced the share of agencies noticeably by increasing the number of post offices (but the total number of postal outlets decreased).

Figure 5.3.4 Share of postal agencies in 1998 and 2002 at member state level



Secondary data sources: PL, SK: UPU
 CZ (1998): Annual report
 CZ (2002): WIK (2003a)
 SE: Eurostat

According to the 2002 Eurobarometer report, the vast majority of respondents (86 percent) were of the opinion that access to postal services was easy, although this

constitutes a step backwards from 90 percent of respondents in 2000.¹⁶² The share of consumers finding access difficult rose from six to 10 percent, with a remaining share of one percent without any access to postal services. Consumers found access conditions worst in Austria, Belgium, Italy, and Sweden. Compared to 2000, considerable worsening of consumer opinion has taken place in Belgium, the Netherlands, Portugal, and Sweden. This result is noteworthy since in fact the number of postal outlets (as seen in Figure 5.3.1) rose in Portugal and Sweden over the same period. Furthermore, Portugal has a high density of postal outlets compared to other member states.

Conclusions

There is an ongoing trend of slowly reducing the number of public access points, especially postal outlets. Between 1998 and 2002 the number of postal outlets decreased by 5.2 percent from 113,000 to less than 110,000, corresponding to an average decline of about 0.7 percent. By contrast, the number of postal agencies increased by average 1.7 percent per year whereas post offices were closed by an average rate of about 2 percent per year. The development and the density of the network varies substantially between the member states reflecting country-specific differences.

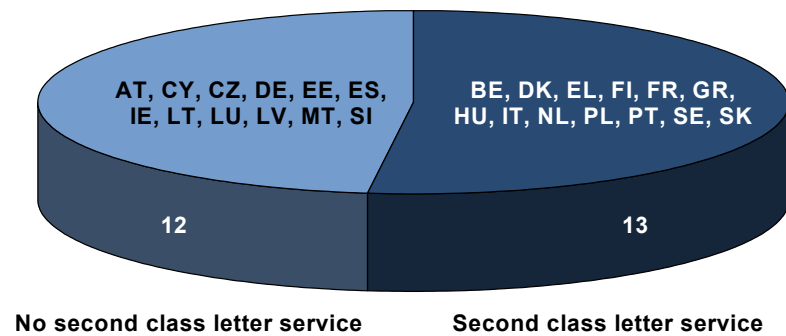
¹⁶² Eurobarometer (2002). The report does not distinguish between post offices, agencies, mail boxes or postmen offering postal services.

5.3.2 Quality of service

Service portfolio – 1st and 2nd class services

In many member states, USPs have established two categories of universal letter services that differ by their transit time targets. Other than in Spain, the “first class” or “priority” category of service requires delivery the working day following the collection day (D+1). The second class or non-priority service takes another day or two (D+2 or D+3). Although many business customers demand first class services, second class services are very important as well.¹⁶³

Figure 5.3.5 Provision of second class services



Source: WIK (2003a, 2003b)

As Figure 5.3.5 illustrates, about half of USPs offer domestic non-priority letter services to the public. A small number of USPs (notably, AT and DE) offer a non-priority service only for direct mail. Besides slower transit times, a specialized service for direct mail is usually characterized by content and volume requirements. These requirements vary between the USPs. Eight USPs, seven from new member states, offer neither second class services nor specialized direct mail services.

Consumer demands concerning the transit time performance of mail classes are influenced by their historical developments. In Sweden, a second class for letters exists but is not commonly used by consumers,¹⁶⁴ while in Germany consumers have got used to only one mail class. The survey results, though only partly answered, showed that most business customer and consumer organizations expect quality improvements for the future.

¹⁶³ Roland Berger (2004).

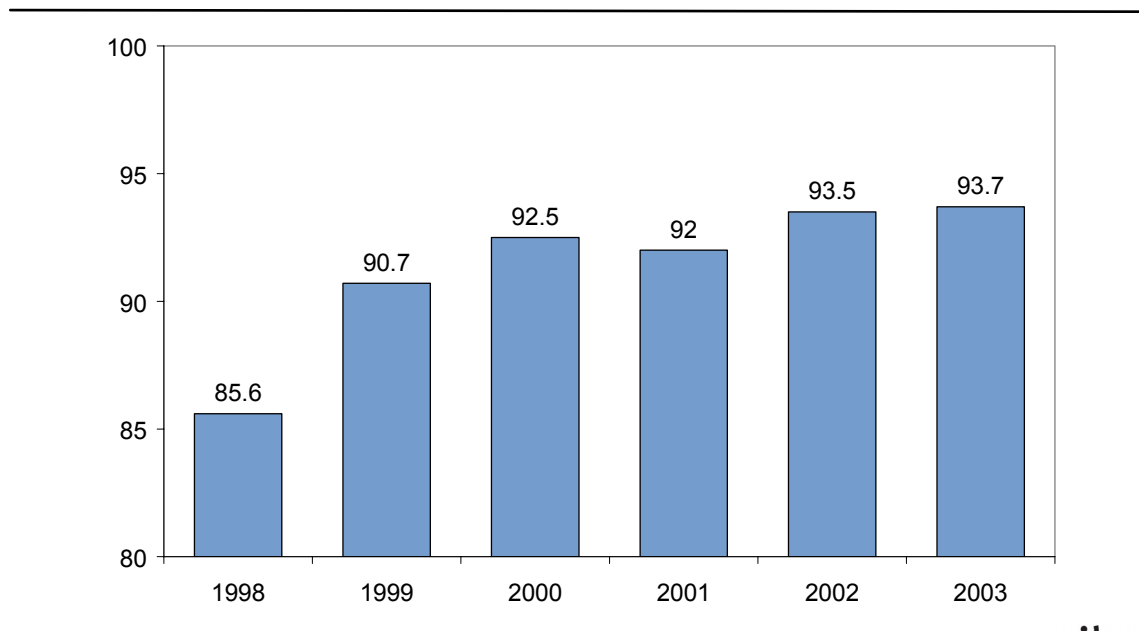
¹⁶⁴ PTS (2004).

Quality of service: Cross-border transit time

In the last application report, the Commission stated that there had been a steady improvement in the transit time of cross-border mail services. The report identified two innovations as key factors for these improvements: the cross-border transit time target set by the 1997 Directive and the link between quality of service performance and payments between USPs for delivery of cross-border mail adopted in the REIMS II agreement on terminal dues.

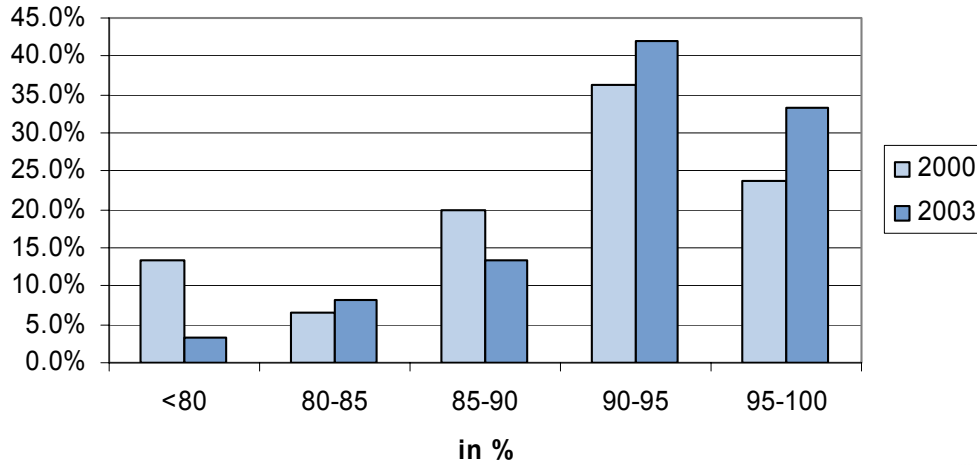
Among the EU-15 member states, cross-border transit time improvement has continued. According to studies by the International Post Corporation, the percentage of cross-border mail being delivered within three days after posting improved from 85.6 percent in 1998 to 93.7 percent in 2003 (see Figure 5.3.6). Since 2000 improvement has flattened so that the current performance may be close to the ceiling for cross-border transit time performance.

Figure 5.3.6 Intra-Community overall performance in D+3 – EU-15
(single piece items of correspondence of the fastest standard category)



Source: IPC (2004) – UNEX Full Year Results 2003

Figure 5.3.7 Share of bilateral mail flows meeting the cross-border D+3 objective in 2000 and 2003 – EU-15



Source: IPC (2001, 2004) – UNEX Full Year Results 2000 and 2003

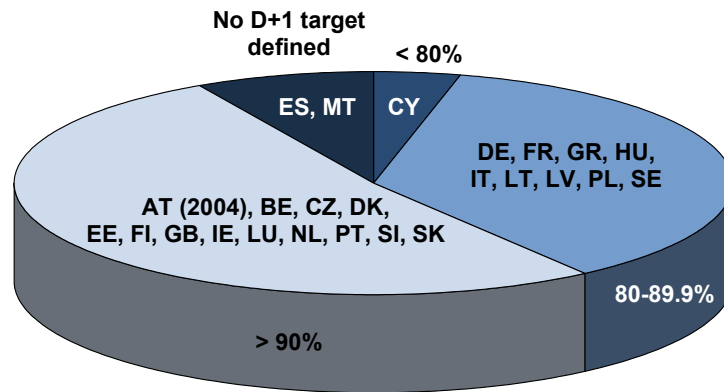
From 2000 to 2003, the percentage of member state to member state pairs failing to meet the target transit time of 85 percent D+3 has decreased from about 20 to 12 percent (see Figure 5.3.7).

Since none of the USPs of the new member states have joined the UNEX measurement system so far, comparable transit time figures for the new member states do not exist. According to IPC all Member States will participate in a revised UNEX measurement system called “UNEX 2005” obviously starting in 2005.¹⁶⁵

¹⁶⁵ See also section 4.2.

Quality of service: Domestic transit time

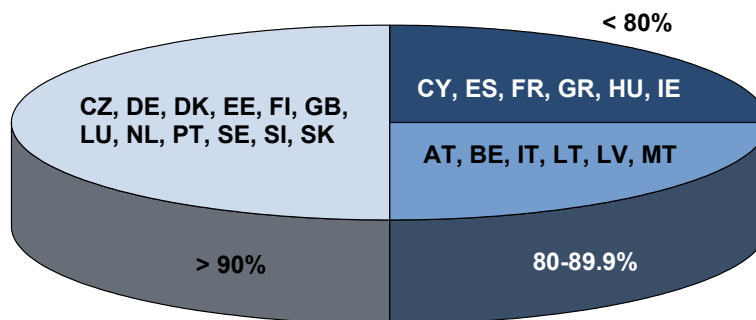
Figure 5.3.8 Transit time targets of the FSC (D+1)



Notes: AT: Transit time targets entered into force beginning 2004.

Transit time targets for FSC letters vary considerably among member states. See Figure 5.3.8. The range goes from 70 percent in CY to 97 percent in DK.¹⁶⁶ Half of the member states have set targets at or above 90 percent.

Figure 5.3.9 Transit time performance of the FSC (D+1, 2003)

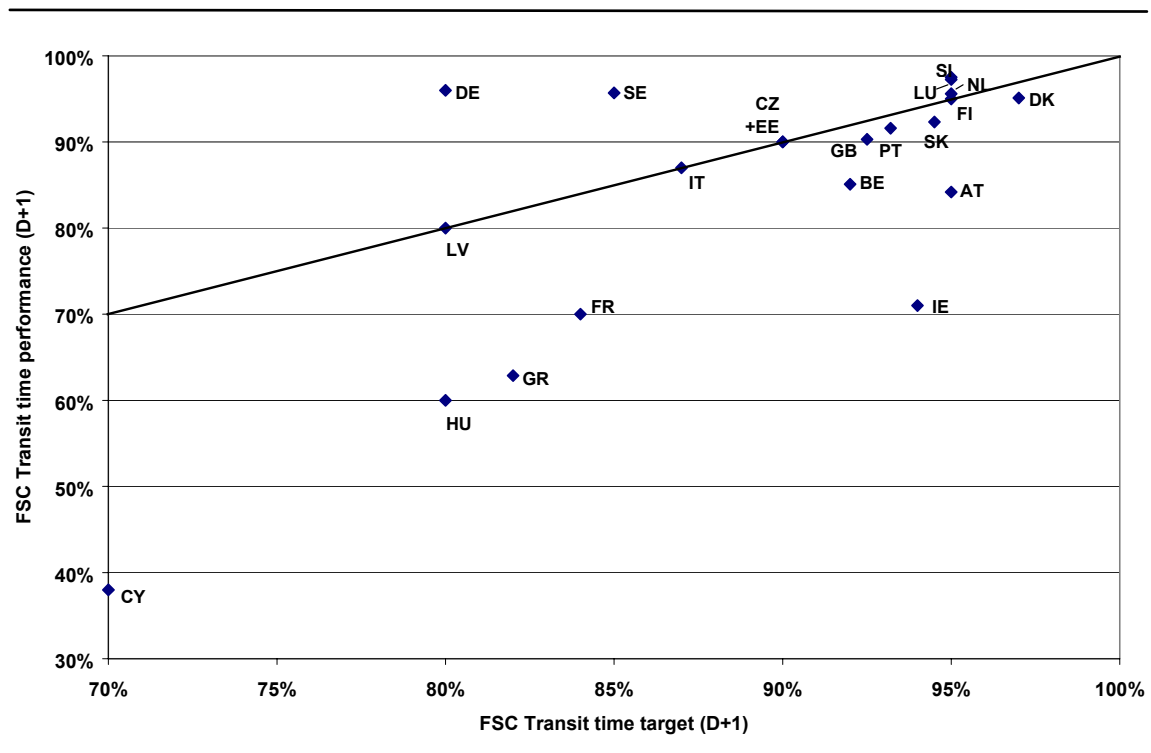


Notes: GB: 2003 figures for stamped and metered 1st class mail (April to December 2003)
 PL: no figures provided
 CZ, EE, ES, NL: 2002 performance figures;
 GR, IE: NRA data (Significantly different routing time performance was reported from these two countries. Reason for this gap (> 15%) include differences in the applied measurement methods.

¹⁶⁶ The secondary legislation of DK is going to be revised. It is expected that the target will be reduced.

Moreover, half of the respondents (NRA and/or USP) reported delivery of at least 90 percent of FSC mail within D+1 in 2003 (see Figure 5.3.9). The range goes from 38 percent in CY to more than 97 percent in LU.

Figure 5.3.10 Comparison of FSC targets and performance



Notes: CZ, EE, ES, NL: Performance figures of 2002;
 GR, IE: Performance figures provided by the NRA;
 AT: Target being in force 2004;
 PL: no performance figures provided;
 ES, MT: no D+1 target set so far;
 LT: D+1 performance confidential.

Comparing performance and targets presents a very mixed picture. See Figure 5.3.10. Ten USPs missed their transit time targets in 2003. Shortfalls in AT, BE, CY, FR, GR, HU and IE may indicate problems in the organization of postal networks. The Austrian USP has recently finished a reorganization program so improvement in transit time performance can be expected. In Ireland, transit time measurement is conducted by the NRA and USP separately using different principles. While the NRA measures transit time for single piece items only, the Irish USP measures the transit time for single piece and bulk mail items together. Because of structural differences in the mail streams of single piece and bulk mail, the results obtained by the USP are much better than those

obtained by the NRA.¹⁶⁷ Looking at development over time (as far as time-series information is available) there are also differences between the USPs who have missed the quality targets. Whereas performance by the French USP has declined since 2000, the Greek USP has improved considerably. The negative deviations of the Danish, the Portuguese, the British¹⁶⁸ and the Slovak USPs are relatively low given the fact that their transit time targets are equal or higher than 90 percent.

It should be taken into account that the performance figures are only partially comparable because applied measurement methods and principles are different and their reliability varies. Performance figures are supposed to be more reliable if they are measured and audited by an independent institution. The CEN standard EN 13850 on measurement of the transit time of end-to-end services for priority mail and first class mail has been obligatory for all member states since beginning of 2004. In about half of the member states the new standard has already been applied. Application of the standard shall assure that the measurement is carried out in a transparent way by applying the same measurement principles in all member states.¹⁶⁹ The measurement method shall also be audited by an independent institution, a procedure which should further enhance the reliability and the comparability of results.

167 The performance figure of the Irish USP is 87 percent compared to 71 percent measured by the NRA in 2003.

168 As already noted, the British USP has to fulfil in sum 15 transit time targets depending on the service considered, the performance included here refers to the 1st class stamped and metered service. In the last year Royal missed all 15 transit time targets – the one for 1st class, stamped and metered, has achieved the best transit time performance within the 1st class services (Postcomm 2004b). Since the regulatory regime demands compensation of large mailers in case of target misses Royal Mail will have to pay 80 million £ to its large business customers as well as any fines Postcomm decides to impose upon the company. Additionally, the price cap for Royal Mails reserved services is linked to the QoS performance. The price cap formula includes a quality factor that is calculated in relation to the achieved level of QoS targets.

169 See WIK (2003b), p. 218 ff. for a detailed discussion of the standard.

Development of transit time performance since 2000

Table 5.3.2 Development of transit time performance between 2000 and 2003

| Level of performance | | Quality index (2003) |
|----------------------|----|----------------------|
| 90% and better | PT | 95 |
| | CZ | 98.9 |
| | GB | 99.2 |
| | FI | 100 |
| | DK | 100.1 |
| | SE | 100.3 |
| | DE | 100.4 |
| | LU | 100.7 |
| | SK | 101.4 |
| | NL | 101.7 |
| 80% - 90% | IE | 99.3 |
| | BE | 103.8 |
| | IT | 105.7 |
| Lower than 80% | HU | 82.3 |
| | FR | 90.8 |
| | GR | 157.8 |
| | CY | 175.1 |

Note:

The performance achieved in 2000 is normalized to 100. The quality index presents the change in D+1 transit timer performance between 2000 and 2003. Values above 100 stand for an improvement, below 100 for a deterioration in transit time performance compared with the 2000 performance.

Sufficient time series information exists for 19 member states. Information is missing for AT, EE, ES, LV, PL and SI.

For GR and IE the performance figures provided by the USPs have been included. It is assumed that the development is the same as in the measurement results of the NRAs (missing time series information) even if the level differs.

The Quality index refers to the performance achieved in 2003. 2002 figures have been included for CZ and NL. MT, LT figures are confidential (provided by USP).

Ignoring the possible shortcomings of current measurement methods for the present, it appears that transit time performance has increased in the majority of member states. Among the USPs achieving results of 90 percent or better, performance has been rather stable since 2000 (see Table 5.3.2). Only the Portuguese, the Czech and the British USPs have experienced slight decreases in performance.

USPs achieving 80 to 90 percent on time delivery in 2000 have experienced a slight increase in performance without exceeding the 90 percent target. Among USPs with a low level of performance in 2000, the transit time in HU and FR has decreased whereas the transit time in GR and CY has considerably improved, although starting at a very low level.

From a consumers point of view, the great majority (82 percent) rate the quality of universal service as very or fairly good,¹⁷⁰ while 15 percent consider quality of service to be fairly or very bad. The USPs of IT, SE, DE and AT are at the bottom line of consumer opinions.¹⁷¹ In Sweden, however, the low rating by Swedish consumers appears to be inconsistent with the actual performance. These results may be caused by an overall dissatisfaction with Posten AB (SE) caused by restructuring of their the postal retail network. The situation is similar for the German USP, which received low ratings in the Eurobarometer study but performs well in terms of transit time (more than 90 percent of letters are delivered D+1).¹⁷²

Conclusions

Cross-border transit time appears to have reached the ceiling of performance between most of the old member states. There are still improvements in countries experiencing low performances in the past. The USPs of the new member states do not take part in the measurement system yet. Most probably the overall transit time performance in the Community will slightly decrease when they join the revised UNEX system.

The transit time performance of domestic services is rather stable in most of the old member states already achieving a high performance. In countries, coming from a lower level considerable improvements have been achieved since 2000. However, some member states face a deterioration of performance – especially HU and FR.

¹⁷⁰ Eurobarometer (2002).

¹⁷¹ In Italy, the consumer organization Altroconsumo has found that recorded letters missed transit time targets (D+3) by ten percentage points (80 % instead of 90 %). (Altroconsumo (2003))

¹⁷² See WIK (2003b) for a discussion of differences in the German USP's transit time performance with respect to different measurement methods (operator vs. postal users' view of transit time).

6 Specific Policy Issues

Differences in the universal postal services available in the member states naturally raise the question “why?”. Why do some member states have more mail or faster delivery or lower prices? Definitive answers would be helpful in the development of future postal policy, but definitive answers are impossible in light of the inadequacy of data and the obscuring effects of unquantifiable factors such as culture and managerial competence.

Nonetheless, without presuming to provide definitive answers, this chapter considers briefly the extent to which the data gathered in this survey may shed light on three specific policy issues:

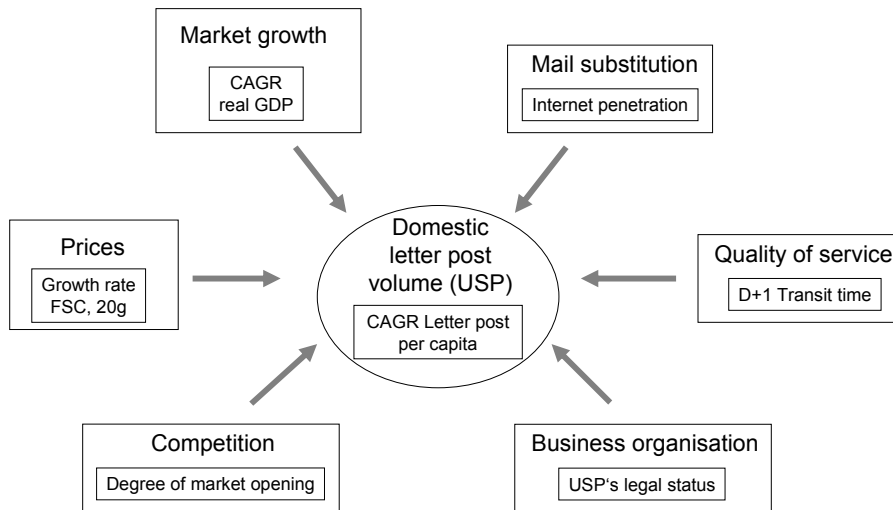
- What are the key factors leading to increases in letter post volume?
- What are the most important factors stimulating improvement in quality of universal services?
- What are the primary effects of increased competition, whether by market opening or electronic substitution, on universal service?

Each of the three sections in this chapter considers the three parameters of the postal sector highlighted by the above questions: letter post volume, quality of service, and competition. In each case, we consider how differences among member states in that parameter of the postal sector seem to affect, or be affected by, differences in other related economic factors.

6.1 Factors in the development of letter post volumes

Domestic letter post volume is the most basic test of success for the universal postal service. If businesses and individuals make extensive use of the postal system to convey correspondence, advertisements, and parcels, then one may reasonably conclude that prices are affordable and the quality of service acceptable for the purposes of society. If little use is made of the postal system, then the affordability of prices and high quality of service mean little.

Figure 6.1.1 Main drivers of domestic letter post volume



In order to compare domestic letter post volumes of member states in a meaningful way, the different sizes of member states must be taken into account. As a first step, therefore, we have calculated the domestic letter post volume on a per capita basis. In the EU as a whole, letter post volume per capita is about 198 items per year. This average covers a wide variation among member states ranging from 12 to 350 items. Since density of postal volume has an enormous effect on all aspects of postal service, we have divided the member states into three groups reflecting high, medium, and low volumes per capita. For each group, we have considered several possible influences on the mail volume. Figure 6.1.1 presents a graphic illustration of this approach.

Table 6.1.1 MS grouped by mail volume: possible drivers of mail volume

| Group | (1) LpDom/cap CAGR 1998-02 | (2) LpDom per cap 2003 | (3) LpDom- GdpC growth 1998-02 | (4) GdpC/ cap (2003, thou €) | (5) Internet penetration (2003) | (6) CAGR GdpC | (7) QoS (D+1 perf.) 2003 | (8) Postal tariff CAGR |
|---|-------------------------------------|---------------------------------|--|---------------------------------------|--|---------------------|-----------------------------------|------------------------------|
| <i>High: 200+ items per cap:</i> AT, BE, DE, DK, FI, FR, GB, LU, NL, SE | -0.22% | 280 | -8.73% | 27 | 52% | 2.26% | 91% | 0.42% |
| <i>Medium: 100-200 items per cap:</i> ES, IE, IT, MT, PT, SI | 2.37% | 139 | -2.36% | 14 | 32% | 3.18% | 85% | 3.44% |
| <i>Low: 0-100 items per cap</i> CY, CZ, EE, GR, HU, LT, LV, PL, SK | 4.82% | 51 | 3.08% | 5 | 27% | 4.01% | 76% | 5.65% |

Selected factors that might plausibly affect mail volume are set out in Table 6.1.1 and quantified for the high, medium, and low volume groups of member states. The factors represented are general wealth (real GDP per capita, column 4), growth in real GDP (growth measured in constant euros, column 6) and its relation to growth in letter post (column 3), level of internet usage (percent of households with access to the internet, column 5), quality of postal service (percent of first class mail delivered the day after posting, column 7), and the increase in postage rates (first class rates for a 20 gram letter, column 8).

From this table, it is immediately evident that these three groups exhibit significant differences with respect to all factors. The low volume group experienced more growth in letter post volume, a bigger increase in real GDP, and a noticeably higher increase in postal tariffs during the last five to six years. The low volume group also exhibited lower GDP per capita, internet penetration, and transit time performance than the other groups. Subtracting the growth in real GDP from the growth in letter post volume offers a measure (column 3) of the extent to which the letter post surpassed “natural” economic growth and became relatively more important in the economy. This measure is positive only for the low volume group. In contrast, for the high volume group, letter post lagged significantly behind growth in real GDP. In the high volume countries, the letter post system is attracting a declining proportion of resources and is in some sense becoming less important to the general economy. Overall, growth in real GDP appears to have greater influence on the letter post in low volume countries than in high volume countries. It may be noted that letter post volumes in the medium and low volume groups grew despite relatively high increases in standard postal tariffs (column 8).

Table 6.1.2 High mail volume MS: possible drivers of mail volume

| Cty | (1) LpDom/cap CAGR 1998-2002 | (2) LpDom per cap 2002 | (3) LpDom- GdpC growth 1998-2002 | (4) GdpC/cap (2003, thou EUR) | (5) Internet penetration 2003 | (6) CAGR GdpC | (7) QoS (D+1 perf.) 2003 | (8) Postal tariff CAGR | (9) Legal Status |
|-----|---------------------------------------|---------------------------------|--|--|--|---------------------|-----------------------------------|------------------------------|------------------------|
| FI | -2.60% | 289 | -19.12% | 25 | 51% | 2.73% | 95% | 3.18% | PLC-G |
| BE | -1.82% | 302 | -13.47% | 24 | 36% | 1.89% | 85% | 1.22% | PLC-G |
| SE | -1.53% | 348 | -15.80% | 26 | 77% | 2.70% | 96% | 0.16% | PLC-G |
| DK | -1.39% | 230 | -11.47% | 30 | 63% | 1.69% | 95% | 0.26% | PLC-G |
| LU | -1.08% | 238 | -17.22% | 46 | 36% | 4.36% | 98% | 2.49% | State Co |
| FR | -1.02% | 291 | -11.71% | 24 | 37% | 2.14% | 70% | 0.03% | State Co |
| NL | 0.25% | 328 | -4.83% | 24 | 66% | 1.62% | 96% | -1.64% | PLC-Pr |
| DE | 1.52% | 222 | 0.63% | 25 | 54% | 1.16% | 96% | -1.71% | PLC-Pr |
| GB | 2.51% | 330 | 1.03% | 18 | 59% | 2.51% | 90% | 0.28% | PLC_G |
| AT | 2.99% | 222 | 4.64% | 26 | 42% | 1.78% | 84% | -0.04% | PLC-G |

If we expand Table 6.1.1 to show the same indicators for each member state in the high volume group, the result is shown in Table 6.1.2. In this table, a ninth indicator has been added to show the legal status of the USP in each member state (column 9). The countries are ordered by ascending volume growth rates (column 1). Focusing on *changes* in letter post usage rather than the absolute level of usage helps to allow for the fact that some member states seem to be culturally more oriented towards written communications than others.

This table highlights the fact that the letter post grew in some member states but fell in others. In particular, in Germany, the Netherlands, and the United Kingdom letter post volumes increased while they fell in the three Scandinavian countries (DK, FI, SE), Belgium, Luxembourg, and France. Indeed, in Germany and the U.K., the letter post outperformed growth in real GDP, and in the Netherlands, the letter post lagged real GDP by much less than in other member states in this group.¹⁷³

What explains the decline in the letter post in some member states in this group but not others? In the Scandinavian countries, the obvious culprit is the internet. Internet penetration (column 5) is very high in Scandinavia, especially in Sweden and Denmark. Internet usage is high in the Netherlands, as well, which may explain declining mail volumes reported by the USP since 2001. In Finland, the Scandinavian country with the lowest (although still high) level of internet penetration, a second factor is suggested by this table: postage rates in Finland have risen much more than in Sweden or Denmark. While public tariffs are an admittedly imperfect indicator of overall price level, the data suggests that tariff increases may have been one factor suppressing mail growth in Finland.

¹⁷³ In this survey, a complete data set could be gathered until 2002. In 2003, letter post volume in NL and DE grew less than GDP while the British USP achieved volume growth above the growth rate of real GDP.

These considerations do not explain the fall in letter post volumes in France, Belgium and Luxembourg. These countries are characterized by relatively high growth rates in real GDP and relatively low degrees of internet penetration (less than 40%). Nevertheless their USPs lost letter post volumes. What France and Luxembourg have in common, however, is that in both, unlike in other member states in this group, the USP is organized as a state enterprise rather than as a public limited company. Moreover, in Belgium, France, and Luxembourg, the letter post is declining in terms of value for money. In Luxembourg and Belgium, the USPs increased postal rates significantly. In France, transit time performance has declined for years so that today only 70 percent of mail in the fastest standard category is delivered by the day after posting. In Belgium, the transit time performance is also considerably low despite the small size and the high population density of this country.

Recapitulating, in advanced countries with a high letter post volume, economic growth seems to be losing its significance as the primary driver of mail volume. Other factors – such as electronic substitution and even changes in price and quality – appear to have increasing explanatory power. A firm conclusion, however, that electronic substitution is leading to a decoupling of mail volume from economic growth would require a more detailed analysis than has been possible in the course of this study.

Table 6.1.3 Medium mail volume MS: possible drivers of mail volume

| City | (1) CAGR LpDom per capita | (2) LpDom per capita 2002 | (3) LpDom- GdpC growth 1998-2002 | (4) GdpC/ cap 2003 | (5) Internet penetration 2003 | (6) CAGR GdpC | (7) QoS (D+1 perf.) | (8) CAGR Postal tariff (20g, FSC, national currency) | (9) Legal Status |
|------|------------------------------------|---------------------------------|--|--------------------------|--|---------------------|---------------------------|---|------------------------|
| IT | -1.68% | 101 | -12.23% | 16 | 35% | 1.41% | 87% | -2.40% | PLC-G |
| PT | 1.67% | 116 | -0.36% | 10 | 19% | 1.58% | 92% | -1.80% | PLC-G |
| ES | 3.43% | 127 | 3.01% | 14 | 33% | 3.15% | 76% | 1.66% | State Co |
| IE | 3.48% | 173 | -12.96% | 24 | 33% | 7.12% | 71% | 4.36% | PLC-G |
| SI | 3.65% | 187 | -0.46% | 10 | 45% | 3.56% | 98% | 18.38% | PLC-G |
| MT | 3.69% | 131 | 8.85% | 8 | 26% | 2.25% | confidential | 0.41% | PLC-Pr |

Table 6.1.3 offers a similar statistical view of member states in the second group, those with a medium letter post volume per capita of between 100 and 200 items per year. In this group as well there are striking differences in letter post growth rates. In Ireland, Malta, Slovenia, and Spain the volume of letter post grew robustly at more than 3 percent per year. Indeed, in Slovenia mail volume increased almost as fast as real GDP even though postage rates rose very substantially (albeit from a very low base of € 0.07 in 1998) and access to the internet is relatively widespread. Meanwhile, in Portugal and Italy mail growth was less (PT) or negative (IT) despite the fact that in both countries postal tariffs declined in real terms in contrast to the increases in other member states. Both Portugal and Italy enjoyed less economic growth than the other countries in this group, but in Portugal the letter post at least kept pace with real GDP while in Italy it did not.

Ireland is an interesting case in this group. The Irish economy has grown very strongly in the last six years (more than 7 percent per year on average), yet growth in the letter post volume has fallen behind to a degree that seems surprising. Looking at member states with comparable GDP per capita, it seems possible that there is an unrealized potential for further letter post growth in Ireland. On the other hand, one explanation for the relatively slow rate of mail growth in Ireland may be that it is the only member state without a postal code system. A well constructed postal code system facilitates development of high-level direct mail services, and so the lack of such a system may restrict mail growth. In addition, the Irish USP has increased postal tariffs in real terms by more than 4 percent per year, and this price increase may have deterred mailers.

In many respects, the best performer in this group was the Maltese USP. Its letter post outperformed real GDP, and the USP reaped increasing profits despite a stable postal tariff. This positive development seems to have been driven mainly by privatization of the USP and a subsequent reduction of postal employment by nearly 30 percent between 1998 and 2003.

In contrast to the high volume countries, the member states with medium mail volumes generally have much lower rates of internet penetration. Hence, electronic substitution for physical mail is less of a threat. With certain notable exceptions, mail volume appears to be more influenced by the general economic development than in the more advanced member states. Moreover, considerably fewer postal items per capita may make further increases in mail volume more likely. As we shall see next, this is even more true for the third group of countries with an average mail volume of about 50 items per capita.

Table 6.1.4 Low mail volume MS: possible drivers of mail volume

| Cty | (1) CAGR LpDom/cap | (2) LpDom/cap 2003 | (3) LpDom-GdpC growth 1998-2002 | (4) GdpC/cap (2003) | (5) Internet penetration (2003) | (6) CAGR GdpC | (7) QoS (D+1 perf.) | (8) CAGR Postal tariff (20g, FSC, national currency) | (9) Legal Status |
|-----|--------------------------|--------------------------|--|---------------------------|--|------------------|---------------------------|---|---------------------|
| CZ | 0.78% | 70 | -6.25% | 4 | 30% | 2.33% | 93% | 9.38% | State Co |
| PL | 0.98% | 43 | -6.29% | 4 | 23% | 2.84% | NA | 21.76% | State Co |
| SK | 4.01% | 52 | 4.15% | 4 | 21% | 3.17% | 92% | -6.56% | State Co |
| GR | 4.93% | 47 | 4.28% | 11 | 15% | 4.01% | 63% | 5.88% | State Co |
| EE | 5.09% | 50 | -3.02% | 3 | 42% | 5.26% | 90% | 0.57% | PLC-G |
| HU | 5.38% | 76 | 3.64% | 5 | 18% | 3.93% | 60% | 3.90% | PLC-G |
| CY | 5.67% | 74 | 11.73% | 12 | 30% | 3.53% | 38% | 2.98% | Gov Dept |
| LT | 7.49% | 12 | 12.27% | 2 | 24% | 4.80% | confidential | 6.94% | State Co |
| LV | 9.03% | 32 | 7.18% | 2 | 37% | 6.21% | 80% | 6.01% | State Co |

Data for the nine member states with low volumes of letter post are displayed in Table 6.1.4. This group includes mostly new member states. Most of the USPs of this group are still organized as state enterprises rather than as public limited companies. All countries in this group but two (CZ, PL) realized extraordinary growth rates in letter post volume per capita. In all countries but three (CZ, EE, and PL), the letter post grew more rapidly than real GDP. The somewhat less impressive growth in the letter post in Estonia may be due the fact that Estonia has a relatively high level of internet penetration compared to other countries in this group.

All in all this last group of member states is more homogeneous than the other two. Letter volume growth appears to be strongly driven by economic development. Neither tariff changes nor the transit time performance seem to have had a significant impact on the volume development. A further tendency to catch up to the higher letter post volumes in the more advanced member states appears likely.

Conclusions

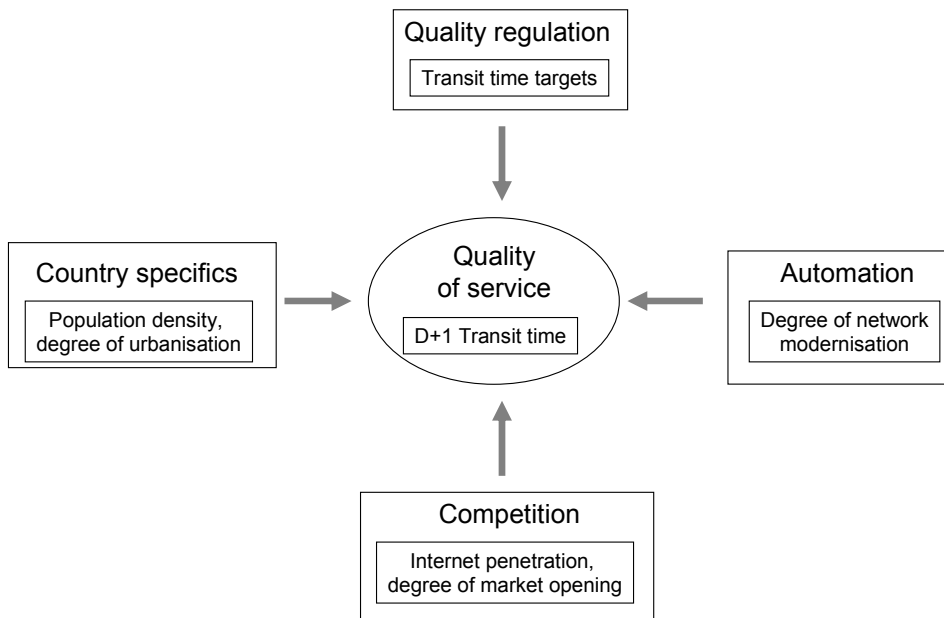
While letter post volumes continue to be driven by general economic growth, this effect is now much more evident for the lower volume, less economically developed member states than it is for the higher volume, more developed member states. In the most economically advanced member states with the highest letter post volumes per capita, there appears to be an increasing risk of volume declines due to electronic substitution. Moreover, a trend towards decoupling of economic growth and mail volume growth may imply that in high volume countries factors such as price and quality of service will have a larger impact on mail volume than in the past.

6.2 Drivers of quality of service

As described in sections 4.2 and 5.3 above, in the Postal Directive the most important measure of the quality of universal service is routing or transit time. In fact, however, both the time it takes for mail to get delivered and the performance targets established by the NRA vary substantially among the member states. While the Directive does not insist upon strict harmonization of routing time for universal services, it appears worthwhile to consider what light this survey may shed on the reasons for variations in quality of service within the Community.

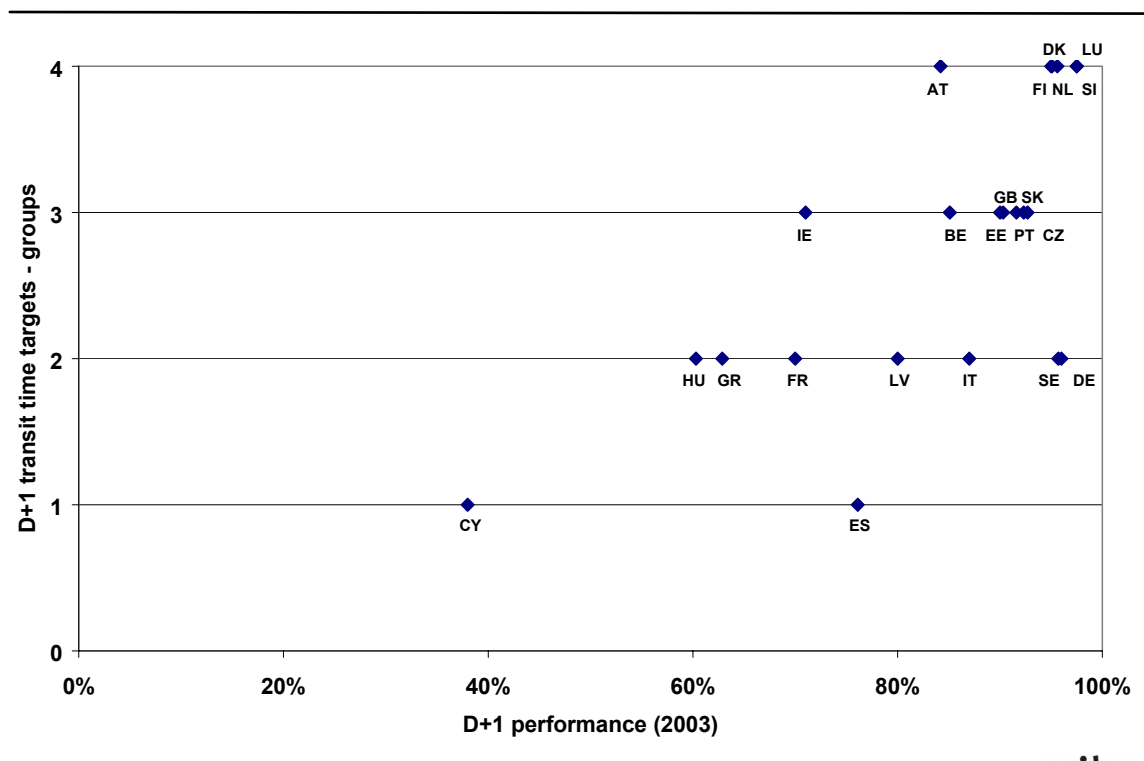
The most prevalent, indeed the only reasonably consistent, index of routing time is the percentage of first class mail (mail of the “fastest standard category”) delivered by the day after posting (D+1). The weaknesses of this index are apparent from earlier discussion. Measurement systems are not wholly reliable so available data may be inaccurate. In some member states, only a small fraction of the letter post is handled as first class mail so the D+1 index bears no relation to the general quality of universal services. Still more fundamentally, a good score on this index may be bad public policy; that is, a USP may serve the public best by aiming for a less expensive universal service with reliable D+2 delivery. Hence, a low score in the D+1 index may make a USP appear lax unjustifiably.

Figure 6.2.1 Main drivers of quality of service



Keeping in mind the limitations of the D+1 index, let us consider factors which may help explain differences in service quality among member states. Figure 6.2.1 illustrates five plausible factors: regulatory targets, network structure, competition from either electronic alternatives to the mail or private delivery services, and the geographic dispersion of the population. That is, one might reasonably assume that quality of service will be positively affected by stricter regulatory standards; or by an efficient, automated network for mail transportation; or by the looming threat of competition; or by the fact that most delivery points are encompassed within a relatively small area. In the following analysis, we make use of a crude index for each of these factors and consider whether there is in fact a positive correlation with quality of service.

Figure 6.2.2 Transit time targets and quality of service



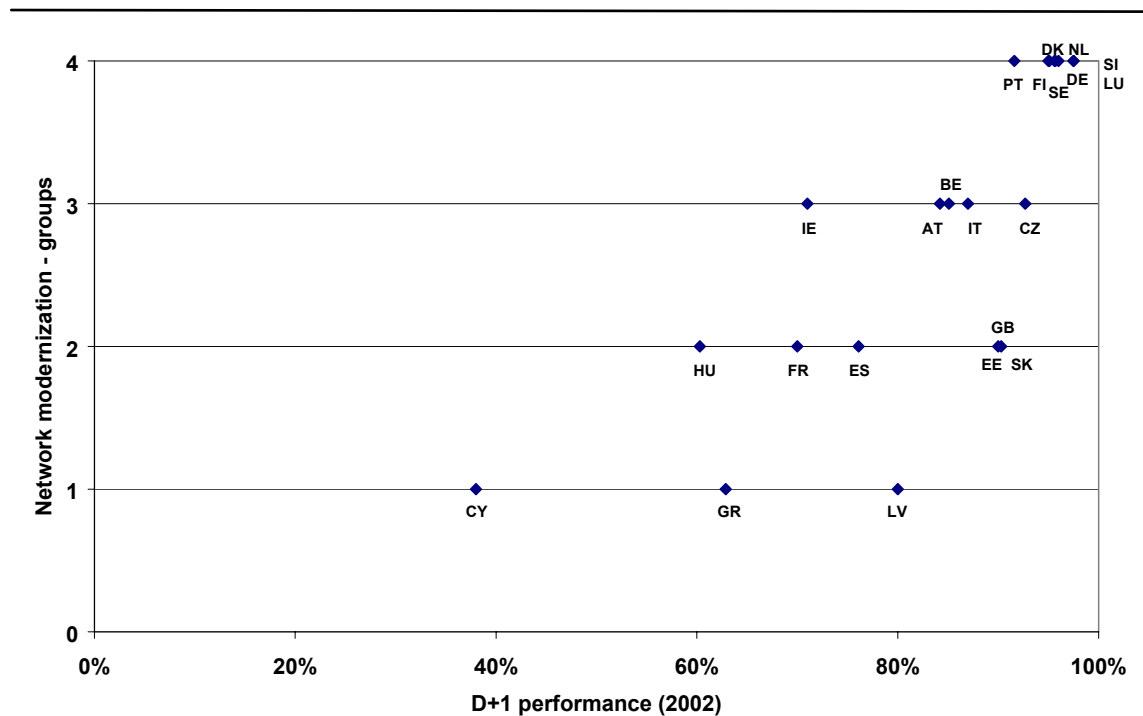
Note: See text for explanation of transit time target groups and sources of performance data.

The relationship between regulatory targets and service performance is shown in Figure 6.2.2. In this figure, the vertical axis provides a rough ranking of member states according to the quality of service targets established by their NRAs. Each member state is placed into one of four groups. Group 1 includes member states with a target

requiring less than 80 percent of items to be delivered on the first working day after posting. Group 4 includes member states with a target of 95 percent or better.¹⁷⁴

This figure shows that in member states with the most demanding transit time targets better performance is achieved. This correlation does not necessarily imply causation, however. As an earlier study¹⁷⁵ has explained, member states did not introduce transit time targets at the same time. Belgium, Denmark, France, Portugal, and Sweden adopted targets before 1998, whereas other member states did not do so until after 1998. It appears probable that in most countries, performance targets were set to reflect actual performance, especially in member states whose USPs improved transit times before the start of quality regulation. In fact, in 1998, 12 of 15 USPs published transit time performances without regulatory obligation, and the regulatory targets that were set subsequently generally mirrored the performance figures announced in 1998.

Figure 6.2.3 Network modernization and quality of service



Note: See text for explanation of network modernization groups index and sources.

174 Sources: D+1 performance: WIK survey and WIK-Consult (2003b); D+1 targets: WIK survey. Performance data is provided by the NRAs except in the cases of AT, EE, HU, LT, LV, MT, SI, for which USP data is used. Performance figures for 2002 are used for CZ, ES, LU, and NL. No figures are provided for LT and MT due to requests for confidentiality and PL due to lack of data. In the case of AT, the transit time target used will become effective in 2004.

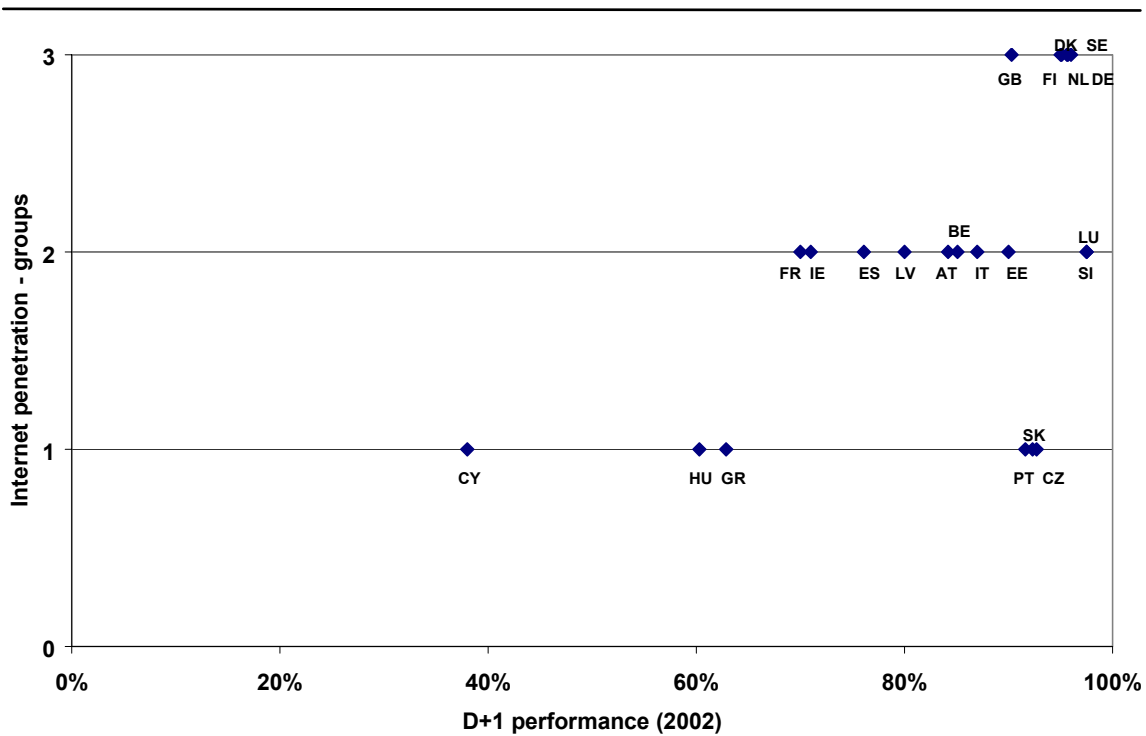
175 WIK-Consult (2003b), p. 171 et sqq.

Figure 6.2.3 offers a perspective on how transit time varies with the modernization of postal transportation networks. As in the previous figure, the vertical axis displays the member states divided into four groups. In this figure, the groups represent a rough ranking of network modernization efforts by USPs. These groups were constructed based on two considerations: (1) when letter sorting machines were introduced (before 1998, between 1998 and 2001, between 2001 and 2004, or never) and (2) when the network structure was reorganized, as indicated by changes in the number of sorting facilities (same time periods). In this index, the later the modernization process began, the lower the ranking; USPs which restructured their mail transportation networks and introduced sorting technology before 1998 are rated the highest.¹⁷⁶

From this figure, it is clear that early modernizers achieved the highest transit time performance on average. Indeed, there is remarkably high correlation in this relation. Group 3 USPs, those that started network modernization a bit later, performed respectably but not as well as group 4. The relationship between groups 3 and 2 is similar. Group 1 USPs are in a somewhat different situation. While they have low transit time performance, postal volumes may be too low to justify network modernization. Overall, this figure strongly implies that network modernization results in improved quality of service for most USPs, although it apparently takes some time for these gains to be realized.

¹⁷⁶ Source for automation index: WIK survey, annual reports. For sources of performance data, see footnote 174.

Figure 6.2.4 Internet penetration and quality of service



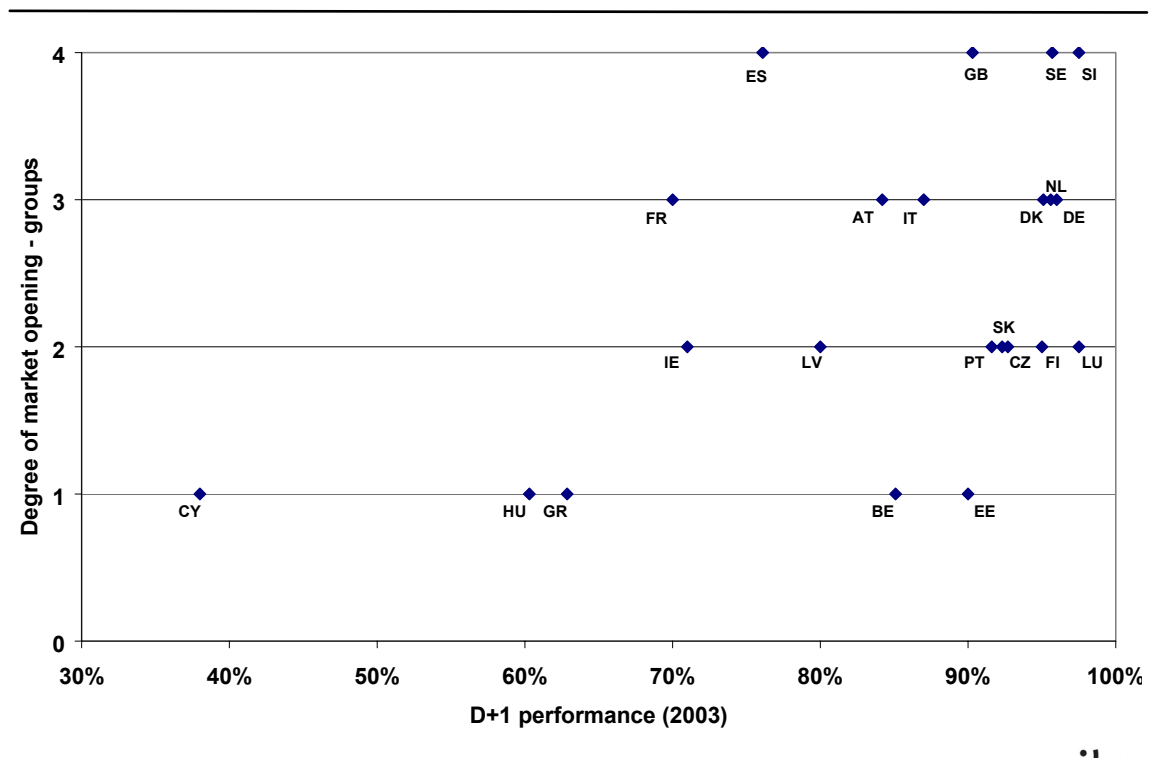
Note: See text for explanation of internet penetration groups and sources.

Figure 6.2.4 is based on the hypothesis that internet usage may put competitive pressure on universal postal service and motivate the USP to improve service quality. Along the vertical axis of this figure, member states are divided into three groups based on the percentage of population that is estimated to have access to the internet. In the member states in group 3, more than 50 percent of the population has access to the internet; in group 2, 31 to 50 percent, and in group 1, less than 31 percent.¹⁷⁷

The results seem to confirm the hypothesis. The higher the internet penetration rate in a country, the better is the USP’s transit time performance. Countries with the highest internet penetration – Germany, the Netherlands, and the Scandinavian countries – all exhibit high quality of service.

¹⁷⁷ Source for internet penetration (2003): <http://www.internetworldstats.com/>. For sources of performance data, see footnote 174.

Figure 6.2.5 Degree of market opening and quality of service



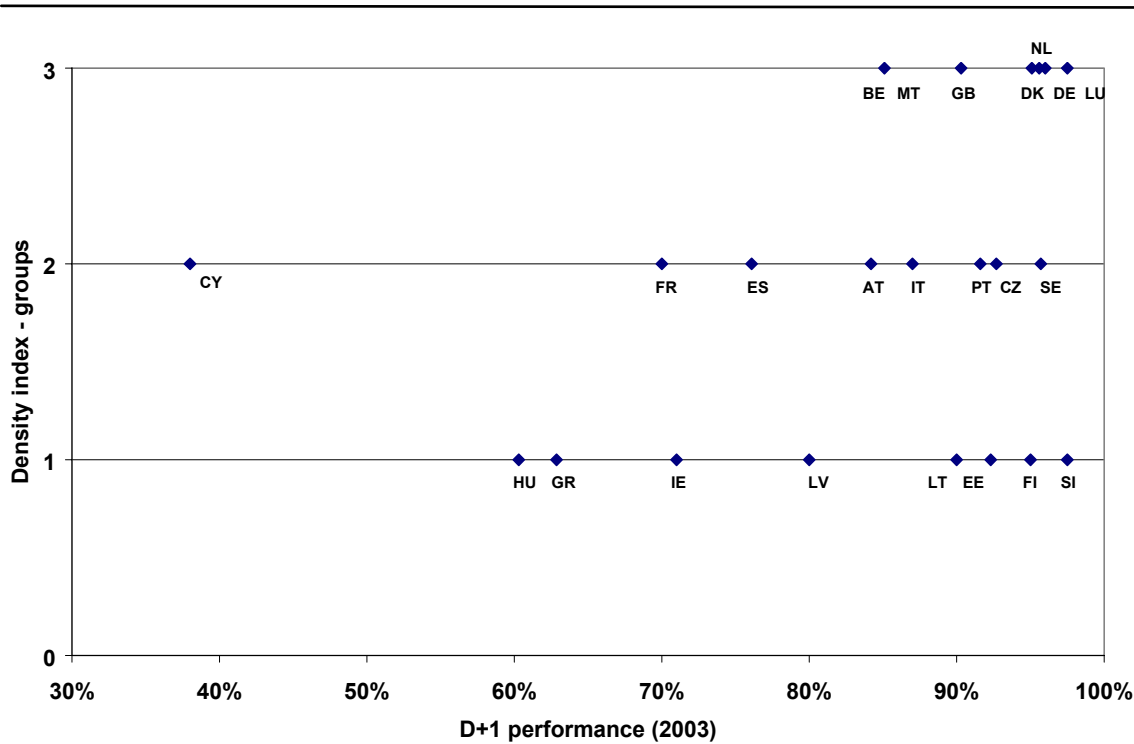
Note: See text for explanation of market opening groups and sources.

Competitive pressure on universal service may come from CPOs as well as the internet. In Figure 6.2.5 the vertical axis shows the member states divided into four groups based on market openness. These groups were constructed based on a consideration of the scope of the reserved area and the restrictiveness of authorization procedures for CPOs.¹⁷⁸ In this chart, group 4 member states are those with the most open postal markets while the postal markets in groups 3, 2, and 1 are increasingly less open.

This figure suggests that market openings have also pressured USPs to improve the quality of universal service but the correlation is not as strong as in the case of internet penetration. One possible explanation is that the grouping of member states by market opening is more subjective than the index for internet penetration. More important, probably, is the fact that except for the most open member states there is not much difference in the level of market opening in practice. (For further discussion of this point, see the next section.)

¹⁷⁸ See generally sections 4.3 and 4.4, above.

Figure 6.2.6 Geographic dispersion and quality of service



Note: See text for explanation of density index groups and sources.

Finally, Figure 6.2.6 considers the effect of geographic dispersion of delivery points on quality of service. To serve as an indicator of geographic dispersion, the grouping of member states along the vertical axis is based on a combination of two factors: (1) population density (inhabitants per unit of land area) and (2) degree of urbanization (percentage of population living in urban areas). Member states in group 1 have the highest geographic dispersion of delivery points measured in this manner. Member states in group 3 have the most concentrated distribution of delivery points.¹⁷⁹

Figure 6.2.6 suggests that the countries with a concentrated pattern of delivery points achieve higher transit time performances on average. There are, however, some important exceptions so the correlation is low, for example, for Sweden, Slovenia and Finland.

¹⁷⁹ Sources: Density index: population density – Eurostat (population and country size data); degree of urbanization – United Nations (2001). For sources of performance data, see note 174.

Table 6.2.1 Summary results of the driver analysis

| | Quality regulation | Automation | Competition Mail substitution | Competition Market opening | Country specifics | At least 3 times attributed |
|--------------------------|------------------------|--------------------------------|------------------------------------|--------------------------------|------------------------------------|---------------------------------------|
| Group A Lowest level | CY, ES, MT | CY, GR, LT, LV, PL | CY, CZ, GR, HU, LT, MT, PL, PT, SK | BE, CY, EE, GR, HU, LT, MT | EE, FI, GR, HU, IE, LT, LV, SI, SK | CY, GR, HU, LT, MT |
| Group C Highest level | AT, DK, FI, LU, NL, SI | DE, DK, FI, LU, NL, PT, SE, SI | DE, DK, FI, GB, NL, SE | AT, DE, DK, ES, GB, NL, SE, SI | BE, DE, DK, GB, LU, MT, NL | DE, DK, FI, GB, LU, NL, SE, SI |

Note: PL – no transit time performance submitted

Table 6.2.1 summarizes the results of the foregoing analysis. In this table, member states are divided into two groups. Group A, the “lowest” level, consists of member states which have been assigned at least three times to group 1 in the individual driver analyses above. Group C, the “highest” level, consists of the member states which have been assigned at least three times to the top group (group 3 or group 4) in the individual driver analyses above. By default, group B consists of the 11 member states (AT, BE, CZ, EE, ES, FR, IE, IT, LV, PT, SK – no transit time data from PL) which are not in Group A or Group C.

If the factors identified above as potentially stimulating quality of service act more or less independently, then multiple factors should combine to provide an increased pressure for quality of service. Thus, by hypothesis, Group A should be the set of member states with the least combined pressure for improving quality of service while Group C should be the set of member states with the greatest combined pressure for improving quality of service.

Table 6.2.2 Common impact on transit time performance

| Groups | Number of member states | Letter post volume weight | D+1 performance mean value | D+1 performance standard deviation |
|--------|-------------------------|---------------------------|----------------------------|------------------------------------|
| A | 5 | 1.6% | 67.1% | 20.7% |
| B | 11 | 41.1% | 83.6% | 5.9% |
| C | 8 | 55.5% | 95.3% | 2.3% |

Indeed, there seems to be merit in the notion that quality of service depends upon a combination of factors. Table 6.2.2 indicates that there is in fact a very strong correlation between quality of service and a member’s ranking in this simple A-B-C scale. While the member states in group A achieved D+1 delivery of first class mail less than 70 percent of the time, the member states in group C achieved D+1 delivery of first class mail 95 percent of the time.

Conclusions

After analysis of several factors that might potentially account for high quality of service, it appears that two factors have a particularly strong effect: (1) competitive pressure on USP's letter business, and (2) network restructuring and automation. Geographic dispersion and, to a limited degree, quality of service targets set by regulators also influence quality of service. These effects appear to be strongest in member states characterized by a combination of factors supporting a high level of quality of service.

6.3 Effects of competition

To search among available data for the effects of competition is a similar exercise to the preceding analysis but from a different point of view. In this section, we first divide the member states into three groups according to economic development, measured by GDP per capita, because it is obvious that economic development has a major effect on the possibilities for competition. A more highly developed economy will naturally sustain a higher level of telecommunications and a higher demand for private delivery of parcels, direct mail, books and catalogues, and express items. Within each group, we then consider how competition, in the form of market opening and electronic alternatives, seems to affect universal service.

Table 6.3.1 Effects of market opening in high GDP per capita member states

| | Market opening group | Internet Penetration 2003 | GDP per capita (€ 000) 2003 | Domestic letter post per capita 2002 | Domestic letter post per GDP (Eur 000) 2002 | LpDom growth - real GDP growth 1998-2002 | Quality of service (D+1 perf) 2003 | Quality of service change 2000-03 | USP market share, letter post 2003 | USP market share, parcels 2003 |
|----|----------------------|---------------------------|-----------------------------|--------------------------------------|---|--|------------------------------------|-----------------------------------|------------------------------------|--------------------------------|
| BE | 1 | 36% | 25.7 | 302 | 12 | -13% | 85% | 3% | | |
| IE | 2 | 33% | 33.6 | 173 | 5 | -13% | 71% | | | |
| LU | 2 | 36% | 51.5 | 238 | 5 | -17% | 98% | 1% | | |
| FI | 2 | 51% | 27.5 | 289 | 11 | -19% | 95% | | | |
| IT | 3 | 35% | 22.5 | 101 | 5 | -12% | 87% | 5% | | |
| FR | 3 | 37% | 26.0 | 291 | 11 | -12% | 70% | -7% | | |
| AT | 3 | 42% | 27.7 | 222 | 8 | 5% | 84% | | | |
| DE | 3 | 54% | 25.8 | 222 | 9 | 1% | 96% | | 96% | |
| DK | 3 | 63% | 34.8 | 230 | 7 | -11% | 95% | | 98% | 50% |
| NL | 3 | 66% | 28.0 | 328 | 12 | -5% | 96% | 7% | 95% | 60% |
| GB | 4 | 59% | 26.6 | 330 | 12 | 1% | 90% | -1% | 99.3% | |
| SE | 4 | 77% | 29.7 | 348 | 12 | -16% | 96% | 0% | 93% | |

AT: Letter post volumes are rough estimates.

LU, NL: change in QoS from 1999 to 2002.

The competitive situation in member states with a high level of economic development is shown in Table 6.3.1. In this table, member states are listed in an order that roughly approximates ascending competitive pressure from market opening initiatives and advancing technology. As in the preceding analysis, the member states were divided into four groups based on the degree of market opening. To do so, we evaluated the degree of market opening based on the scope of the reserved area and the extent to which an authorization regime appears to hinder entry. As a proxy for advancing technology we used estimates of the percentage of households connected to the

internet. While neither measure is precise, they offer a qualitative indication of increasing competitiveness.

This table suggests that in the relatively well off member states increasing competition has not led to a deterioration in the quantity or quality of universal postal service, and indeed the opposite may be true. As a group, the USPs (GB, DK, NL, SE) facing the stiffest competitive pressure have more mail per capita and higher quality of service than other USPs in this group. There is no evidence that quality of service, measured by the percentage of mail delivered the day after posting, has suffered in the last few years. Two of these USPs (DK, SE) have seen mail volume fall behind growth in real GDP by 12 to 18 percent, while mail volume for the other two USPs (GB, NL) has more or less kept pace with real GDP.¹⁸⁰ These mixed results are in line with the fortunes of other USPs in this group. Although market share information is fragmentary and approximate, USPs facing the most competitive pressure appear to have retained a very high percentage of the letter post market and to enjoy respectable portions of the parcel market as well. At the same time, Table 6.3.1 casts doubt on the idea that barriers to competition are needed to promote universal service. Interestingly, among the USPs in this table facing medium or low market opening categories, the ones that seem to be doing the best are those that face the most threat from internet competition. Thus, rising electronic competition and regulatory liberalization may have roughly similar, ultimately positive effects.

Table 6.3.2 Effects of competition in medium GDP per capita member states

| Cty | Market opening group | Internet Penetration 2003 | GDP per capita (€ 000) 2003 | Domestic letter post per capita 2002 | Domestic letter post per GDP (€ 000) 2002 | LpDom growth - real GDP growth 1998-2002 | Quality of service (D+1 perf) 2003 | Quality of service change 2000-03 | USP market share, letter post 2003 | USP market share, parcels 2003 |
|-----|----------------------|---------------------------|-----------------------------|--------------------------------------|---|--|------------------------------------|-----------------------------------|------------------------------------|--------------------------------|
| GR | 1 | 15% | 14.6 | 47 | 4 | 4% | 63% | | | |
| MT | 1 | 26% | 11.4 | 131 | 12 | 9% | | | 98% | 100% |
| CY | 1 | 30% | 15.8 | 74 | 5 | 12% | 38% | 16% | | |
| PT | 2 | 19% | 12.8 | 116 | 9 | 0% | 92% | -5% | | |
| ES | 4 | 33% | 18.3 | 127 | 7 | 3% | 76% | | 90% | 5% |
| SI | 4 | 45% | 12.3 | 187 | 16 | 0% | 98% | | 98% | 50% |

In the six member states with a moderate level of GDP per capita, only two USPs (ES, SI) face substantial competition from market opening legislation or encroachment of the

¹⁸⁰ For example, in the Netherlands, real GDP, measured in constant Euros, grew by 9 percent while mail volume increased by 4 percent, for a net difference of negative 5 percent or 1.2 percent per year on average.

internet (see Table 6.3.2). These two form an interesting contrast. Competition seems to have stimulated the USP in Slovenia while suppressing the USP in Spain. Although Slovenia has a substantially lower GDP per capita and a significantly higher rate of internet penetration than Spain, the Slovenian USP handles significantly more mail per capita and achieves higher standards of delivery; it also participates successfully in the parcels market. Of course, the Spanish post office has had to contend with a long history of competition in intracity postal markets, a condition not faced by other Community USPs. On the other hand, the most important difference may be that the corporate organization of the Slovenia post allows a level of commercial and operational flexibility denied the Spanish post, a g state enterprise. Then, too, it appears that Slovenia has installed a more independent and effective NRA than Spain. Among the other USPs in this group, the outstanding performance of the Portuguese USP is also noteworthy. It appears that postal success in Portugal has been achieved without a significant prod from competition; credit may be due in part to the effectiveness of Portugal's NRA as well as to postal management.

Table 6.3.3 Effects of competition in low GDP per capita member states

| Country | Market opening group | Internet Penetration 2003 | GDP per capita (Eur 000) 2003 | Domestic letter post per capita 2002 | Domestic letter post per GDP (Eur 000) 2002 | LpDom growth - real GDP growth 1998-2002 | Quality of service (D+1 perf) 2003 | Quality of service change 2000-03 | USP market share, letter post 2003 | USP market share, parcels 2003 |
|---------|----------------------|---------------------------|-------------------------------|--------------------------------------|---|--|------------------------------------|-----------------------------------|------------------------------------|--------------------------------|
| HU | 1 | 18% | 7.1 | 76 | 11 | 4% | 60% | -13% | 90% | 30% |
| LT | 1 | 24% | 4.5 | 12 | 3 | 12% | | | | |
| EE | 1 | 42% | 5.5 | 50 | 10 | -3% | 90% | | | |
| SK | 2 | 21% | 5.4 | 52 | 11 | 4% | 92% | -2% | 98% | 95% |
| PL | 2 | 23% | 4.8 | 43 | 8 | -6% | 0% | | 98% | 20% |
| CZ | 2 | 30% | 7.7 | 70 | 9 | -6% | 93% | 2% | | |
| LV | 2 | 37% | 3.8 | 32 | 8 | 7% | 80% | | 98% | 95% |

HU, LV, PL, SK: Letter post volumes are rough estimates only.
CZ: change in QoS from 1999 to 2002.

Among member states with a lower level of economic development, none have yet initiated significant market opening strategies (see Table 6.3.3). Nonetheless, the internet is beginning to introduce a degree of electronic competition, especially in Estonia and Latvia. In most cases, member states in this group have experienced rapid economic growth in the last five years and mail volume has increased correspondingly. The exceptions are the Czech Republic and Poland, which have enjoyed little growth in mail volume. Nonetheless, it should be kept in mind that for several USPs in this group, the accuracy of volume data is uncertain so that the effects of competition, or the lack of it, are difficult to assess.

Conclusions

There is no evidence that market opening has led to deterioration in the quantity or quality of universal postal service, and there are some indications that the opposite is the case. The positive impact of competition on universal service provision appears to be strongest in more developed markets with corporatized USPs. Moreover, the positive effects of competition seem to derive from both physical competition by CPOs and electronic competition from the internet.

7 Conclusions and recommendations

This chapter summarizes the major conclusions from this survey and presents recommendations for possible adjustments in Community postal policy and the process by which regulatory and market data are collected. The chapter is organized in the same order as the study itself:

- overall finding regarding the postal services market;
- conclusions with respect to regulatory developments;
- conclusions with respect to market developments;
- implications of the survey results for certain specific policy issues; and
- recommendations for the future.

7.1 Postal services market

In the course of this survey, we have found there is no clear and generally accepted vocabulary for defining or describing the “postal services” market and its major submarkets. The absence of common terms leads to confusion over issues as diverse as the scope of the Postal Directive and the meaning of statistical categories. This situation seems to result from three circumstances:

- imprecise definitions in the Postal Directive;
- incongruence between the definitions in the Directive and the traditional practice of public postal operators;
- rapid changes in technology and commercial practices that are redefining the types and categories of available delivery services.

For the purposes of this study, based on our interpretation of the Directive, we have adopted the approach that the postal services market consists of public and private services for the collection, transport, and delivery of correspondence, direct mail, newspapers and other periodic publications, and parcels that have been prepared and addressed in a form suitable to conveyance by a general delivery service. The major submarkets are (1) letter post (i.e., services for correspondence, direct mail, and periodicals), (2) parcels, and (3) express.

Thus defined, we estimate that the postal service sector in the European Union (EU-25) earned about € 88 billion in 2002, about 0.9 percent of Community GDP. Of this total, the letter post submarket accounts for 60 percent, and the parcel and express submarkets collectively account for about 40 percent. Postal services employed about

1.6 million persons. These estimates are very approximate because of the lack of data from competitive private operators (CPOs) and incomplete data from universal service providers (USPs).

The EU postal services sector is dominated by the largest USPs. USPs collectively provide more than three-quarters of all postal services in the Community, including 96 percent of the letter post market (a conservative estimate) and more than half of the combined express and parcels market. The four largest USPs (DE, FR, GB, NL) appear to control about 67 percent of the letter post market and 60 percent of the parcel market, or about 59 percent of the total Community postal services market. The largest USP is DPAG with about 23 percent of the postal services market. The largest CPO appears to be UPS with 2 percent market share.

Postal services provide vital infrastructure support for the commercial, governmental, intellectual, and social activities of the European Union. Postal services are evolving rapidly due not to internal pressures but also due to the influence of the adjoining communications, advertising, and transportation sectors, each of which is open to competition and undergoing rapid evolution.

7.2 Regulatory developments

In 1997 the European Union adopted the Postal Directive (Directive 97/67) to guide and harmonize development of appropriate new regulatory laws for the sector. The Postal Directive was amended in 2002 (Directive 2002/39).

In the wake of the Postal Directive, the pace of regulatory development in the EU has been remarkable. Although the average postal law was more than a decade old prior to the adoption of the Directive, in the ensuing seven years all member states have revised their postal laws at least once and many have done so more than once. Nineteen member states have adopted new postal laws and substantial amendments to their postal laws since the beginning of 2002. As of May 2004, all but five member states had transposed into their national laws the legal standards set out in the Postal Directive as amended in 2002. Two member states have not yet transposed the provisions of the original Directive.

The Postal Directive establishes an agenda of policy and administrative issues to be addressed by member states: How should the universal service obligation be defined precisely? How large should be the reserved area if any? How should prices and accounts of universal service providers be controlled? To what extent should competitive postal operators be regulated? A review of how the tasks required by the Postal Directive are managed by member states suggests that in many states postal policy issues still require a high level of political consideration before decision.

In broad terms, the Postal Directive seeks to facilitate development of the Community's postal services sector by stimulating progress on two fronts.

- First, provisions relating to universal service, price regulation, accounting separation, and establishment of national regulatory authorities (NRAs) are directed towards achieving more objective and transparent regulation of postal services provided by universal service operators (USPs).
- Second, provisions addressing the reservation of services for national USPs and the authorization of competitive postal operators (CPOs) seek to promote an appropriate degree of liberalization by placing limits on the authority of member states to restrict or regulate private postal services.

By combining the discipline of enhanced regulation with the stimulus of competition, the Directive seeks to induce regulatory reforms in the member states that will result in a better, more efficient system of universal postal services.

Enhanced regulation of USPs

To improve regulation of USPs, the Postal Directive requires each member state to ensure the provision of a universal postal service that meets certain minimal criteria. This survey has found that member states have implemented these requirements to a high degree.

- All member states provide universal collection and delivery every working day as required by the Directive.
- All but three member states provide for delivery of cross-border parcels up to weight limits specified in the Directive.
- All member states appear to provide acceptable levels of access to universal service.

Problems remain, however, in implementation of provisions relating to complaints and redress procedures, especially in the new member states.

Quality of service receives special emphasis in the Directive. The Directive singles out transit time as the most tangible measure of the quality of universal service. Member states are obliged to establish and monitor compliance with quality of service targets for all universal services. This survey shows that all member states (excepting MT) have set transit time targets for correspondence transmitted by the fastest standard category of service. In many member states, however, quality of service targets have not been extended to all universal services. Only about half of the many member states set quality of service targets for parcels, and only about a quarter for newspapers.

Independent performance monitoring of compliance with quality of service targets has been initiated and the results published in most member states. Nonetheless, independent performance monitoring appears to be lacking in several new member states (EE, LT, LV and MT) and results are unpublished in others (AT, CY, HU, LV, MT, SI).

In our view the most significant development in the evolution of the concept of the universal service obligation in recent years has been a growing tendency to re-examine its scope. The Netherlands has concluded that bulk mail should not be included within the universal service obligation. In the United Kingdom, Postcomm (the NRA) recently completed its first investigation of the appropriate scope of universal service. In general, Postcomm concluded that regulation of a postal service as a universal service should cease if competition develops sufficiently to protect the interests of customers. As USPs face greater competition from the CPOs and electronic alternatives, these issues are likely to become more important.

The Postal Directive also sets standards for the regulation of prices of universal services and the keeping of accounts of USPs. Overall, this survey finds that member states have made a good start, but only a start, towards the Directive's goal of ensuring affordable, transparent prices geared to costs.

- All member states except for Poland appear to have adopted clearly defined procedures and standards for review of universal service prices, usually *ex ante*.
- NRAs need to take further steps to formalize their review of postal rates. Only about half of member states have conducted formal investigations into rate issues, usually general rate cases. With the exception of certain active NRAs (notably, DE, GB, IE, NL, PT, SK), relatively little formal attention has been paid to applying the principles of the Directive to special (discount) tariffs, cross subsidy, and terminal dues.
- While special tariffs are common throughout the Community, only half or less of NRAs were able to confirm that these tariffs comply with the specific requirements of the Directive even though this issue was a major concern in the 2002 amendment to the Directive.

Our survey also revealed that a significant minority of member states directly regulate the prices of only a portion of all universal services rather than the entire set of universal services as contemplated by the Directive. The services most likely to be subject to price regulation are reserved services and other services that face little competition.

With respect to the regulation of accounts: the core requirements of the Directive are: (1) separation of USP accounts into basic categories including individual reserved services, non-reserved universal services, and non-universal services; and (2) an allocation of costs incurred by the USP according to certain principles.

Our review of the regulation of USP accounts raised several questions. Almost all NRAs report that their USPs are obliged by law to separate accounts as required by the Directive. Nonetheless, only slightly more than half of NRAs confirmed that their USPs had actually done so in 2002 or 2003. Moreover, many USPs who had reportedly generated apparent separate accounts were unable or unwilling to provide properly separated market data in response to our survey. While it appears that the great majority of member states have taken the first steps towards creation of properly separated USP accounts, more follow through is required.

Questions about the allocation of costs are even more fundamental. Separation of accounts is meaningful only if costs have been allocated correctly. The Directive requires USPs to follow specified principles of cost allocation. Member states must arrange for an independent body to monitor the USP's compliance with the principles of the Directive and publish periodically a statement of compliance. At present, only nine NRAs (BE, DE, FR, GB, GR, HU, NL, PT, SK) can declare that independent bodies have published periodic statements of compliance certifying the USP's compliance with the costing principles of the Directive and the USP has in fact produced properly separated accounts (although these nine member states account for more than half of the citizens of Community).

Even statements of compliance are issued, a careful review of these statements gives concern. It appears that NRAs rarely involve themselves with the technical issues of cost drivers and data quality. Instead, they may delegate to an outside auditor, perhaps retained by the USP, the task of checking compliance with the cost allocation principles of the Directive. In many, perhaps all, cases, it seems possible that the auditor's role is essentially to monitor compliance with judgements about cost drivers and data quality made by the USP. Since regulatory accounts showing the separation of costs and revenues and explaining the basis for allocating costs are generally not published, it is impossible to evaluate the correctness or completeness of cost allocation. Such an approach appears to fall short of the Directive's goal of an open and transparent cost allocation system.

A final accounting requirement of the Directive is that USPs should periodically publish financial statements audited by independent auditors. All USPs, with the apparent exception of the Polish USP, appear to meet this requirement.

Establishment of a NRA independent of the USP is a central feature of the regulatory framework envisioned by the Directive. This survey found that all member states except France have established or nominated a government department to fulfil the duties of a postal NRA (the French NRA is expected to be established in 2005). More than half of member states have assigned postal regulation to a regulator that also oversees the telecommunications sector. Some have set up regulators dedicated to the postal sector or adopted other solutions.

Substantial variation in the resources available to these NRAs was apparent. In evaluating the adequacy of resources dedicated to postal regulation, we used the especially well developed NRAs of the United Kingdom, Portugal, and Ireland as benchmarks for the large, medium, and small sized member states, respectively. Applying this standard rather loosely, this survey suggests the NRAs of Italy, Estonia, and Slovenia might be in need of augmentation (some NRAs were not considered for lack of data).

A more fundamental question relating to NRAs is their independence from influences which may create partiality towards USPs. We evaluated independence in an approximate manner by considering how closely the institutional arrangements of an NRA conform to those of a wholly independent quasi-judicial body headed by multiple members protected by fixed terms of service and legal guarantees from arbitrary dismissal. From this perspective, we found most NRAs to be adequately established but called attention to a possible need to consider further institutional independence in seven member states (AT, CZ, DK, EE, ES, FI, IT).

Finally, we considered whether NRAs were vested with sufficient enforcement powers to be effective. We focused on general information collection and enforcement powers. Again, the situation of most NRAs appear to be adequate, although we found that it might be appropriate to consider whether at least four NRAs (AT, DK, LU, and LV) possess sufficient enforcement authority.

Promotion of an appropriate level of competition

The Directive recognizes two types of regulatory controls over competitive postal operators. First, CPOs may be prohibited from providing certain services reserved for the USP. Second, CPOs may be subject to certain types of authorization requirements. In each case, the Directive places limits on manner in which a member state may use these regulatory controls to restraint competition.

With respect to the reserved area, this survey found substantial progress towards a full market opening. Virtually all member states have limited their reserved areas to the boundaries for the maximum reservable area set by the Directive. In about half of the Community (measured by population), consisting of 13 member states, the reserved area is non-existent (EE, FI, SE), minimal (ES, GB), or substantially less than the outer most boundaries set by the Directive (AT, CZ, DK, IT, LT, LV, NL, SI, mainly due liberalization of direct mail). In another four member states (BE, DE, FR, IE) at least outward cross-border mail has been exempted. In the remaining eight member states, the reserved area has been extended to the maximum permitted by the Directive. Based upon provisions of current legislation in Germany and the United Kingdom and apparent intentions of the Dutch government, it appears that 60 percent of the EU letter post will be effectively liberalized by the of 2007. The major services presently reserved by the member states are shown in simplified form in Table 7.2.1.

Table 7.2.1 Summary of reserved and authorized areas

| | Items of correspondence | Direct mail | Other letter post < 2 kg | Parcels within univ. serv. | Non-US parcels | Express |
|----|-------------------------|-------------|--------------------------|----------------------------|----------------|---------|
| AT | Res | None | None | None | None | None |
| BE | Res | Res | LicR | LicR | GA-I | GA-I |
| CY | Res | Res | LicR | LicR | GA | GA |
| CZ | Res | LicR | LicR | LicR | Lic | Lic |
| DE | Res | Lic | None | None | None | None |
| DK | Res | GA | GA | GA | GA | GA |
| EE | LicR | LicR | LicR | LicR | Lic | GA |
| ES | Lic | Lic | Lic | Lic | GA-I | GA-I |
| FI | LicR | LicR | LicR | LicR | None | None |
| FR | Res | Res | None | None | None | None |
| GB | Lic | Lic | None | None | None | None |
| GR | Res | Res | LicR | LicR | GA | GA |
| HU | Res | Res | LicR | LicR | GA | GA |
| IE | Res | Res | GA-I | GA-I | GA-I | GA-I |
| IT | Res | Lic | Lic | Lic | GA | GA |
| LT | Res | LicR | LicR | LicR | GA | GA |
| LU | Res | Res | GA-I | GA-I | GA-I | GA-I |
| LV | Res | LicR | LicR | LicR | GA-I | GA-I |
| MT | Res | Res | LicR | LicR | GA-I | GA-I |
| NL | Res | None | None | None | None | None |
| PL | Res | Res | GA | GA | GA | Lic |
| PT | Res | Res | Lic | Lic | GA-I | GA-I |
| SE | Lic | Lic | None | None | None | None |
| SI | Res | Res | GA-I | GA-I | None | None |
| SK | Res | Res | GA-I | GA-I | GA-I | GA-I |

Key: Res = reserved. Lic = Individ. licence. LicR = apparently restrictive licensing regime (no CPOs).
GA=general authorization. GA-I = general authorization (decision requiredd).
ES: Services for non-bulk, intercity correspondence are reserved for the USP.
GB: Services for non-bulk correspondence and direct mail weighing less than 100 grams and priced less than 2.9 the price for the lowest FSC weight step are reserved for the USP.

The most striking feature of this gradual process of liberalization has been the conspicuous absence of any official economic study to support any particular scope of the reserved area. In authorising use of a reserved area, the Directive repeatedly enjoins member states to observe the “principle of proportionality”, that is, to confine the scope of the reserved area “to the extent necessary to ensure the maintenance of universal service”. After seven years it appears from this survey that no member state has produced an objective economic analysis that supports the need for any reserved area, and at least two member states (GB, SE) have generated studies which conclude that no reserved area is needed to sustain universal service over the long term.

With respect to authorizations for CPOs, this survey revealed considerable confusion and some questionable practices. There does not seem to be a clear understanding with respect to the nature of the “general authorization” provided under the Directive or the scope of obligations that may be attached to an authorization for services within the universal service area. At least eight member states have established “individual

general authorizations” which require specific approval by the NRA before the authorized operator can begin services even though the Directive clearly defines a general authorization as one that “does not require the undertaking concerned to obtain an explicit decision by the national regulatory authority before exercising the rights stemming from the authorization”. Several member states require authorized operators to meet conditions relating to financial resources or operational expertise despite the fact that such conditions appear to be more stringent than envisioned by the Directive. In a handful of cases (CZ, EE, PL), member states seem to require individual licences for CPO services outside the universal service area even though the legitimate scope of licences is plainly limited to the universal service area.

The Directive provides that services within the universal service area may be subject to an individual licence. Four member states (DE, GB, PL, SE) have established limits that relate only to transport of a portion of the letter post. Thirteen member states have established far broader licenses that cover the entire universal service area.

It is the implementation of these “universal service licences” that raises the most serious issue surrounding authorizations. In several cases, it appears that the licensing regime is, or may be, restrictive in nature because the member state has made it difficult or impossible to obtain a licence by delaying the issuance of implementing regulations or attaching unnecessarily stringent conditions to such licences. This practice seems to be tantamount to establishing a reservation in excess of the maximum reservable area. From the viewpoint of this survey, it is difficult to know precisely when a licensing regime practice can be said to take on this restrictive nature, but the absence of any reported licensees in the universal service area raises questions about the authorization approach in several cases.

The pattern of regulatory controls over CPOs identified in this survey is also summarized in Table 7.2.1. This table adopts a simplified view of the reserved area. A reservation over correspondence is considered equally effective regardless of the weight limit on the reservation or an exception for cross-border mail. A reservation over direct mail, however, is considered a significant additional reservation and indicated in a separate column. The residual reservations in Spain (intercity and outgoing correspondence) and the United Kingdom (non-bulk correspondence and direct mail with a fixed deadline for complete liberalization) are considered relatively ineffective on this scale. ¹⁸¹

181 The types of authorization procedures described above are denominated “GA” (general authorization), “GA-I” (individual general authorization), “Lic” (individual licence), and “LicR” (apparently restrictive licensing regime).

7.3 Sector developments

Market development

The picture that emerges from this survey is that the overall postal services market is becoming more competitive, more commercial, and more concentrated in the hands of a few large USPs, but it must be admitted that this picture is more of an impressionistic sketch and than a fully developed image.

Development of actual competition in letter post markets have been extremely slow. Even in the most liberalized letter post markets, the USP has retained a dominant position in the letter post market.

- In Spain, intracity city mail has never been in the reserved area, yet the Spanish USP seems to have (based on slim evidence) roughly 90 percent.
- Sweden repealed the postal monopoly a decade ago, but the Swedish USP retains about 93 percent of the letter post market.
- In the United Kingdom, Postcomm (the NRA) has made substantial efforts to introduce competition in the last two years, but CPOs have captured less than 0.5 percent of the market.

Postcomm believes that the slow emergence of competition can be traced to a series of factors restraining CPOs, including difficulties in getting access to the USPs network, the USP's favourable treatment under VAT laws, and customer reluctance to change suppliers. Nonetheless, despite formal and informal barriers to entry, a survey of NRAs and USPs indicates a definite rise in the perceived level of competition. Where competition was considered almost invisible in 1998, it is now seen as "emerging". Very roughly, the share of CPOs in the EU letter post may be estimated as 4.5 percent (by revenue). This survey did not produce sufficient data at the member state level to provide trend analysis in market shares.

Competition in the express and parcel markets is more highly developed, but this survey could not develop reliable estimates of market shares or volume trends. Respondents in 12 member states (excluding some of the largest) typically estimated the USP's market share in the parcels market to be 60 percent and in the express market to be 20 percent. Again, respondents were most forthcoming about perceived levels of competition. Since 1998, the general view of NRAs and USPs is that competition in the express and parcel markets has increased from somewhat less than "substantial" to midway between "substantial" and "intense".

The most dramatic market development in the last six years have been the continuing organizational transformation of USPs.

- Fifteen of the 25 USPs are now corporatized, and a sixteenth USP (SK) is planning to take the step before the end of the year.
- Three USPs are partially privatized (DE, MT, NL), with one or two USPs (DK, AT) expected to follow in the near future.

As USPs become more like private companies, they are absorbing of more and more of the genuinely private portion of the postal sector. The four largest USPs (DE, FR, GB, NL) have been active in acquiring private companies to extend their geographic reach beyond their home territories and to expand their commercial base into related businesses. Between 1998 and June 2004, these USPs have acquired or franchised more than 120 companies. Having acquired two of the four largest global express services (DHL, TNT), as well as more than 70 smaller parcel and express companies, these USPs have lately focused more on the purchase of private companies engaged in upstream and downstream activities related to the domestic letter post (vertical expansion) and acquisition of and joint ventures with foreign companies providing letter post services (geographic expansion). Some medium-sized USPs (e.g., AT, BE, FI, SE) have also been purchasing private companies in neighbouring countries and in upstream and downstream markets. Meanwhile small and medium-sized USPs are increasingly adopting the role of commercial partners with larger, regional postal operators. To the extent that USPs, especially the four largest USPs, are consolidating private sector postal services into regional systems while retaining the special and exclusive rights of public undertakings, there appears to be a risk of “governmentalizing” the private sector instead of privatizing the public sector.

Commercialization and reorganization are being driven in part by ongoing and anticipated shifts in the demands for postal services. In response to survey questions, NRAs and USPs presently foresee a significant decline in correspondence due to electronic substitution that is partially offset by an increase in direct mail. Overall, the collective estimate is for a modest 5 percent decline in the volume of letter post items over the next decade. This seems unduly optimistic when one considers that the large member states anticipate that the growth of direct mail will level off after five years, and the letter post in the most economically advanced member states has been declining at 1 to 3 percent per year since 2000.

Regardless of what the pace of change will be, the direction of change seems clear enough. As direct mail becomes the major portion of the letter post, the function of the letter post will become less two-way communications and more one-way distribution. The organization-to-individual (BtoC) mail stream, which already accounts for more than 60 percent of total volume, will become even more important.

Finally, this survey indicates about 75 percent of letter post items weigh less than 50 grams, and only about 7 percent weigh between 50 and 100 grams. These findings imply that the reduction of the weight limit for the maximum reservable area on January 1, 2006, is likely to be minimal and have less than the effect of the previous reduction from 350 grams to 100 grams.

Development of USPs

Total USP revenues in 2002 were about € 105 billion. Total revenues from postal services were about € 70 billion, of which 77 percent was accounted for by the four largest USPs (DE, FR, GB, NL). Between 1999 and 2002, the total revenues of Community USPs increased by more than 10 percent per year. Revenues from postal services rose by about 7.7 percent per year. Even without the four largest USPs (DE, FR, GB, NL), whose revenue growth was caused in part by acquisitions, postal revenues of the USPs grew by almost 4.5 percent per year.

Employment in the USPs in 2002 was about 1.8 million persons (headcount), of which about 1.1 million persons were engaged in the production of postal services. Based on incomplete data, WIK estimates that employment in letter post services declined by about 1 to 2 percent per year after 2000.

The volume of domestic letter post volume in the EU rose from roughly 85.1 billion items in 1998 to roughly 88.3 in 2002 and perhaps to 89.1 billion items in 2003. (Actual volumes, however, may be as much as 2.3 percent more or less than these estimates.) The three largest USPs (DE, FR, GB) have 62 percent of the EU domestic letter post by volume. TPG, the Dutch USP, is a smaller factor in the domestic letter post market than in the postal services market as a whole. TPG accounts for 6.0 percent of the EU domestic letter post market, about the same as the USPs of Italy (6.6 percent) and Spain (5.8 percent). Despite the close correlation between letter post volume and economic growth in prior decades, since 1998 the letter post has grown at only half of the rate of real GDP, a discrepancy that has widened sharply as letter post volumes have remained flat since 2000. If the domestic letter post had kept pace with real GDP since 1998, the volume in 2003 would have been about 94 billion items.

The disparity between the annual growth in postal revenues (7.7 percent) and the annual growth in letter post volume (1 percent) seems to reflect two factors. First, the largest USPs are increasingly diversifying into other types of postal services (therefore letter post revenues are not growing nearly as fast as total postal revenues). Second, some small and medium-sized USPs generally are increasing letter post revenues by raising prices rather than increasing volumes.

Use of the letter post varied among member states. The volume of letter post per capita ranged from 12 to 350 items per year. Member states with the lowest present volumes per capita are usually the ones with highest growth rates. This wide range is primarily a

result of differences in economic activity. In the great majority of member states, the volume of letter post falls within a range of 6 to 12 items per € 1,000 in GDP.

The state of the cross-border letter post cannot be analyzed due to insufficient data.

The domestic postal parcels market – i.e., omitting the activities of the largest USPs outside their home countries – appears even more concentrated than the domestic letter post market, with the top three USPs handling 76 percent of parcels carried by USPs. Parcels data is more uncertain than letter post data, and time series statistics are unavailable. Although information is incomplete, there are indications of a tendency towards consolidation of parcel post operations in the hands of the largest USPs.

The average postage for a first class letter in the lowest weight step in the EU increased by a modest 6 percent in nominal terms from 1998 to 2002. The rates of largest USPs were generally stable. USPs in the some new member states have raised rates substantially, however, although in many (but not all) cases increases appear to represent a desirable adjustment of rates to costs. Among the member states, the basic first class letter rate in 2003 varied from € 0.15 (MT) to € 0.65 (FI), a difference of more than 4 to 1. Adjusting for purchasing power, the difference is about 2.7 to 1 (disregarding the very high but little used priority rate in Poland). Comparisons between basic first class letter rates offer only limited insight, however, because of substantial differences in tariff structure and shape requirements. Moreover, an increase in single-piece letter rates may reflect a shift in tariff structure rather than an increase in average letter rates if discount rates are lowered or more widely used.

A second class or non-priority tariff is available in 13 member states. The share of correspondence carried by second class service ranged from 24 to 95 percent among the seven USPs which provided data. Overall, the survey suggests that there is a significant demand for a lower priority universal service at lower rates.

Special or discount tariffs are widely available for all types of postal items and appear to apply to a substantial proportion of the mail. The amount of discounts varies widely. Discounts for correspondence typically range from 15 to 30 percent and may require presorting or transportation by mailer.

Bulk letter discounts appear to be more prevalent in western and northern member states. Discounts for direct mail may exceed 50 percent. Rates for parcels transported in the universal service appear to have increased more substantially than for letter post items although a lack of historical data makes comparison difficult. In 10 of 18 member states for data is available (DK, FI, GR, HU, LU, LV, PT, SE, SI, SK), during period 1998 to 2003, the USP increased the lowest public parcel tariff for a 5 kilogram parcel at an average of more than 5 percent per year in real terms (adjusted for inflation). Increases in public tariffs, however, may mask decreasing tariffs for business senders.

USPs generally are engaged in a definite process of modernization, automation, and productivity enhancement that typically includes four ingredients:

- Restructure the transportation and mail processing network (often the first step) by reducing the number of sorting centres to create critical mass for sorting automation and reduce transportation costs.
- Use information technology to optimize routes and reduce costs in transportation and distribution.
- Increase outsourcing of transport, collection, and the retail network;
- Improve operational synergies.

While many USPs are far advanced in this process, others have lagged noticeably. This widening gap in technological sophistication may become difficult to bridge.

Significant increases in productivity – measured as domestic letter post items per full time employee – were realized by most USPs from 2000 to 2002. These productivity gains were a result of reduced employment rather than rising volumes.

Universal service

Access to universal service, especially availability of post offices and postal agencies, is gradually declining. From 1998 to 2002, post offices were closed at an average rate of about 2.4 percent per year. This trend has been only partially offset by an increase in the number of postal agencies, so the net number of postal outlets has declined by about 0.8 percent per year. At the same time, USPs are developing closer relations with retailers, such as supermarkets, which can offer consumers access to postal facilities outside of normal business hours. Except for significant declines in Germany and Sweden, the number of public collection boxes has remained stable.

More than half of the member states report that that next day delivery exceeds 90 percent for first class mail. Quality of service (i.e., transit time) appears to stabilized at high levels in most of the EU-15 member states. USPs which had low performance levels have seen considerable improvement since 2000, but there are a few USPs facing a deterioration of performance (especially HU and FR). So far there do not appear to be reliable measurement systems in place in some new member states.

The quality of cross-border postal service among the EU-15 USPs seems to have plateaued at a high level (with a few exceptions) due in large part to a monitoring system developed by International Post Corporation. This system has not been implemented in the new member states. A revised version of this system will be implemented among all 25 USPs at the beginning of 2005.

7.4 Specific policy issues

This report also examined whether information developed by the survey could shed light on certain issues of particular significance for the future of European postal policy. In principle, by comparing the performance of postal services in different member states, it should be possible to understand better how regulatory measures and sector developments affect the market. In practice, such analysis is difficult because of the high number of variables and the absence of reliable statistical data. Without presuming to supply definitive answers, this report suggests preliminary conclusions with respect to three specific policy questions.

What are the key factors leading to increases in letter post volume?

- The main driver of letter post volume continues to be general economic growth but the stimulative effect of economic growth is declining significantly among the more economically advanced member states.
- Differences in quality of universal service appear to be a significant factor in explaining differences in the growth rate of letter post volume experienced by member states in similar economic circumstances.
- The level of tariffs also seems to affect the rate of growth in letter post volume. Substantial tariff increases in some member states seem have restrained growth in the letter post.

What are the most important factors stimulating improvement in quality of universal services?

- Increasing use of technology and automation has led to significant improvements in the quality of letter post service, but these benefits are realized only in the medium term.
- Competitive pressure, whether from market opening or increased use of the internet, appears to incite management focus on improvements in quality of service.
- The degree of geographic dispersion of the population has only a small effect on the quality of service.

What are the primary effects of increased competition in the letter post market?

- Increasing competition has not led to a general deterioration in the quantity or quality of universal postal service.
- Increasing competition seems to have a positive effect on universal service and the universal service provider where the USP has the resources and commercial flexibility to respond.
- The effects of electronic substitution on universal postal service seem to be similar to the effects of market opening.

7.5 Recommendations

Based on this review of regulatory practices and market developments in the Community, we believe the following points relating to the regulatory framework of the sector merit further consideration. They are listed roughly in the order of topics in the Directive.

- Clarify the definitions of terms used in the Directive. There is significant confusion over the precise meaning of such basic terms as “postal service”, “direct mail”, “parcel”, and “express”. Clearer definitions, more consistent with industry usage, would be desirable.
- Allow member states greater flexibility in the definition of the scope of universal service. Re-examinations of the scope of universal service begun in member states such as the Netherlands and the United Kingdom represent considered approaches to the changing nature of the sector and should be not discouraged by overly rigid formulas for universal service.
- Set a deadline for the termination of the reserved area. Liberalization introduced by the Directive so far, and the additional experiments in liberalization undertaken in some member states, reveal no reason not to continue the approach taken in Postal Directive to its logical conclusion: termination of the reserved area.
- Revise the process of transition to an open market, if a further transition period is considered necessary. Phasing in market opening by declining weight and price limits on the reserved area has not produced significant competition and will not do so after January 1, 2006. Given the proven ability of USPs to protect their market share and the continuing advance of the internet, it is highly questionable whether a further transition period is necessary or wise. However, if a further transition is considered necessary, it should build on the regulatory experience and analysis in the United Kingdom and consider benchmarks expressed in terms of opening substantial percentages of the market.
- Revise and clarify the authorization provisions for CPOs in light of the principles developed in the licensing regimes in Germany, Sweden, and the United Kingdom. In principle, these member states have used the licensing regime to replace the reserved area, not to impose additional regulatory controls on the entire universal service area. To assure provision of universal service it appears to be sufficient to impose obligations on the set of operators providing services within a licensed area and unnecessary to impose economic regulations of operators providing services outside the licensed area but within the universal service area. Thus, in Article 9 of the Directive, the scope of individual licences could be limited to a licensed area consisting of services for postal items weighing up to a certain weight. Outside the licensed area, the Directive could provide for general authorizations, conditional on essential requirements.

- Extend the practice of monitoring quality of service performance, particularly for universal services which are not controlled by competitive market forces. Introduction of quality of service monitoring seems to have been an especially beneficial result of the Directive. It might be possible to enhance this effect by further standardising these requirements and providing for more frequent and prompt publication. Drawing public attention to quality of service appears to be more important than rigid regulatory targets. As Postcomm has identified, quality of service regulation is especially necessary where universal service are not controlled by competitive market forces.
- Allow member states greater flexibility in reconsidering the scope of price regulation for universal services. Following the practice of some member states, it appears reasonable to allow NRAs to forbear from pricing regulation where competition is sufficient to prevent abuse or the interests of the general public are not involved.
- Encourage member states to continue establishing mechanisms for price control of universal services which are not controlled by competitive forces. While a regular review of tariffs may be unnecessary for each universal service product, an aggressive regulatory review of tariffs for reserved services is fundamental to ensure tariffs adhere to the principle of Articles 12.
- Clarify the level of scrutiny of cost allocation systems expected from NRAs and require that NRAs, not merely an independent body, certify compliance periodically. Regulation of cost allocation by USPs is difficult but fundamental to the success of the Directive. Further clarification of responsibilities of the NRAs appears to be desirable.
- Require NRAs to publish an annual summary of regulatory accounts and a technical explanation of how data is collected and costs attributed by means of cost drivers. Although Article 14 requires periodic publication of a statement certifying the USP's compliance with the cost allocation principles of the Directive, a bare statement of compliance is insufficient. Such statements provide no opportunity to evaluate the quality or consistency of cost allocation as implemented by the diverse NRAs.
- Encourage member states to pursue corporatization of public operators. Public operators that have been transformed into private companies (including those that have been partly privatized) have contributed more to the competitiveness of the sector while preserving or increasing the level of universal service. In an increasingly competitive environment, universal service providers are in need of enhanced managerial freedom to respond to customer needs and enhance market performance.
- Clarify the nature of the independence expected of the NRA and the extent of necessary enforcement powers. While great progress has been made in the establishment of NRAs, a clearer definition of what is expected appears desirable.

With respect to collection of market information, we would recommend a more standardized approach focused more clearly on the NRAs. As USPs become more and more commercial in orientation, it is less and less likely that they will voluntarily provide detailed operational data in response to surveys such as this. The alternative seems to be the development of a more limited and standardized data set which is required from all operators (USPs and CPOs) and collected by NRAs. This data should then be collated by the Commission regularly. A clearer distinction should be drawn between a minimal amount of data needed for the development of sector policy and the much more extensive set of data needed by NRAs for sector regulation on a national level. In developing a standard set of market data, the legitimate commercial concerns of the USPs and CPOs should be specifically taken into account.

At same time, the practical problems encountered in this survey likewise argue for a more standardized system of periodic regulatory reports by NRAs. The questionnaire approach developed in this survey has worked well. Nonetheless, it is apparent that each new questionnaire encounters a series of misunderstandings and delays as NRAs organize to make their responses. A standard reporting procedure would eliminate most of the sources of confusion generated by an ad hoc survey. It would also be far less burdensome for the Commission to administer and for NRAs to complete.

In sum, therefore, we recommend that the Commission adopt a system of standardized reports that would be periodically updated by the NRAs and include both regulatory and market data. We believe use of the internet to collect such data has proved very workable and efficient in the course of this survey.

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