

Development of competition in the European postal sector

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Annex II Country information sheets

The authors do take full responsibility for the contents of this report. The opinions expressed do not necessarily reflect the view of the European Commission.

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The authors want to stress that it was beyond the scope of the study to prepare full-fledged country reviews for each of the Member States. The information in the country information sheet is based on the feed back on the questionnaires that have been sent out to different stakeholder groups complemented with clarifications by e-mail and desk research. We have tried to present the information as accurately as possible and would like that the country information sheets will facilitate cross-sectional analyses of the development of competition in the Member States in the coming years.

Country information sheet: Austria

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The Postal Act defines universal services as postal items up to a weight of 2 kg and packages up to 20 kg as well as the special handling of insured and registered postal items. The Regulierter Bereich (PostG 97) provides a specification of the scope of the universal service. Domestic letters and advertising mail with personalised information are included in the universal service, while other services are outside the universal service and hence not regulated.

Domestic items of correspondence, addressed direct mail and inbound cross border mail above 100 gram and outbound mail are liberalised. In addition, the delivery of newspapers, magazines and periodicals, and un-addressed mail items is open to competition.

For all the liberalised services, the regulatory authority of the Ministry requires no licence to provide postal services. The regulatory authority is not separate, but part of the Federal Ministry for Transport, Innovation and Technology, that is also responsible for postal sector policy.

Short description of relevant developments with regard to the regulatory framework

In the year 2004, a supplement was added to the existing postal regulations regarding access of other operators to letterboxes in Austria. The Postal Act states that all closed letterboxes need to be made accessible to private postal providers before 1 July 2006. However, the postal act provides no guarantees for a timely adjustment. According to competitors, no sanctions and/or consequences are mentioned in case the newly set of requirements are not met by Österreichische Post. The consequence might be that a majority of the letterboxes will still be closed after 1 July 2006, so that effective competition is still hindered.

In recent years, the postal regulator has dealt with disputes regarding unlawful distribution of mail by a competitor in the reserved area. This matter has been resolved by a criminal procedure of the competent administrative court regarding the unlawful distribution of mail by a competitor in the reserved area. In addition, Österreichische Post had taken legal action at the competent courts for competition and anti-trust law matters.

Redmail, the main competitor of Österreichische Post, mentions as other relevant disputes with Österreichische Post:

- The potential abuse of market power by Österreichische Post. In the past, Redmail has had several disputes about:
 - Discriminatory discount scheme by Österreichische Post for Redmail in comparison to other senders of mail. Redmail issued a complaint and brought it to court, but the lawsuit failed;
 - The discount scheme by Österreichische Post for the large majority of Austrian magazine publishers, effectively binding them by granting special rates in case the publishing company uses the services of Österreichische Post for at least 90% of its sending volume. Redmail issued a complaint and brought it to court. The lawsuit is still pending;
 - Redmail complained about the cross-subsidisation of liberalised services with reserved services by Österreichische Post. Redmail issued a complaint and brought it to court, and the lawsuit was awarded.
- Unlawful (comparative) advertisement and disparagement of competitors by Österreichische Post (the law suit succeeded);
- Evasion of VAT on un-addressed delivery services by Österreichische Post (the law suit succeeded).

Legal and strategic barriers to entry in the Austrian postal market are according to Redmail:

- Access to private letterboxes: a large part of the Austrian letterboxes is still closed to competitors, so that the effective number of addresses where competitors can deliver is much lower compared to Österreichische Post;
- Lack of regulation on price setting by Österreichische Post in the area of transparency and non-discrimination: the extent to which the price setting behaviour by the universal service provider is unrestricted determines the possibilities of competitors to compete effectively in the Austrian postal market. Redmail states that in case no appropriate arrangements are made for separate accounts and price regulation, Österreichische Post has opportunities to engage in anti-competitive behaviour and is able to cross-subsidise postal products in the liberalised part of the postal market with postal products in the reserved area;
- Lack of clarity on the qualification of addressed direct mail as “letter”, “printed matter” or “direct mail”: a proper definition of postal products prevents discussions and disputes about what a competitor is allowed to do and not. Because of the unclarity and the resulting uncertainty, the incentives for competitor postal operators to enter or stay on the market are lower than they should be.

Short description of the postal sector policy

An amendment to the postal act is currently being negotiated. This revised act will provide the appropriate legal framework for the delivery of postal services by multiple operators in a liberalised market. Since the law is still under negotiation, the key elements of the law are not yet publicly available. It is expected that the proposed legislation will be brought to Parliament in fall 2005.

The Postal Sector Policy is focused on maintaining the universal service obligations for the postal sector and following the postal directives 97/67/EC and 2002/39/EC. The liberalisation of the Austrian postal market will be carried out in line with the EU framework.

To strengthen the market position and attract investments, the Austrian government started in 2003 to investigate the option to increase private sector participation in the postal sector. The Austrian Privatisation Agency repeatedly said it is looking for a strategic partner for the state postal service. Possible interested parties were DPWN and TNT. In June 2004, the Austrian government however announced that it planned only to sell a minority stake in Österreichische Post, which reduced the interest from both DPWN and TNT substantially. Both companies are mainly interested in a majority stake enabling them to undertake restructuring. In August 2004, the lack of political support for a major deal became clear, also because Österreichische Post had been able to improve its results considerably during the previous year. Recently, on 15 March 2005, it was announced that DPWN is no longer interested in acquiring a stake in Österreichische Post.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

Government regulation

One of the main difficulties for enhancing competition is the access to closed letterboxes. Although supplement regulation has addressed the issue of access to these letterboxes, it will still take quite some time before effective access will be realized.

New entrants

Few new entrants have entered the addressed mail market. MediaSprint, a company supported by German Publishers Group WAZ, was the first competitor and has operated for a short time. Due to continuing losses, the services had to be stopped. The main competitor of Österreichische Post is Redmail, a joint venture of Styria Medien AG and TNT, founded in October 2001.

Substitution

Substitution by electronic media is becoming more important and will have impact on mail streams. The establishing of the announced Document Exchange Network (DEN) is an indication that new opportunities from technology are being considered in the area of addressed direct mail.

Redmail provided the following prediction of the impact of substitution on the mail market.

Impact electronic substitution

Postal product	% decline in total market volume
Bank statements	7-10%
Bills of large customers	5-8%
Single items of correspondence	3-6%
Addressed advertising mail / direct mail	0%
Magazines	0-2%
Catalogues	1-3%

Source: ECORYS questionnaire (2005)

Short analysis of contestability/attractiveness of market segments in the mail market (if different from general analysis), in relation to the market size of the postal sector and country information

Austria is a mature mail market with a high number of mail items per inhabitant. In addition, the advertising market is well developed with addressed and un-addressed mail accounting for nearly 75% of the total mail volume. Entrants in addressed and un-addressed mail markets have been able to take a small market share of the incumbent provider Österreichische Post.

The Austrian postal system is known for its closed private letterboxes. Closed private letterboxes are most common in urban areas. From the three million letterboxes in Austria approximately 1.75 million are closed (around 60%). To open these letterboxes and deliver the mail, postal providers need to acquire the keys giving access to the hallway, where these letterboxes are located from the owner/concierge of a particular building and the so-called Z-key to open the letterboxes and deliver the mail. At the moment only the Österreichische Post holds possession of these Z-keys. Competitors are forced to hang their mail in closed bags on the front door of each individual household. Redmail states that for 85% of its deliveries the bags have to be used.

1.1.3 The universal postal operator: facts, figures, strategy

The postal operator Österreichische Post AG maintained its revenue level over the last three years. After the difficult year of 2002, a restructuring program was implemented leading to profits returning to an acceptable level in 2003.

Strategies of universal service provider

Österreichische Post is following an expansion strategy. The main countries that Österreichische Post is targeting are Slovakia, Czech Republic, Hungary, Romania and Bulgaria. In Slovenia, Österreichische Post is active through her daughter company “Yellogistics d.o.o.”, that offers logistic services. In Slovakia, a subsidiary was established “Slovak Parcel Services s.r.o.” and “In Time s.r.o.” to establish a market position in the courier, express and parcel (CEP) markets.

In addition to establishing daughter companies in the mentioned countries, Österreichische Post is also actively forming alliances with other postal operators for

cross border advertising mail. In July 2004, Österreichische Post and Magyar Posta, the national Hungarian postal operator, reached an agreement on the distribution of cross border advertising mail. Due to the high level of cross border advertisement between Austria and Hungary, the cooperation between Österreichische Post and Magyar Posta is expected to be beneficial for both organisations. Österreichische Post has already concluded similar contracts with most of the postal operators in Western Europe as well as with those of the Czech Republic, Slovakia and Slovenia. In the near future, Österreichische Post is aiming to make similar arrangements with the Croatian postal service, while preparations for cooperation with the Polish postal service are being made as well.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

In the current postal market in Austria, only few competitors of Österreichische Post AG have been active in recent years or are still active.

TNT and Styria Medien AG founded Redmail (Redmail Logistik & Zustellservice GmbH) in 2001. Currently Redmail focuses on the total liberalised domestic mail market in Austria and is currently the main competitor of Österreichische Post AG in the addressed mail market. Redmail expects to be able to obtain a significant increase in its market share in case full liberalisation will be reached in Austria. MediaSprint, a 50% subsidiary from the German Publishers Group WAZ had to stop its operations in 2003. MediaSprint offered addressed and un-addressed services in Austria but remained unprofitable. In the distribution of un-addressed mail, Feibra was a serious competitor to Österreichische Post, but it has been taken over fully recently.

For international mail, an important competitor for Österreichische Post is Spring. Spring is a joint venture between TNT, Royal Mail Group en Singapore Post and is mainly focused on the international business mail. With 110 international sorting facilities in 60 countries, it has coverage of 200 countries, including Austria. Swiss Post International and DHL Global Mail are also active in Austria in outgoing international mail. TNT has the advantage, via Spring and Redmail, to offer a full service outside the reserved area.

Effect of competition on market structure and market performance (result indicators), including on US provision

The development of competition in Austrian postal markets has been limited with few competitors, while the incumbent maintains a market share of 98.4% in the market for the delivery of addressed mail (newspapers excluded). Real changes in the market structure and performance can be expected when access to letterboxes will de facto be achieved.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postgesetz 1997 (Postal Act)	1 January 1998	22 august 2003
Post-Kostenrechnungsverordnung	1 March 2000	-
Post-Universaldienstverordnung	1 March 2002	-
Brieffachanlagenverordnung	14 February 2004	-

Source: ECORYS questionnaire (2005), Official sources, website

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border	Yes	Liberalised > 100 gram
Outbound cross border	No	
Direct mail addressed	Yes	Liberalised > 100 gram
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed direct mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
USP has a contract to provide universal service	Universal service	-	-
None	Activities outside the reserved area	-	-

Source: ECORYS (2005)

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003	% distribution addressed
Domestic items of correspondence <50 gram		
Domestic items of correspondence 50-100 gram	893	38.4%
Domestic items of correspondence >100 gram		
Inbound cross border mail		
Outbound cross border mail	90 ¹	3.9%
Direct mail addressed (incl. catalogues)	655	28.2%
Periodicals / Magazines		
Newspapers	688	29.6%
Un-addressed mail (direct mail, weeklies)	3,808	
Total	6,134	100%

¹ Rough estimate

Source: calculations based on ECORYS questionnaire (2005), UPU (2005), WIK (2004), NERA (2003), Fedma (2003), Post.at strategy document (2005), Annual Reports Österreichische Post AG

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2004
B2B	n.a.
B2C	n.a.
C2B	n.a.
C2C	n.a.
Total	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Austria	2004
Population (in million)	8.1 *
Size of the country (in 1000 of square km)	83.9
Population density (number of inhabitants per square km)	96.5
Degree of urbanisation	85.6 ¹ **
Number (and percentage) of inhabitants 5 largest cities	2,230,581 (27.5%) ***
Number of addressed mail items per inhabitant	287

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	1999	2005
% Government share	100% ¹	100%

¹ Corporatised 3 March 1999

Source: website Post AG

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2003 In millions of euros	% (2003)
Mail	1,177	73%
Express and logistics (incl. parcels)	166	10%
Other	259	17%
Total	1,602	100%

Source: ECORYS questionnaire (2005), Annual report Österreichische Post AG

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
Czech Republic	Czech Post		
Hungary	Magyar Posta		
Slovenia	Posta Slovenije		Yello logistics
Slovakia	Slovak Parcel Services Slovenska posta	In Time	

Source: Annual report Österreichische Post AG 2003

Table 1.11 Postal network

Austrian Post	2005
Number of postal service points	2,002 (of which 364 franchise)
Number of P.O. Boxes (2002)	90,000
Number of street letter boxes	20,534
Number of delivery offices (2003)	584
Number of delivery points / addresses	3 million

Source: website Österreichische Post AG, NERA (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	1	Redmail (above 100 gram)
International mail	4+	DHL Global Mail, Spring, Swiss Post International, TNT, several local operators
Addressed direct mail	1	Redmail
Periodicals / Magazines	3	Redmail, publishers
Newspapers		Redmail, publishers
Un-addressed mail	3 (local)	Feibra (Österreichische Post), Redmail
Upstream mail services	Various	-

Source: ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Redmail Logistik und Zustellservice GmbH	Magazines, newspapers, printed addressed and un-addressed mailings	270 million items per annum 55 million euro	200 employees, 4,200 deliverers	'Daily'	Almost nationwide

Source: Post.at strategy document (2005), ECORYS questionnaire (2005), website

Table 1.14 Market share of the incumbent operator

	2003	Remarks
Market share of USP (in terms of volume) in addressed mail	98.4%	Excl. express and courier
Market share of USP (in terms of turnover) in addressed mail	96-98%	
Market share of USP (in terms of volume) in the delivery of domestic letter mail	99.8%	
Market share of USP (in terms of volume) in the delivery of addressed direct mail	97.3%	
Market share of USP (in terms of volume) in the delivery of periodicals, magazines and newspapers	97.4%	Only postal operators included
Market share of USP (in terms of volume) in the delivery of un-addressed mail	80%	(Excl. subsidiary Feibra)

Source: ECORYS questionnaire (2005), websites

Country information sheet: Belgium

1.1 Development of competition

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The main regulations regarding the postal sector in Belgium are laid down in Articles 129 to 154 of the Act of 21 March 1991 on the reform of certain public companies. In this Act, the objectives and tasks of De Post / La Poste, the Belgian universal service provider, are defined. In addition, it contains provisions on the universal services and the provisions on postal services and lists the competences of the Belgian Institute for Postal services and Telecommunications (BIPT) as a regulatory office of the postal and telecom market.

Addressed mail items above 100 gram and outgoing cross border mail have been liberalised in Belgium. Items of correspondence, incoming cross border mail and addressed direct mail under 100 gram is still part of the reserved area. The distribution of newspapers and magazines is open to other operators. The distribution of un-addressed items does not fall within the ambit of the postal service.

Under the Postal Act the universal service obligations involves the collection, sorting, transportation and delivery of letters up to 2 kg, parcel up to 10 kg and inbound parcels up to 20 kg. In addition, registered items and insured items are part of the universal service obligations. The universal service obligations consist of at least one collection and one delivery for at least five days a week. In the management contract ('Beheerscontract') between De Post / La Poste and the Belgian government, an increase in the percentage of overnight delivery has been foreseen. In 2004, the required percentage of overnight delivery (t+1) for priority mail was 93% and 97% for delivery (t+2). For non-priority mail, 93% should be delivery within two working days (t+2) and 97% within three working days (t+3).¹

Competitors that wish to offer services that are part of the universal service require a licence. For the liberalised services outside the universal service, a notification to BIPT suffices. Because secondary legislation is currently not in place, the licence and notification system is not operational. For upstream activities, no notification is required,

¹ Source: BIPT (2005), mededeling inzake de resultaten van de studie met betrekking tot de controle van de verzendingstermijnen voor prioritaire en niet-prioritaire zendingen voor het jaar 2004. Announcement about the results on the study with respect to the supervision on the transit times, 11 April 2005.

as the postal law only considers clearance of postal items from access points as a postal service. Hence, the collection of postal items at the premises of the sender is not subject to regulation and pre-sorting of postal items is free of regulation as well.

The Belgian policy maker, the Ministry of Public Companies, takes care of the management contract ('Beheerscontracten') with De Post / La Poste and deals with the ownership of De Post / La Poste, while the Ministry of Economy is responsible for general postal sector policy. The Belgian postal regulator, the Belgian Institute for Postal services and Telecommunications (BIPT), is responsible for the identification of possible breaches of the Postal Act and secondary legislation. In addition, BIPT has an advisory function to the policy maker regarding nearly all regulation of the postal sector, like for example draft legislation, the management contract with De Post / La Poste and propositions of De Post / La Poste regarding zip codes, letterboxes and registered mail. In addition, BIPT can perform research or make investigations regarding postal services.

Short description of relevant developments with regard to the regulatory framework

BIPT has been consulted over the years regarding disputes between the incumbent La Poste / De Post and new entrants over providing (value added) services in the licensed universal service area. De Post / La Poste accused competitor operators active in document exchange and express services of unlawful distribution of mail items that fall within the reserved area. In all cases, the services offered by competitors' concerned value added services, document exchange and express services, and the operators were allowed to continue their services.²

In a dispute regarding mail consolidation, BIPT ruled that the transfer of combined shipments weighing over 100 gram to the postal operator, and hereafter dividing them into single letters ("grouped consignments") had to be considered as delivery of single items and thus fall in the universal services category.

A barrier for entry to the Belgian postal market is considered La Poste /De Post's low, subsidised tariffs for the distribution of Belgian newspapers.³ In Belgium, newspapers are considered a universal service. De Post / La Poste receives contribution from the Belgian government to compensate for the costs concerned with the newspaper distribution. Other distributors are not eligible to this type of compensation. As a result, De Post / La Poste is able to charge low tariffs for newspaper distribution services, compared to other potential operators.

Short description of the postal sector policy

The next step in the process of liberalisation of the postal sector, a further decrease of the price and weight limit for items of correspondence, addressed direct mail and incoming cross border mail after January 2006 has already been implemented in the current postal regulation.

² BIPT published its decisions on 2 March 2004 about the complaints by De Post / La Poste against Hays DX, Medi-quick, M.G.S. Legal Mail, T.D. Distribution, D.V.M./D.V. Medical en J.L.C. Distribution.

³ Praaning, Meines Consultancy (2003), The true face of postal liberalisation in the European Union, report for TNT.

For future liberalisation steps in the postal sector, the policy maker is closely monitoring the evolution of the European legal framework. The policy will be dependent on the Commission's study and proposal, which are due for the end of 2006. A point of attention for the policy maker is the –especially financial– position of the universal service provider after liberalisation of the postal market. Therefore, the Belgian policy maker does not envisage any clear steps to be taken until a more detailed standpoint of the Commission is presented. However, secondary legislation is being prepared concerning the introduction of licences and declarations, the installation of a compensation fund and corrective measures in case of insufficient quality.

The regulator is currently analysing access (principles of transparency and non-discrimination regarding tariffs applicable to direct mail handlers and direct clients of the incumbent USP) and is expecting more disputes regarding this. To stimulate further competition, BIPT is considering regulating access.

The Belgian government is currently investigating the options for choosing a strategic partner of De Post / La Poste. The government aims for a partial privatisation of the universal service provider up to a maximum of 49% of the shares. This privatisation is taking place to secure the future of the Belgian postal operator in a liberalised postal market in the near future. Currently, the performance of the Belgian Post is lagging behind compared to operators in terms of volumes, profitability and quality of service. The strategic partners need to invest in the postal operator but also have the capability to improve the performance. Currently, only the Danish Post in combination with CVC, an English venture capitalist, seems to be the only bidder. The combination TNT / La Poste (France) for some time appeared to have good prospects in acquiring the stake in De Post / La Poste, but the combination recently announced to withdraw from bidding.⁴

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

New entrants

The express mail market has been fully liberalised and the international express operators, TNT, UPS, DHL and FedEx, jointly have a large market share. For un-addressed mail, De Post / La Poste faces severe competition from Belgische Distributiedienst, part of TNT. Other operators are rather small companies or self-employed persons⁵ and active in document exchange in the financial and medical sector. The distribution of newspapers and magazines to people's houses is almost fully in the hands of De Post / La Poste in the rural areas. In the more urban areas, the Belgische Distributiedienst is the major competitor for De Post / La Poste in the distribution of press items.

⁴ Source: recent articles in Dutch and Belgian newspapers, such as "Het Financieel Dagblad" and "De Tijd".

⁵ Belgian Institute for Postal Services and Telecommunications (2003), 10th Annual Report, p.37

Substitution

Belgian Post has already experienced a decrease of volume of mail due to electronic substitution and expects a further decrease of approximately 2% a year over the next five years, with the addressed direct mail volume remaining stable or even showing a slight growth. No specific studies are available that indicate the degree of electronic substitution in the next years.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The competition will target the following mail markets: transaction and business mail, advertising mail and single item addressed mail. La Post / De Post estimates it will lose up to 25-30% of its volume in transaction mail, due to the combined effects of substitution and liberalisation. In the direct mail market the effect will even have greater impact with a loss of 50% of the mail volumes. Although these figures seem rather overestimate, it is certainly true that the Belgian postal market is attractive for competitor postal operators. The population density and degree of urbanisation in Belgium is high and the market for addressed direct mail is developed. The below average performance by De Post / La Poste (see below) opens opportunities for competitor postal operators to provide their services at a higher quality.

1.1.3 The universal postal operator: facts, figures, strategy

De Post / La Poste is a company with limited liability subject to public law. In 2003, the group turnover was € 2.10 billion with a net loss of € 63.4 million.⁶ In the years 2003 and 2004, the financial and operational results were considerably improved due to the implementation of a major restructuring plan, leading to a profit in 2004 of € 40 million at a turnover of € 2.15 billion.

Strategies of universal service provider

The strategy for the future of De Post / La Poste is based on cost reduction, quality improvement, a new commercial strategy for its mail activities, and a good quality and accessible distribution network. For the future De Post / La Poste envisages an increase of its productivity in order to prepare itself for the intensified competition in the liberalised market. The Belgian government envisages in the new strategic business plan a decline in the number of employees of De Post / La Poste that work in the post office activities. A shift from counter operations by post offices to retail outlets by third parties (i.e. supermarkets, banks) with private sector employment seems to be a realistic option. The new strategy of De Post / La Poste will largely depend on the new general postal agreement and the outcome of the partly privatisation of the company.

⁶ Ibid.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

De Post / La Poste is faced with increasing competition in the postal market, but mainly in the distribution of value added services, express services, and the delivery of un-addressed items. In the core market of the distribution of addressed mail, De Post / La Poste still is the dominant operator. In the delivery of items of correspondence and addressed direct mail of a weight of more than 100 gram, several very small local distributors are active in the main cities. In the area of document exchange Ciblex / Hays is developing in the medical sector. In the Brussels area, also several document exchange operators are active in the financial sector. Outbound cross border mail is beside De Post / La Poste in the hands of Spring, TNT, DHL Global Mail, Swiss Post International and Chronopost (La Poste). The largest competitor to De Post / La Poste is the Belgische Distributiedienst (BD), part of TNT. This operator is mainly active in the delivery of un-addressed mail and newspapers but also handles magazines and addressed direct mail (>100 gram), although still as it appears on a very small scale. In un-addressed mail, BD is a very large player and bigger than De Post / La Poste and its subsidiary Deltamedia, that distributes un-addressed mail and newspapers.

BD operates a nation-wide network and has a market share of over 80% in the un-addressed mail segment, with more than 4,000 deliverers and a distribution of roughly 100 million leaflets, letters and samples weekly. In this market segment, BD is competing with Deltamedia.

Spring (a joint venture between TNT, Royal Mail and Singapore Post), as an example of an international operator, distributes all kinds of commercial mail, catalogues and invoices around the world on a daily basis. Spring distinguishes itself from the other express mail operators by collecting outbound cross border mail, transporting it into the destination country and finally handing it over to the national postal company. In Belgium, their turnover is € 23 million and they claim a market share of 10%.⁷

Some mail companies have specialised in some niches of the postal market. For example, Ciblex is specialised in guaranteed overnight delivery of mail, especially aiming at the medical sector, but also active for lawyers and financial institutions. Their document exchange system has over 1,700 customers. Information regarding total mail volume could not be obtained.

Chronopost International is a subsidiary of La Poste (France). It is an example of one of the successful parcel delivery operators. Chronopost has over 2,000 customers and delivers more than 10,000 letters and parcels a day. Recently, Chronopost extended its service line to the day and night delivery of parcels in D+1 from 30 kg to 70 kg.

⁷ It is not clear which market they take into account.

Effect of competition on market structure and market performance (result indicators), including on US provision

De Post / La Poste has not met the quality standards as set in the management contract. In 2004, 87.5% of domestic priority mail reached its destination overnight (t+1) while 96.6% of the items arrived within two working days (t+2). The respective targets for De Post / La Poste are 93% and 97%. For non-priority mail, the quality standards were met in 2004. 93.7% of domestic non-priority items reached their destination within two working days (t+2) and 97.2% of the items within three working days. The performance of De Post / La Poste has improved substantially over the past seven years. In 1998, only 74.2% of the domestic priority mail items were delivered overnight, while in 2004 the result was 87.5%. Nevertheless, these results still lag behind the performance of other universal service providers in surrounding countries. Also, according to the latest annual report of the Ombudsman, a large number of complaints were made about the actual time of delivery of postal items.⁸

De Post / La Poste predicts a decrease of the volume and revenue of advertising mail of more than 25% after full liberalisation. The same numbers are quoted with regard to incoming cross border mail (revenue/turnover) and addressed mail (volume). One large corporate postal customer expects full liberalisation of the internal (Belgian) postal services to possibly affect price settings.

The level of competition will in our opinion strongly grow after a further liberalisation of the Belgian postal market. TNT, via its subsidiary BD, has already announced it will target the addressed direct mail market after further liberalisation via the network of BD.

⁸ Ombudsdienst bij de Post (2005), Jaarverslag 2004 / Annual Report 2004.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Act (Articles 129 – 154) on the reform of certain public companies	21 March 1991	Last amendments in 1999 and 2002 Some rules are only applicable to the incumbent universal service provider: obligations and tasks, prohibitive orders, prescription.
Law regarding the postal service	26 December 1956	-
Law regarding of the formation of De Post / La Poste	6 July 1971	Applies only to the incumbent universal service provider: aim of the enterprise, management (application of tax laws regarding De Post / La Poste debt collection), and pensions of the staff.
Royal and ministerial decree regarding the regulations of the postal services	12 January 1970	Applies only to the incumbent universal service provider: practical and technical rules implementing the obligations and tasks stipulated in the law of 26/12/56 regarding the postal service (franking, definition of post cards, periodicals and news papers etc., postage free items, collection, distribution).

Source: ECORYS questionnaire (2005), legal documents

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	From 1 January 2006 weight limit will be lowered to 50 gram
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Except for above 100 gram From 1 January 2006 weight limit will be lowered to 50 gram
Outbound cross border mail	No	
Direct mail addressed (incl. catalogues)	Yes	Except for above 100 gram From 1 January 2006 weight limit will be lowered to 50 gram
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been issued? (2005)
Individual licence*	Postal services included in the universal service	Quality norms, transparent procedures for handling of complaints, reporting of the revenues / turnover, compliance with the tariff principles, essential requirements, non infringement of the reserved area, interdiction of transporting postal items explicitly against public order and public morality	Not operational yet
Notification**	Postal services not included in the universal service	Essential requirements, non infringement of the reserved area, interdiction of transporting postal items explicitly against public order and public morality	Not operational yet

* Article 148 sexies, ** Article 148 bis

Source: Loi du 21 mars 1991 portant réforme de certaines entreprises publiques économiques (M.B. 27/03/1991)

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Note: The regulator is currently analysing access (principles of transparency and non-discrimination regarding tariffs applicable to direct mail handlers and direct clients of the incumbent USP). Negotiated access is possible based on the principles of transparency and non-discrimination.

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram	689	26.9%
Domestic items of correspondence 50-100 gram	30	1.2%
Domestic items of correspondence >100 gram	32	1.3%
Inbound cross border mail	169	6.6%
Outbound cross border mail	115 ¹	4.5%
Direct mail addressed (incl. catalogues)	1,022	39.9%
Periodicals / Magazines	458	17.9%
Newspapers	45	1.8%
Un-addressed mail (direct mail, weeklies)	5,833	-
Total	8,392	100%

¹ USP only

Source: ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2003
B2B	52.1%
B2C	33.2%
C2B	9.5%
C2C	5.2%
Total	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Belgium	2004
Population (in million)	10.4 *
Size of the country (in 1000 of square km)	30.5 *
Population density (number of inhabitants per square km)	341.0
Degree of urbanisation	97.2 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	2,093,049 (20.1%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	242

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	Status
% Government share	100%	Looking for strategic partner

Source: Annual Reports De Post / La Poste, website information

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2003 in millions of euros	% (2003)
Mail	1,614	82%
Express	41	2%
Parcels (Logistics)	-	-
Other	310	16%
Total	1,965	100%

Source: ECORYS questionnaire (2005), Annual Report De Post / La Poste

Table 1.10 Overview of joint ventures (JV), alliances (A) and cooperation agreements (C)

Country	Mail	Express	Logistics
Belgium	Deltamedia	Taxipost	-
	Belgian Post International	Euro-Sprinters	-
	Speos		
France	Asterion	-	-

Source: Annual reports De Post / La Poste, website De Post / La Poste

Table 1.11 Postal network

De Post / La Poste	2004
Number of postal service points	1,306
Number of P.O. Boxes	45,005
Number of street letter boxes	+/- 18,000
Number of delivery offices	557
Number of delivery points / addresses	+/- 4,500,000

Source: ECORYS questionnaire (2005), Annual Reports De Post / La Poste, NERA (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	>10	No exact data on the number of domestic mail operators above 100 g; mainly local distributors in urban areas, very small activities
International mail	4	Spring, DHL, Swiss Post, Direct Link,
Direct mail	1	Belgische Distributiedienst (>100 gram), Ciblex (document exchange)
Periodicals / Magazines	2	Belgische Distributiedienst
Newspapers	1	Deltamedia (De Post / La Poste), Belgische Distributiedienst
Un-addressed mail	2	Belgische Distributiedienst, Deltamedia (De Post / La Poste)
Upstream mail services	Several	-

Source: ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Belgische Distributiedienst	Magazines / periodicals, addressed direct mail, Newspapers, Un-addressed direct mail, catalogues	5,200 mln items of un-addressed mail, addressed unknown Consolidated in TNT figures	4,000 deliverers	2 or 3 times a week	Nationwide, 20 distribution centres
Ciblex (document exchange)	Letter mail and parcels	Volumes not disclosed	A few hundred	6	Nationwide

Source: ECORYS questionnaire (2005), websites

Table 1.14 Market share of the incumbent operator

	2003	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	>98%	Rough estimation based on input USP as no data of other operators are available (express and courier excluded)
Market share of USP (in terms of volume) in the delivery of un-addressed mail	19%	-

Source: ECORYS questionnaire (2005), based on volume calculations

Country information sheet: Cyprus

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

In Cyprus, ordinary items of correspondence, direct mail and incoming cross border mail has been liberalized for items with a weight limit of > 100 gram and a pricing of 3 times the public tariff. Both inbound and outbound cross border mail has, so far, not been liberalised. No regulations apply for pre-sorting of mail and hybrid mail. Discounts are offered if the quantity of mail is over 5,000 and/or if some pre-sorting has been done.

Entry is regulated by way of individual licences and general authorisations. Only the USP has been granted an individual licence. The USP is a government department currently. General authorisations (such an authorisation is needed for all postal service providers) boil down to the usual conditions specified in non-USP licences, like confidentiality of correspondence, etc. So far, only 13 licences have been handed out, of which two to (subsidiaries) of Cyprus post.⁹ All licences have been granted to firms active in express and courier services only.

In 2003, the Cypriot parliament has adopted several regulations to adopt the European *acquis communautaire*:

- Accounts system and costs regulation of the Universal Postal Provider and the establishment, operation and management of a compensation fund of the postal services;
- Administrative fees of postal licences;
- General authorisations and individual licences for postal services. A general authorisation is required but the licensing has not been implemented yet;
- Quality of postal services.

The Ministry of Communications and Works is responsible for postal sector policy. In April 2001, the Parliament voted for a law concerning the role and duties of the Regulatory Authority for Posts and Telecommunications. The Office of the Commissioner for Electronic Communication and Postal Regulation has started in the beginning of 2002 and provided postal sector regulations for all postal operations.

⁹ Licencees include DHL (Cyprus) Ltd., GAP Vassilopoulos Ltd., GAP AKIS Express Ltd., Airtrans Express Services Ltd., Frakapor Courier Ltd., ACS Air Courier Services (Cyprus) Ltd., OK Courier Services Ltd., Servall Ltd., Aramex Cyprus Ltd., P.H. Energy Logistics Systems Ltd., First Choice Courier Serv.

Short description of relevant developments with regard to the regulatory framework

In recent years some disputes had to be solved concerning:

- Definition of letter, addressed mail or printed matter;
- Unlawful distribution of mail by a competitor in the reserved area;
- Unlawful renting of private P.O. boxes;
- Unlawful installation of street letterboxes.

Short description of the postal sector policy

The government will proceed to reduce the reserved area to 50 gram or 2.5 times the public tariff for an item of correspondence from January 1st 2006, according to the second postal directive. Any further liberalisation has to take into account the safeguarding of the universal service in a, by the government approved, quality of service level and price. A compensation fund is permitted by law, but not (yet) implemented.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

Government policy

The universal service provider is still a government department. Outbound cross border mail has not been liberalised. This mail segment constitutes a significant part of the volume of the universal service provider.

New entrants

So far, no competitors in postal services have entered the market.

Substitution

Cyprus Post expects a 5 to 10% decline of some categories of mail items, like bills of large customers and single items of correspondence. For the overall mail market an annual growth of 1 to 2% is expected, mainly the result from the potential of direct mail.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The postal market in Cyprus is small, but 25% of the volume is in inbound and outbound cross border mail. The market for direct mail appears to be small, but has a potential to grow.

The postal regulator in Cyprus expects that full liberalisation will lead to loss of market share for the incumbent of up to 25% in its core markets. Cyprus Post expects to maintain market share in its domestic market. However, other international operators might be able to capture a significant part of the international cross border mail volumes, which account for one-third of the total mail volume in Cyprus.

1.1.3 The universal postal operator: facts, figures, strategy

Letter mail constitutes the main part of the postal activities and covers a significant percentage of the Department's income. In 2003, 74.4 million letter post items were processed in comparison to 72.8 million items in 2002, showing an increase of 2.18%. For the period 2000 to 2003, mail in Cyprus showed a relatively stable volume.

In parcel mail, the development of new, more rapid ways of distributing merchandise throughout 2003 has directly affected the turnover of the parcels service, recording a decrease. In 2003, 54,742 parcels were delivered compared to 58,673 in 2002 showing a decrease of 7%. In 2003, Cyprus Post delivered only 61 parcels domestically.

The volume of un-addressed mail, such as printed material, leaflets and samples, has increased in 2003 to 3,449,000 items compared to 3,056,000 items during 2002.

Strategies of universal service provider

The Department of Postal Services has decided to upgrade the way mail is delivered on an island-wide scale. For the communities in rural areas with a population of more than 200 residents the improvement of the house-to-house mail delivery has nearly been completed.

Volume developments in the outbound cross border mail segment show a gradual decreasing trend. In contrast to what is prescribed in the most recent EU postal directive, outbound cross-border mail is not liberalised in Cyprus. It constitutes about 12% of volume of the universal service provider.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

The main competitors for Cyprus Post are active in courier and express markets and in logistics. These competitors are the large organisations with a European coverage, such as: DHL, TNT and Federal Express. As mail volumes in Cyprus are very small, the international operators mainly target the higher end of the postal market with value added courier and express mail services.

Effect of competition on market structure and market performance (result indicators), including on US provision

Cyprus Post expects a 10 to 15% decline of its market share in addressed advertising mail and a 15 to 25% decline of its market share for incoming cross border mail. Also Cyprus Post expects that full liberalisation will negatively affect the provision of universal service, unless compensated either by a compensation fund or by granting a "reserved area", for example, mail under 50 gram.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Telecommunication and Postal Regulation Law 19/2002	2002	-
Quality of Postal Services Regulations of 2002	18 July 2003	-
Licences of Administrative Charges (Postal Services) Regulations of 2002	18 July 2003	-
General Authorisations and Special Licences (postal services) Regulations of 2002	18 July 2003	-
The set out of accounting systems and the costs regulation of the universal postal service provider and the establishment, operation and management of a compensation fund of the postal service regulations of 2002	18 July 2003	-

Source: ECORYS questionnaire (2005)

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Above 100 gram liberalised
Outbound cross border mail	Yes	Above 100 gram liberalised
Direct mail addressed (incl. catalogues)	Yes	Above 100 gram liberalised
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Individual licence for universal postal service	Reserved services, universal services	Standards on network, quality, frequency of collection and delivery.	1
General authorisation	Non-reserved postal services	Standard conditions	13 (of which two to USP (subsidiaries))

Source: ECORYS questionnaire (2005)

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003	% distribution addressed
Domestic items of correspondence <50 gram		
Domestic items of correspondence 50-100 gram	48.2	63.3%
Domestic items of correspondence >100 gram		
Inbound cross border mail	11.2 ¹	14.7%
Outbound cross border mail	10.9 ¹	14.3%
Direct mail addressed (incl. catalogues)	4.2	5.5%
Periodicals / Magazines	n.a.	n.a.
Newspapers	1.6	2.1%
Un-addressed mail (direct mail, weeklies)	3.3	
Total	79.4	100%

¹ USP only, for items above 100 gram

Source: ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2003
B2B	26.6%
B2C	30.3%
C2B	15.5%
C2C	27.6%
Total	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Cyprus	2004
Population (in million)	0.7 *
Size of the country (in 1000 of square km)	8.6 *
Population density (number of inhabitants per square km)	81
Degree of urbanisation	69.2 **
Number of inhabitants 5 largest cities	452,764 (64.7%) ***
Number of addressed mail items per inhabitant	90

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Cyprus post is a government department.

Table 1.8 Government share in incumbent postal operator

	2005
% Government share	100%

Source: Annual Report Cyprus Post 2004, ECORYS questionnaire (2005)

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2003 in millions of euros	% (2003)
Mail	16.01	95%
Express	0.85	5%
Logistics	-	
Other	-	
Total	16.86	100%

Source: ECORYS questionnaire (2005), Annual Report Cyprus Post 2003

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
None			

Source: Annual report Cyprus Post 2003

Table 1.11 Postal network

Cyprus Post	2004
Number of postal service points	1,108 *
Number of P.O. Boxes (2003)	24,158 **
Number of street letter boxes	800 *
Number of delivery offices (2003)	52 (post offices)**
Number of delivery points / addresses	-

Source: * NERA 2004 / ** Annual Report Cyprus Post 2003

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	-
International mail	3	DHL Global Mail, TNT, Federal Express (for value added services)
Addressed direct mail	0	-
Periodicals / Magazines	0	-
Newspapers	0	-
Un-addressed mail	0	Small locally
Upstream mail services	0	-

Source: ECORYS questionnaire (2005)

Table 1.13 Potential competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Kronos	Magazine and newspaper distribution to kiosks/outlets!	-	-	2 times a day	Nationwide
Hellenic	Magazine and newspaper distribution	-	-	-	Nationwide

Source: ECORYS questionnaire (2005), company websites

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	100%	International value added mail excl.
Market share of USP (in terms of turnover) in addressed mail	100%	International value added mail excl.

Source: ECORYS questionnaire (2005)

Country information sheet: Czech Republic

1.1 Development of competition – narrative

Short description of regulatory framework, liberalisation and entry regulation

The Postal Act from 2000 regulates the postal sector. The latest amendments were made in April 2005. Before that, an amendment has been accepted to conform to EU directive 2002/39/EC. The Czech Telecommunication Office, the national regulatory authority that deals with the postal market, has come into effect on 1 April 2005.

Collection, sorting, transport and delivery of items of ordinary correspondence with a weight limit of > 100 gram and pricing of three times the public tariff in the first weight step of the fastest standard category is open to competition. The provision of direct mail and inbound and outbound cross border mail is fully liberalised, as well as the delivery of magazines, newspapers and catalogues. In the Czech postal legislation, addressed bulk mail is not defined separately.

For the delivery of domestic items of correspondence within the reserved area, a licence is needed. The Czech Office for Telecommunications has issued one licence to Czech Post to provide the distribution of items of correspondence. The distribution of addressed direct mail, magazines and periodicals, newspapers and addressed catalogues is not subject to a licence. In order to be eligible for a licence, a postal operator has the obligation to ensure universal accessibility of basic services throughout the Czech Republic.¹⁰ All other operators just need a registration in the trade register.

Short description of relevant developments with regard to the regulatory framework

In 2006, the Czech Republic will further liberalise the postal market by lowering the weight limit for the reserved area of domestic items of correspondence to 50 gram, to conform to the time frame set out in the EU directive. This step is defined in the framework of the “Government Strategy for Economic Growth”, which is in its initial phase. No specific formal postal policy documents are available.

In recent years, the postal regulatory authority (i.e. the Ministry of Informatics) was handling disputes in the following areas:

¹⁰ It is not entirely clear what exactly should be considered as basic services. In the Act on Postal Services (section 19(2)) is stated that the Czech Telecommunication Office shall publish in the Postal Bulletin a list of postal services and foreign postal services, which are considered as basic services with respect to the needs of the public.

- Definition of letter, addressed mail or printed matter and the corresponding unlawful distribution of mail by a competitor in the reserved area: Czech Post has disputed the interpretation of the national regulatory authority of direct mail in the Postal Act. This discussion followed efforts of Czech Post to include direct mail under the reserved services. The decision taken by the regulatory authority was that Mediaservis did not infringe the postal monopoly and stated that direct mail is not part of the reserved area.

Short description of the postal sector policy

Czech Post, the universal service provider is a state enterprise. The Ministry of Informatics does not expect any changes in the universal service obligation for the incumbent postal operator.

At the moment, no postal sector policy towards further liberalisation of the postal sector exists and currently it is not being prepared either. In the framework of Government Strategy of Economic Growth, only the next step towards liberalisation is defined respecting the reduction of the weight limit for the reserved area to 50 gram in 2006.

The policy maker (which was, before April 2005, also the regulator) and Czech Post are both in favour of slow liberalisation (that is no liberalisation beyond 50 gram). The step that will be taken in 2006 opens, according to the Ministry of Informatics, an additional 15% of the letter mail market. Combined with the current 10% of the letter mail market that is open, in 2006, 25% of the letter mail market will be open to competition. Czech authorities do not prefer to fully liberalise the addressed mail market, while regulated access to the incumbent's facilities is a scenario that could be implemented but is not the preferred option.

A decision concerning further liberalisation after 2006 has not been made yet. A further limitation of the reserved area will be decided later on taking into account the then existing situation in the Czech and European postal market.

1.1.1 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

Government regulation

Delivery of direct mail has been liberalised in the Czech Republic. This has resulted in a loss of market share in terms of volume of Czech Post in the provision of direct mail. In the distribution of un-addressed postal items, Czech Post does not have a dominant position. A further liberalisation of the postal sector after the step to be undertaken in 2006 is not contemplated. This may hinder the development of competition in the long run. Regulation of access does not appear to be high on the agenda of the Czech authorities.

New entrants

Mediaservis is the only competitor postal operator in the Czech Republic active in the distribution of addressed mail. Mediaservis has its own distribution network, and is mostly active in direct mail as well as in the distribution of magazines and newspapers. Upstream postal activities are performed by a number of consolidators and mailing houses. Examples are Cortex, s.r.o., Dimar (TNT has a stake in this company), GHP Direct Mail, s.r.o., Mail Optys a.s., Mailstep, s.r.o. and Sevt, a.s. In the distribution of un-addressed mail, a number of competitors have become active. Agentura Pro Distribuci a Marketing, s.r.o. (ADM), the largest competitor operator and part of TNT, has gained a large mail volume in the Czech Republic.

Substitution

The impact of electronic substitution of mail is less pronounced than in western European countries given the lower penetration of Internet access. For the coming three years, Czech Post estimates the following autonomous effects of substitution on specific mail flows.

Postal product	% decline in volume of universal service provider
Bank statements	5%
Bills of large customers	5%
Single items of correspondence	0%
Addressed advertising mail / direct mail	0%
Magazines	3%
Catalogues	3%

Source: ECORYS questionnaire (2005)

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The Czech Republic is a relatively small country with an average population density. In the past years, per capita mail volumes have risen. The market for addressed direct mail is relatively underdeveloped compared to Western European countries and offers opportunities for new entrants.

The B2C segment in the Czech Republic is relatively large (80% of the total volume of addressed postal items). This means that it is less difficult for competitors to attain enough volumes to run a profitable postal service compared to other countries. The B2B segment is relatively small in terms of volumes (10% of the total volume of addressed postal items). Large corporate customers are important for generating sufficient volume to run a profitable business. In the Czech Republic, the largest 50 corporate customers provide around 30% of the volume of addressed postal items, the largest 100 around 55%.

1.1.2 The universal postal operator: facts, figures, strategy

For Czech Post, un-addressed advertising mail is of growing importance in terms of relative volume. According to Czech Post, the share of un-addressed advertising mail in their total volume of addressed and un-addressed mail was 45% in 2000 and has grown to

73% in 2004. The total volume of un-addressed items delivered by Czech Post nearly tripled in four years time. In addition, addressed direct mail continues to be important. The relatively low level of addressed direct mail items offers opportunities for expansion. In the last four years, the volume of addressed direct mail items delivered almost doubled. Contrary to the developments in direct mail, the volume of items of correspondence has declined in the last four years and poses a serious threat to Czech Post.

Competition has intensified in the last years with the growth of Mediaservis and distributors of un-addressed items. According to Czech Post the market shares in letter mail and addressed advertising mail are declining. The market share has risen substantially in the delivery of magazines. In the delivery of un-addressed mail items, Czech Post lost market share to alternative operators such as ADM, despite an enormous increase in volumes. This development shows the potential of addressed and un-addressed direct mail in the Czech Republic.

Czech Post expects a decline in revenue of 10-25% and of more than 25% in volume if the market for addressed advertising mail is fully liberalised. The figures are slightly higher for addressed mail (both revenue and volume are expected to decline with more than 25%), but the impact of full liberalisation on incoming cross border mail is expected to be substantially smaller (up to 5% decline). If addressed mail is fully liberalised (without access regulation) the USP expects its market shares to decline with 25% for addressed advertising mail/direct mail and catalogues, 10% for bank statements and 8% for bills of large customers. No change is expected for single items of correspondence and magazines.

The strategy of Czech Post is twofold: on the one hand to withhold competition by improving operations, on the other hand to exploit the potential of direct mail. The business policy of Czech Post is to transform rapidly into a modern, dynamic, customer and market oriented operator.¹¹ These goals should be achieved through concentrating on technological modernisation (including the introduction of IT), improving the quality of service, increasing flexibility and enlarging portfolio of products and the introduction of a more market oriented pricing policy. According to the management of Czech Post, an important obstacle to realise this transformation is the relative low price level of postal products and the extreme price sensitivity of market demand, caused by the intensified competition in the growing market of addressed and un-addressed direct mail. Correspondingly, Czech Post has low returns on sales. A problem connected to the above is the limited scope for investments.

1.1.3 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

The main competitor in the Czech postal market is Mediaservis, focusing on addressed and un-addressed advertising mail. In the distribution of un-addressed items Agentura Pro Distribuci a Marketing, s.r.o. (ADM) has a substantial foothold in the Czech Republic.

¹¹ Presentation by Jana Viteckova, Czech Post, The Hague, 2004

Mediaservis has its own nationwide delivery network with approximately 8,000 deliverers. Deliveries are from Monday to Saturday to both households and companies. The following services are provided to clients:

- Delivery of addressed direct mail without any weight limit;
- Delivery of newspaper and magazine subscriptions; delivery is carried out around 7 a.m.;
- Nationwide delivery of un-addressed mail.

The company is not active in cross border mail or in express services. After full liberalisation of the postal market, the company also intends to deliver addressed letter mail.

Agentura Pro Distribuci a Marketing, s.r.o. (ADM) is, according to ADM itself, the largest distributor of un-addressed mail items in the Czech Republic with a market share of 52%. ADM has over 6,000 deliverers and is fully owned by TNT, after TNT purchased the remaining shares in 2004. ADM operates an in-house distribution network of 2.8 million households including all municipalities with more than 900 households. Via its network of distribution partners an additional 1.6 million households are reached. ADM has 13 distribution centres in all regions. In 2004 the company delivered 1,525 million un-addressed items. So far, no plans have been unfold to enter the addressed direct mail market.

Effect of competition on market structure and market performance, including on US provision

Czech Post has maintained a very high market share in addressed letter mail, but lost market share in the addressed advertising mail segment to Mediaservis. The fierce competition from Mediaservis initiated Czech Post to put efforts into safeguarding addressed direct mail in the reserved services. The dispute about the scope of the reserved area might have deterred potential entrants in the postal market of the Czech Republic, as a result of the uncertainties that this dispute created regarding the future postal policy.

The universal service provision is of a relatively high level compared to other new Member States with about 93.5% of the items delivered overnight in 2003.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Act on Postal Services 29/2000	1 July 2000	1 April 2005

Source: ECORYS questionnaire (2005)

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	No	
Outbound cross border mail	No	As of April 2005 with the amendment to the Act on Postal Services
Direct mail addressed (incl. catalogues)	No	Dispute about if addressed direct mail is part of the reserved area was solved
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	Not regulated within scope of postal services

Source: ECORYS questionnaire (2005), Act on Postal Services

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide/	What are the conditions?	How many have been issued? (2005)
Licence	Provision of postal services inside the reserved area, Universal service	The postal licence may be granted by the NRA only to a person who: <ul style="list-style-type: none"> • Holds a trade authorisation to operate postal services • Submits a proposal for postal terms of postal services for approval to the NRA • Disposes of technical, organisational, economic and personal prerequisites for operating the services, including the provision of their universal accessibility throughout the Czech Republic's territory. 	1 (Czech Post)
Registration / trade authorisation	Provision of other postal services		-

Source: ECORYS questionnaire (2005), Act on Postal Services

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the postal market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram	308.2	31.4%
Domestic items of correspondence 50-100 gram	95.2	9.7%
Domestic items of correspondence >100 gram	62.4	6.3%
Inbound cross border mail	49.6 ^{1,2}	5.1%
Outbound cross border mail	30.8 ²	3.2%
Direct mail addressed (incl. catalogues)	207.0	21.1%
Periodicals / Magazines	79.6	8.2%
Newspapers	147	15.0%
Un-addressed mail (direct mail, weeklies)	3,865	
Total	4,844.8	100%

¹ 2003

² USP only

Source: ECORYS questionnaires (2005), UPU (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2000	2004
B2B	20%	10%
B2C	60%	80%
C2B	10%	5%
C2C	10%	5%
Total	100%	100%

Note: information based on view Czech Post

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Czech Republic	2004
Population (in million)	10.2 *
Size of the country (in 1000 of square km)	78.9 *
Population density (number of inhabitants per square km)	129.3
Degree of urbanisation	74.3 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	2,117,374 (20.8%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	91

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	Status
% Government share	100%	No change under consideration

Source: ECORYS

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000	2004	% (2004)
	in millions of euros	in millions of euros	
Mail	216	232	85%
Express	15	41	15%
Logistics	0	0	
Total	231	273	100%

Source: ECORYS questionnaire (2005)

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
None			

Source: ECORYS

Table 1.11 Postal network

Czech Post	2003
Number of postal service points	3,415
Number of P.O. Boxes	24,207
Number of street letter boxes	24,311
Number of delivery offices	2,245
Number of delivery points / addresses	4,672,089

Source: NERA (2004), WIK (2004), information provided by Ministry of Informatics

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	1	Czech Post, Mediaservis
International mail	5	Czech Post, International consolidators (express): UPS, FedEx
Addressed direct mail	1	Czech Post, Mediaservis
Periodicals / Magazines	1	Czech Post, Mediaservis
Newspapers	1	Mediaservis
Un-addressed mail	3	Czech Post, ADM, Mediaservis
Upstream mail services	Many	A.o. Cortex, s.r.o., Dimar, GHP Direct Mail, s.r.o., Mail Optys a.s., Mailstep, s.r.o. and Sevt, a.s.

Source: ECORYS

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Mediaservis	Domestic letter mail (over 100 gram), Direct mail Magazines and newspapers, Catalogues, un-addressed mail	264 m (volume addressed and un-addressed) 27 m € (turnover)	8,000 (deliverers)	6	Nationwide
Agentura Pro Distribuci a Marketing, s.r.o. (ADM)	Un-addressed mail	1,525 m (volume) 12-13 m € (turnover)	6,000 (deliverers)	Flexible (2-5)	Nationwide (with the exception of very small municipalities not covered by partners)

Source: ECORYS questionnaire (2005), websites

Table 1.14 Market share of the incumbent operator

	2000	2004
Market share of USP (in terms of volume) in the delivery of domestic items of correspondence	100%	99.8%
Market share of USP (in terms of volume) in the delivery of magazines / periodicals to letter boxes	-	77%
Market share of USP (in terms of volume) in the delivery of addressed advertising mail	100%	94.5%
Market share of USP (in terms of volume) in the delivery of addressed mail (excluding newspapers)	-	95.5%
Market share of USP (in terms of volume) in the delivery of un-addressed advertising mail	59%	58%

Source: ECORYS calculations based on questionnaire (2005) and ECORYS volume data

Country information sheet: Denmark

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The Danish postal sector is regulated by the Act on the provision of postal services and the Executive Orders 1312 and 1313 about the concession granted to Post Danmark, the universal service provider, and the provision of postal services and postal distribution.

The universal service obligation for Post Danmark as a concession holder is formulated in Executive Order 1312 of 14 December 2004. Post Danmark has been granted a concession until 1 June 2009. The universal service obligation consists of the provision of:

- Addressed letters weighing up to 2 kg;
- Other addressed mail with uniform, printed contents, such as catalogues and brochures, up to a weight limit of 2 kg;
- Daily, weekly and monthly papers as well as magazines and periodicals weighing up to 2 kg;
- Addressed parcels weighing up to 20 kg;
- Registered and insured items;
- Literature for the blind weighing up to 7 kg.

The universal service obligation encompasses the distribution of items sent to domestic destinations as well as to and from international destinations, the Faeroe Islands and Greenland. Post Danmark needs to ensure the access at any time by all users to the provision of postal services of a high quality and at reasonable prices. The obligation includes the collection from letterboxes and postal service outlets, sorting, transport and delivery of postal items at least once a day and six days per week.¹² The standard for quality of service is that at least 93% of the domestic addressed letters is delivered overnight. Moreover, the universal service provider shall retain a nationwide network of postal service outlets. In towns with more than 5,000 inhabitants there needs to be at least one full-service outlet and the maximum distance for the users to a service outlet may not exceed 5 km. In towns with between 2,000 and 5,000 inhabitants, the universal service provider cannot close down the existing full-service outlets, unless the town is endowed with a new service outlet. In minor towns or rural areas, a postal service outlet cannot be

¹² Letter mail must be delivered six times a week, parcel mail only at Monday to Friday.

closed down if this implies that the distance for users to the nearest service outlet thereby will be increased by more than 10 km.

The conveyance of items of correspondence is open to competition for items that weigh more than 50 gram for a single item, as well as the mailings whose price is more than 2.5 times the public tariff of a sending in the first weight class of the fastest standard category. The provision of incoming cross border mail and addressed direct mail is being reserved accordingly. The distribution of outgoing cross border mail is fully open to competition. Upstream activities in the postal value chain, such as pre-sorting, are open to competition, as well as the provision of hybrid mail. The distribution of periodicals, magazines and newspapers is not reserved to the universal service provider. The distribution of un-addressed mail is according to the relevant legislation not a postal service and therefore not regulated.

Postal operators that wish to convey postal items up to 20 kg require a registration with the Road Safety and Transport Agency (see below). For the provision of the universal service obligation, the Road Safety and Transport Agency grants a concession to one or more postal operators that obtain, in return for this obligation, the sole right to provide postal services with respect to certain addressed mail items.¹³

The regulation of access to the facilities of the universal service provider by customers and other postal operators follows the lines as set out by the postal directives. Customers and / or postal operators can deliver bulk mail or pre-sorted mail to the sorting centres of the universal service provider and obtain discounts. These parties have to negotiate individual access agreements in which the principles of transparency and non-discrimination need to be adopted with regard to both prices and relating terms and conditions (paragraph 9 of the concession of Post Danmark). In the concession granted to Post Danmark by the government, a section has been included that giving competitor postal operators a similar position as customers regarding access and discounts for bulk mail or pre-sorted mail.

The policy maker for the postal sector in Denmark is the Ministry for Transport and Energy. The Road Safety and Transport Agency is the regulatory authority for postal matters. It stipulates conditions and rules for the provision of the universal service, supervises the information submitted by the universal service provider and oversees compliance with the concession.

Short description of relevant developments with regard to the regulatory framework

In Danish postal legislation, a legal entry barrier is in place making it more difficult for (potential) entrants to compete in the provision of postal services with the universal service provider. The universal service provider, based on the concession, is able to distribute addressed (VAT-free) daily, weekly and monthly papers as well as periodicals at subsidised rates. The Danish state pays the concession holder a compensation to cover the deficit from the distribution. This mechanism seems to preclude alternative operators

¹³ The sole right shall not apply to the distribution of addressed catalogues, brochures, newspapers, magazines and periodicals and other items with uniform printed contents in transparent packaging.

from offering this postal service as they are operating at a disadvantage compared to the universal service provider.

Disputes

The Danish competition authority handled a case about potential abuse of its dominant position by Post Danmark in the second half of 2004.¹⁴ Forbruger-Kontakt, a distributor of un-addressed mail, had alleged that Post Danmark was abusing its dominant position on the market for distribution of un-addressed mail, after having lost three significant retail chains as customers to Post Danmark. The complaint consisted of allegations about discriminating prices and loyalty rebates, predatory pricing, agreements of unreasonable long duration and cross subsidies restricting competition and state aid. The competition council concluded that Post Danmark had used discriminatory prices and introduced loyalty rebate schemes that do not reflect avoided cost. A further assessment of the allegation about cross subsidies was rejected, while the assessment of predatory prices was postponed. The council rejected the allegation about agreements of unreasonable long duration. Later that year, in November 2004, the council decided that Post Danmark had not abused its dominant position by engaging in predatory pricing. In connection with its decision, the Competition Council had requested to examine Post Danmark's financial statements for 2004. Post Danmark was further required to carry out time studies of the distribution providing detailed documentation of the allocation of relating costs.

In the Danish postal market, there have been few disputes with postal operators about the definition of a letter, addressed mail or printed matter and about unlawful distribution of mail by competitors in the reserved area. Furthermore, there have been disputes about competitor postal operators that wished to deliver consolidated mail and magazines to Post Danmark for further handling.

In February 2005, the Competition Council approved a new pricing scheme of Post Danmark about the future prices for the distribution of un-addressed mail items. The new scheme ensures that competitor operators meet fair conditions on the market.

Short description of the postal sector policy

Since the beginning of 2005, the reserved area of Post Danmark declined to mail with a maximum weight of 50 gram and 2.5 times the public tariff of the fastest postal product in the lowest weight category. This has opened up a new share of the total market for the distribution of addressed mail.

The universal service provider is of the opinion that the universal service requirements should be dynamic in content and be restricted to such a scope that private consumers and small and medium-sized enterprises are protected. The universal service obligation should be viewed as flexible and dynamic and, as such, subject to a periodic up-date, reflecting changes in customer needs and the availability of alternative means of communications and transportation. In the design of the universal service obligation, there should be a viable balance between rights and obligations. Post Danmark remarks that a subsidisation of the provision of the universal service by external funds is by definition undesirable.

¹⁴ For more information, see the website of the Danish competition authority.

The universal service obligation should be defined in ways that allow postal operators to finance the obligations commercially in order to avoid extensive, costly and burdensome sector regulation. The Ministry for Transport and Energy is of the opinion that the universal service, as currently outlined in the postal directive and in Danish legislation, is the kind of basic service on such a level that it can hardly be reduced.

Concerning further liberalisation of the postal market, the Ministry for Transport and Energy states that the overall political viewpoint is that if several EU countries undertake further liberalisation before a common decision has been taken within the EU, the question of further liberalisation in Denmark will have to be discussed.

The universal service provider is against downstream access regimes because in their opinion it thwarts the development of competition to the detriment of customers. Modern postal handling and logistical operations are based on the application of extensive automation and the use of sophisticated IT-technology. According to Post Danmark, downstream access is counterproductive to customer interests in this context as it results in increased costs, in unnecessary and an ineffective layout of operations and in conditions that hamper the achievement of set goals for quality of service. The Ministry for Transport and Energy does not see the need for regulated access and is of the opinion that current regulations are sufficient.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

Government policy

The increased opening of the Danish postal market at the beginning of 2005 offers enhanced opportunities for (potential) postal operators to enter the postal market. The absence of a licensing regime reduces potential legal entry barriers. The subsidisation of the distribution of periodicals, magazines and newspapers potentially deters potential postal operators from entering that particular segment of the postal market.

New entrants

In the Danish postal market, 1,964 postal operators obtained a registration at the Road Safety and Transport Agency. The large majority of these registered operators are active in express and courier services and in document exchange. Very few postal operators deliver items of correspondence, addressed direct mail, periodicals, magazines and newspapers.

Substitution

Post Danmark expects an annual average decline of the postal market of 2% due to substitution effects. The audited figures over the last five years show that the Danish postal market has been stable in terms of total volume of mail delivered. The expectations about the further developments on total volume and the impact of electronic substitution are uncertain, although everyone expects a decline in mail volumes. Post Danmark has carried out a (internal) study about the effect of electronic substitution but this information is not available to us.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The Danish mail market is relatively mature with mail volumes per capita ranking among the higher levels in Europe. As the total population of the country is low compared to other countries, the total mail volume of Denmark is limited. Additionally, the largest 50 clients are responsible for around 30% of total addressed mail volume in Denmark, while the largest 100 clients supply 40% of total volume. Due to a high population density and a large degree of urbanisation, the postal market can nonetheless be qualified as attractive for competitor postal operators, in particular in the urbanised areas.

Competitors have already gained a market position in the liberalised segments of the Danish postal market, such as in courier and express, logistic services and un-addressed mail. Addressed direct mail is dominantly handled by Post Danmark, but the universal service provider may expect competition once full market opening is realised. As most single addressed mail items have a weight of less than 50 gram, the real effects of competition are not likely to be felt before the postal market is fully liberalised.

1.1.3 The universal postal operator: facts, figures, strategy

Post Danmark reached a turnover of 1,519 million euro in 2004 after three years of decline. In 2000, Post Danmark still earned 1,472 million euros, while turnover in the next three years shrank until a value of 1,431 million euro in 2003. The 2004 figures show a sharp increase compared to 2003. Post Danmark's operating profit (EBIT) reached 123 million euro in 2004, after a 76 million euro profit in 2003. The operating profit margin increased to around 8% in 2004. Post Danmark counts 21,838 employees (in FTE) at the end of 2004; in 2000, 24,867 employees (in FTE) were working for Post Danmark.

Post Danmark provides the universal service and the postal services outside the universal service mainly itself. However, domestic courier and express parcels are handled via subsidiary Budstikken. Post Danmark uses DHL as a sub-supplier for international courier parcels; Post Danmark handles the collection in Denmark. Post Danmark cooperates with Norway Post on cross border parcel activities in the company Pan Nordic Logistics AB. This company acquired in 2002 the Swedish company Expressgods and has cooperation agreements with Finland Post and Iceland Post.

Post Danmark A/S has been faced with declining volumes in letter mail in recent years, but has realised an increase in its parcel mail volumes. The volume in newspapers, periodicals and magazines has been relatively stable through these years. The management of Post Danmark has formulated a strategy in 2003 to respond to the threat of competition and electronic substitution (see below).

Privatisation Post Danmark A/S

With the enactment of the Post Danmark Act in 2002, Post Danmark was converted into a limited liability company and the opportunity was created for the Ministry of Transport to sell up to 25% of the share capital of Post Danmark. Under this Act, Post Danmark is

allowed to engage in an exclusive sales agreement with a bank to offer financial services via the infrastructure of Post Danmark. The main reasons to review the status of Post Danmark seem to have been that there has been a steep decline of payments in post offices, a decline in the market for addressed mail and a loss of market share in the market for un-addressed mail.

At 8 June 2005, the Danish Ministry of Transport and Energy signed a share purchase agreement with CVC Capital Partners (CVC) on the sale of a 25% stake in Post Danmark. CVC is an independent investment and advisory company dedicated to private equity. The company buys (stakes in) other companies to build businesses in partnership with the existing management. The sale of the stake has, at the end of July, not yet been definitely concluded, since the financial committee of the Danish parliament and the Competition Council of the EU have to approve the sale first. Under the sale agreement, CVC acquires a 22% stake in Post Danmark, while 2.5% of the shares will be held for an employee share programme and the final 0.5% reserved for an incentive programme for senior staff of Post Danmark. The Ministry and CVC have negotiated exclusively before two months. Deutsche Post World Net and TNT were also interested in taking a stake in Post Danmark. CVC is paying approximately 170.4 million euros (DKK 1,270 million) for the stake in Post Danmark.

Strategies of universal service provider

Post Danmark is for its revenues highly dependent on paper based communications and will have to broaden its revenue base to be able to invest in new business development. For the coming years, Post Danmark is faced by increased substitution of mail due to different factors such as the wider use of services such as e-Box and home-banking, the reduction of distribution frequencies by main customers such as banks and financial institutions and the growing use of Internet and e-mail.

Post Danmark is aiming for a reduction in its costs. Post Danmark expects to have shut down nearly 250 of the 339 official post offices the company operated at the end of 2003 within one year. Post offices have experienced a decline in turnover due to a drop in the number of giro transactions carried out. Since 1990, the number of on-site (at post offices) bill payments, using so-called giro-cards, has dropped with 70%. The 500 to 600 service centres that are based in other retail locations, such as supermarkets and other local businesses are expected to take over many traditional postal customer services.

Post Danmark's vision stipulates that, among others, the company wants to earn a profit in the letter segment, even despite a considerable decline in volumes, and wants to engage in an alliance with a major international player.¹⁵ Post Danmark states in its strategy 2006, that to be successful, Post Danmark highly depends on the future of the letter product as a continued sound and profitable business.

¹⁵ Source: Post Danmark, Strategy 2006.

Core elements of the strategy of Post Danmark

Strengths	Focus areas	Challenges
Nationwide presence	Market-oriented efficiency improvements and development	Fewer letters
State-of-the-art production apparatus	Development of new services for senders and recipients	Increased demands from business customers
Financial soundness	Achievement of alliance with a major international player	Intensified competition in the Danish market
Robust TIQ process	Focus on and acceleration of human resource development	Abolition of exclusive right

Source: Post Danmark, Strategy 2006

In the table above, the main strengths and challenges are presented together with strategic focus areas. Post Danmark will target its efforts in the following way:

- Market-oriented efficiency improvements and development: a continuation of total involvement of quality (TIQ), such as benchmarking performance and satisfaction, a continued improvement of operations through modernisation and the use of new technologies and IT, branding and the introduction of new terms of employment.
- Development of new services for senders and recipients: the introduction of new services paid by the recipient, offering services that better match large clients needs, improving the offer of high quality service in the market for un-addressed items, newspapers, magazines and periodicals, and the development of electronic post offices.
- Focus on and acceleration of human resource development: a further development of the skills of employees and managerial staff will continue through the continuation of management development programmes, self-managing teams, performance pay, local performance targets, as well as the recruitment of specialists with the required competences, and the creation of a better working environment.

The results of the actions taken by the management, as part of the strategic plan, seem to be successful. In 2004, Post Danmark realised a substantial increase in revenues and profitability in a market with declining mail volumes.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

Competitor postal operators have initially started operations in value added services such as courier and express mail, while national and regional publishers have started to provide un-addressed mail. In the distribution of un-addressed mail, Forbruger-Kontakt is the largest competitor. Competition in the delivery of periodicals, magazines and newspapers to Post Danmark comes from Bladkompagniet. In the delivery of items of correspondence and addressed direct mail are, apart from Post Danmark and express and courier operators, no other operators active.

Effect of competition on market structure and market performance (result indicators), including on US provision

In the distribution of un-addressed mail, competitors of Post Danmark have already established a strong position in the market. In the distribution of addressed mail, competition only exists in periodicals, magazines and newspapers. Post Danmark mainly delivers in the rural areas (at subsidised rates) while competitors have a very strong position in urban areas. In the delivery of addressed newspapers, Post Danmark has a market share of about 25%. In the market for B2C and C2C parcels, the market share of Post Danmark is expected to be 85%. In the market for B2B parcels, the market share is about 50%.

The standard for quality of service is that at least 93% of the domestic addressed letters is delivered overnight on all days. In 2004, Post Danmark managed to fulfil this obligation by delivering 95.2% of the items overnight. The performance of Post Danmark based on these figures can be valued as good.

The Danish market for addressed mail is, despite the lowering of the weight limit to 50 gram, still largely reserved to Post Danmark when measured in terms of volume. After full liberalisation, it is expected that competition will be more intense. Potential entry is rather high as there are already postal operators, such as Forbruger-Kontakt and Bladkompagniet, which possess an extensive delivery network.

The ongoing substitution of mail by alternative media will continue in the coming years. Post Danmark expects the following decline in mail volumes merely as the result from substitution.

Impact of substitution

Postal product	% annual decline in volume of universal service provider due to (electronic) substitution in the coming three years
Bank statements	2%
Bills of large customers	2%
Single items of correspondence	2%
Addressed advertising mail / direct mail	0%
Magazines	3%
Catalogues	3%

Source: ECORYS questionnaire (2005)

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Act on the Provision of Postal Services	1 June 2004	-
Executive Order 1312 on the Concession Granted to Post Denmark	14 December 2004	-
Executive Order 1313 on the Provision of Postal Services and Postal Distribution	14 December 2004	-

Source: ECORYS questionnaire (2005), legal documentation

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	No	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Liberalized > 50 gram
Outbound cross border mail	No	
Direct mail addressed (incl. catalogues)	Yes	Liberalized > 50 gram
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Concession	Reserved services, Universal services	Quality of delivery, national coverage network	1
Registration	Postal item up to 20 kg.	-	1,964

Source: Website Denmark, information provided by NRA

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Note: access by competitor operators to the address database is arranged.

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003	% distribution addressed
Domestic items of correspondence <50 gram		
Domestic items of correspondence 50-100 gram	942 ¹	52.7%
Domestic items of correspondence >100 gram		
Inbound cross border mail	58	3.2%
Outbound cross border mail	58	3.2%
Direct mail addressed (incl. catalogues)	240 ¹	13.4%
Periodicals / Magazines	139 ¹	7.8%
Newspapers	351	19.6%
Un-addressed mail (direct mail, weeklies; incl. catalogues)	2,008	
Total	3,796	100%

Note: separate information about international mail not available, inbound and outbound assumed as being evenly split, international mail in total 116 million items.

¹ estimate

Source: ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2004
B2B and B2C	85%
C2B and C2C	15%
Total	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Denmark	2004
Population (in million)	5.4 *
Size of the country (in 1000 of square km)	43.1 *
Population density (number of inhabitants per square km)	125.3
Degree of urbanisation	85.3 ¹ **
Number of inhabitants 5 largest cities	1,657,030 (30.6%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	266

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005
% Government share	100%

Note: in 2005 the UK investment firm CVC Capital Partners will acquire a 22% stake in public limited company Post Danmark.

Source: Annual Report Post Danmark

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000 in millions of euros	2003 in millions of euros	% (2003)
Mail	1,165	1,145	80%
Express / Parcels	163	169	12%
Other	144	117	8%
Total	1,472	1,431¹	100%

Note: 2004 figures in the Annual Report Post Danmark 2004 do not provide a split in the categories

¹ Due to exchange rate differences, this figure might differ from other publications.

Source: ECORYS questionnaire (2005), Annual Reports Post Danmark

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
Denmark	Distributions Service A/S (cooperation)	Budstikken Transport A/S	Pan-Nordic Logistics AB (jv with Poste Norge) Pan-Nordic Logistics AB(jv with Poste Norge)
Finland			
Sweden			

Source: ECORYS, Annual Report Post Danmark

Table 1.11 Postal network

Post Danmark	2004
Number of postal service points	1,068 (of which 412 post offices)
Number of P.O. Boxes	64,883
Number of street letter boxes	9,274
Number of delivery offices	318
Number of delivery points / addresses	2,604,898

Source: NERA (2004), Annual Report Post Danmark 2003, information provided by NRA

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	3	De Grønne Bude, (courier), Forbruger-Kontakt, Bladkompagniet
International mail	-	
Addressed direct mail / catalogues	0	
Periodicals / Magazines	2	Bladkompagniet, De Grønne Bude
Newspapers	2	Bladkompagniet, De Grønne Bude
Un-addressed mail	1 (large)	Forbruger-Kontakt, several small local delivers
Upstream mail services	Various	-

Source: ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Forbruger-Kontakt	Door-to-door delivery, Distribution of papers, un-addressed advertisements			2 / 3	Entire Denmark 2,600,000 households every weekend. 1,900,000 every Thursday and Wednesday. 40,000 rural households are served
Bladkompagniet	Delivery of magazines / periodicals	100 mln periodicals and magazines	135 employees 6,000 / 7,000 deliverers through 35 subcontractors	7	Post Danmark 300,000 households
DTD	Advertising mail Direct mail addressed / mainly un-addressed	-		2	Nationwide, 2.2 mln households

Source: ECORYS questionnaire (2005), company websites

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	95-97%	
Market share of USP (in terms of turnover) in the delivery of addressed mail	-	
Market share of USP (in terms of volume) in the delivery of un-addressed mail	50-60%	

Note: information provided by USP and NRA, percentages are estimates

Source: ECORYS questionnaire (2005)

Country information sheet: Estonia

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

The Postal Act (RT I 2001, 64, 367; 2002, 61, 375; 63, 387; 2003, 88, 594), which entered into force on 1 January 2002, sets requirements to the provision of postal services in Estonia and sets the requirements for state supervision regarding the provision of universal service. Regulations to guarantee the provision of universal postal services in the whole territory of Estonia with a reliable quality and a uniform and reasonable price have a significant place in the Postal Act.

In Estonia, a distinction is made between universal and non-universal services. The universal postal service in Estonia comprises the delivery of domestic and international items of correspondence, addressed direct mail and the provision of express services plus the delivery of parcels. The Postal Act does not regulate the delivery of newspapers and periodicals, which are not considered postal services.

The universal postal service comprises a set of postal services of specified quality provided at uniform and affordable prices established for single items, and which are accessible to all throughout the territory of Estonia. The postal service includes the internal forwarding of letters weighing up to 2 kilogram, the internal forwarding of postal parcels weighing up to 10 kilogram, the forwarding of registered items and insured items and the forwarding of letters weighing up to 2 kilogram and of postal parcels weighing up to 20 kilogram sent to or arriving from foreign states. The provision of the universal postal service shall ensure the collection of postal items and delivery thereof to addressees not less than five days a week and at least once a day. According to the Postal Act, all postal service providers that possess a licence for the provision of the universal postal service must provide the universal postal service to all persons who so desire throughout the whole territory of Estonia.

One postal operator is active in the market of universal postal services, Eesti Post. A postal service provider must only apply for an activity licence from the Estonian National Communications Board. Although there no longer is a reserved area, there is a requirement to provide the postal service in the whole territory of the Republic of Estonia, if domestic postal service is concerned. This in fact implies that there is no competition in the area of the universal postal services, which is by far the largest mail segment in Estonia. A licence grants the right to provide, as an economic activity, the postal services

specified in the Postal Act. The provision of postal services outside the universal service requires a notification from the Estonian National Communications Board.

In recent years, the provision of direct mail became possible for competitor postal operators without having to fulfil the tough licence criteria for a universal service provider. Since 2002, the delivery of direct mail is considered a separate and distinct service from the universal service. The providers of postal services and the Estonian National Communications Board reached a decision that direct mail is a liberalised service that should be provided without limitations, and thus direct mail cannot be part of the universal postal services according to the valid Postal Act.

According to the Postal Act, the supervisory organ of the postal sector from year 2002 onwards is the Estonian National Communications Board (Sideamet). The Estonian National Communications Board exercises supervision over compliance with the requirements included in the Postal Act and further tasks include the settlement of complaints and registration of postal service providers.

Short description of relevant developments with regard to the regulatory framework

The main competitors of Eesti Post see a number of hurdles to the development of effective competition in the Estonian postal market.

Co-operation with other delivery companies

In the provision of addressed direct mail, the delivery agreement with the incumbent AS Eesti Post mentions, according to competitors, that they can only use the service of Eesti Post to get better prices than the standard public rates. If a competitor postal operator uses the infrastructure of other operators, they immediately are charged for the standard public rates. It means, according to a competitor, that the competitors of Eesti Post cannot use other companies active in delivery for co-operation on distribution. This is limiting competition, given the fact that competitors have to consider the universal service provision.

Price discrimination

Also, Eesti Post, who has a high market share in addressed and un-addressed advertising mail delivery, does not want to make discount rates available for all other providers, according to a competitor. This implies that some companies have better discount rates than others, but competitor postal operators have no options available to get the same discounts. This is not a transparent situation and would indicate discriminatory behaviour from the side of the incumbent operator, according to the competitor postal operator.

Addressed advertising mail

According to AS Express Post, there should be an open postal market without any restrictions for all other providers. At the moment, AS Express Post management states, the government is preparing a new postal law, in which universal services are planned to be open for other providers, but with some restrictions. Those restrictions may have great impact; even to the extent that nobody wants to start provide those services.

In addition, government plans to add restrictions to the delivery of addressed advertising materials. This market is currently fully open to competition. The plan is to reserve the delivery of mail up to 50 gram to the national postal operator. This is quite contrary to the strategy to open up market segments for competition as stipulated in the EU postal directives.

Short description of the postal sector policy

As the postal sector in Estonia is liberalised the country postal authorities can confirm the timetable for market opening, as laid down in the postal directives. However, the obligation to provide universal services in the whole territory of Estonia in fact has resulted in a liberalisation without any competition in the delivery of items of correspondence. Competition is limited to all other parts in the provision of postal services such as courier and express services, logistic services and the conveyance of direct mail.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

Government regulation

The main postal regulations follow the EU postal directives 97/67/EC and 2002/39/EC. The government policy is focused on maintaining the requirements for the universal service obligations for the country and the obligation to provide nation-wide universal service for the licensed national postal service provider Eesti Post, while offering the same to any other interested competitor. Since a few years, competition in the delivery of addressed direct mail is possible.

New entrants

During the year 2002, the Estonian National Communications Board registered 15 entrepreneurs, who declared the provision of courier service. During 2003, seven more providers of courier services and three direct mail providers were added. By the end of 2003, there were 25 registrations in total.

Substitution

In spite of the development of electronic mail, the number of delivered letters in 2003 increased by 8.5 million. In comparison with previous years, mail volume increased substantially, as well as the volume of postal parcel deliveries.

Short analysis of contestability/attractiveness of market segments in the mail market (if different from general analysis), in relation to the market size of the postal sector and country information

The market for addressed mail has a volume of around 76 million items a year, mainly handled by Eesti Post. According to the latest available Annual Report of Eesti Post for 2003, un-addressed advertising mail accounted for 43.2% of the total number of mail items. As the margins of this type of mailings are increasingly under pressure this accounts for the fact that while overall volumes are increasing, revenues are relatively decreasing. On the other hand, the market of addressed mail is still in its infancy and did not exist five to ten years ago. The opening of the delivery of direct mail to other operators opens opportunities to develop the market.

1.1.3 The universal postal operator: facts, figures, strategy

Estonia Post was established in 1918, while the new public corporation Eesti Post was established in 1991. Eesti Post faces increasing competition in all markets outside the universal postal services.

Overview main market segments (%) in postal sector in Estonia

Segment	2002	2003
Universal Postal Service	66%	58%
Courier Service	24%	28%
Cash Transfer	10%	10%
Direct Mail		4%

Source: Sideamet 2004

In 2003, universal postal services made up 50% of the total realised net turnover of the company, of which 70% is the turnover of the domestic delivery of letters weighing up to 2 kg. The delivery of international letters is characterised by a decrease in volume in 2003. The volumes of both sent and received letters decreased by 23% in both cases, and as a result, Eesti Post processed in total approximately 5 million letters less than in the previous year. The number of postal parcels sent abroad remained the same in comparison with the previous year, but the number of postal parcels sent from abroad to Estonia decreased by 16%.

Strategies of universal service provider

In recent years, Eesti Post has implemented postal reforms mainly focused on the establishment of further optimisation of costs, linking the distribution between fixed and variable costs to competitive price setting. Moreover, Eesti Post tries to offer more innovative and attractive services including the use of technological solutions, such as track and trace, to withstand competition from express operators. Increasing flexibility, quality of service and co-operation with strong domestic and international partners are part of the strategy of Eesti Post. In recent years Eesti Post has implemented some technological innovations, such as informing customers by SMS of postal items arrived to them, offering customers the possibility to choose the delivery by SMS, including pick up

of the item by themselves. The new services include recording of the route and confirmation of delivery for reasons of track and trace and possible re-directing of the postal item.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

The Estonian National Communications Board has registered three postal operators for the provision of direct mail: AS Express Post, established in 1997, OÜ Kirilind and Eesti Post.

AS Express Post is mainly active in addressed and un-addressed advertising mail and is also targeting the distribution of catalogues and magazines. The turnover of the company has shown steady growth from € 1.9 million in 2000 to € 2.4 million in 2004 and an increase of especially un-addressed mail volumes to 13.8 million items in 2004. Un-addressed mail is now 68% of turnover, while the rest is addressed advertising mail including periodicals. The target groups of AS Express Post are banks, insurance companies and large retailers. Kirilind more or less provides the same services. D2D OÜ provides a courier service through the mailbox and is active in the delivery of items of correspondence, periodicals and un-addressed mail. D2D OÜ is active in nearly 20 larger Estonian cities.¹⁶

The following 19 providers of courier services are registered in the Estonian National Communications Board: DHL International Eesti AS, AS Baltic Logistic System Eesti (Bizpak), AS Sularahakeskus, D2D OÜ, Rattakuller OÜ, Eesti Post, TNT Express Worldwide Eesti AS, P. Dussmann Eesti OÜ, OÜ K Grupp Turvateenus, OÜ EKLT (UPS), OÜ Pankrand, OÜ Rippon Valve, AS Falck Lääne- Eesti, FIE Aivar Paat-A-Kuller, OÜ MI Kuller, OÜ Lex System, Kiirkuller FFW OÜ, FIE Jüri P. Polver and OÜ Helmacum.

Effect on competition and market structure and market performance (result indicators), including US provision

The competitors still see high barriers for the development of effective competition in Estonia. The distribution of items of correspondence is *de facto* reserved to AS Eesti Post as the conditions to offer a universal postal service are very tight. The distribution of addressed mail other than direct mail is not very profitable in the countryside. For instance, the universal service provider receives 1 million euro every year from the state budget to support newspaper delivery to the countryside.

By volume, by far the largest operator of direct mail is Eesti Post, holding 94% of the market. The share of Express Post and Kirilind together is around 6%. Express Post estimates that competitors of the incumbent could take 25% of the addressed advertising

¹⁶ For more information, see table 12 and 13.

mail market in the near future if no additional restrictions for competitors on this market segment were erected.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
<ul style="list-style-type: none"> • Postal Act; • Regulation No. 419 of the Government of the Republic concerning universal service obligations; • The Procedure for Registration, Use, and Destruction of Postal Service Providers Identification Stamps; • Separation of Revenue Accounting and Cost Accounting Associated with Services Included in Universal Postal Service Set; • Items Not Allowed for Delivery by Post; • Establishment of the Forms of Postal Service Provider Licence, Licence Application, Licence Extension Application, and Notice of Commencement of Act; • Establishment of State Register of Postal Service Providers and Statutes of Maintaining the Register; • Requirements for the universal postal service and the provision thereof, and for the location of access points of the postal networks of universal postal service providers; • Requirements for registered items and insured items, and for the forwarding of registered items and insured items; • Requirements for and procedure of retention, sale and destruction of postal items not forwarded due to being undeliverable; • Procedure for the Opening of Postal Items; • The Procedure for the Issue, Use, and Revocation of Postal Payment Means. 	<p>June 2001</p> <p>December 2001</p>	<p>Amendments in 2002 and 2003</p>

Source: ECORYS questionnaire (2005), Postal Act, Regulations Sideamet

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	No	
Domestic items of correspondence 50-100 gram	No	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	No	
Outbound cross border mail	No	
Direct mail addressed (incl. catalogues)	No	
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005), Postal Act

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been issued?
Licence	Universal Postal Services	Approval Sideamet Universal service requirements	1
Notification	Non-universal postal services	Approval Sideamet, Operators need to secure the provision of the universal service (?)	24

Source: ECORYS questionnaire (2005)

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003 / 2004	% distribution addressed
Domestic items of correspondence <50 gram	48.9	39.9%
Domestic items of correspondence 50-100 gram	3.0	2.4%
Domestic items of correspondence >100 gram	1.0	0.8%
Inbound cross border mail	5.0	4.1%
Outbound cross border mail	4.9	4.0%
Direct mail addressed (incl. catalogues)	13.5	11.0%
Periodicals / Magazines	3.2	2.6%
Newspapers	42.8	34.9%
Un-addressed mail (direct mail, weeklies)	121.7	
Total	244.4	100%

Source: ECORYS questionnaire (2005), calculations by ECORYS

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2000	2004
B2B	n.a.	n.a.
B2C	n.a.	n.a.
C2B	n.a.	n.a.
C2C	n.a.	n.a.
Total	100%	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Estonia	2004
Population (in million)	1.4 *
Size of the country (in 1000 of square km)	45.2 *
Population density (number of inhabitants per square km)	31.0
Degree of urbanisation	69.4 **
Number (and percentage) of inhabitants 5 largest cities (2005)	652,348 (46.6%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	54

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	Status
AS Eesti Post since 1991 % Government share	100%	-
Subsidiary AS ElektronPost % Eesti Post share	50.86%	

Source: Annual Reports Eesti Post

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2004 in millions of euros	% (2004)
Mail	26	63%
Express	4.7	11%
Logistics	6.3	15%
Other	4.2	10%
Total	41.2	100%

Source: ECORYS questionnaire (2005), Annual Report Eesti Post

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
None			

Source: Annual Report Eesti Post

Table 1.11 Postal network

Eesti Post	2004
Number of postal service points	545
Number of P.O. Boxes	12,445
Number of street letter boxes	3,741
Number of delivery offices (2002)	605
Number of delivery points / addresses	606,198

Source: Annual Report Eesti Post 2004, NERA (2004), information provided by Sideamet

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	1	D2D OÜ
International mail	0	-
Addressed direct mail	2	AS Express Post, Kirilind
Periodicals - Magazines	3	AS Express Post, Kirilind
Newspapers	3 (+local publishers)	Kirilind, AS Express Post,
Un-addressed mail	3 (+ small)	AS Express Post
Upstream mail services	0	A.o. Eesti Elektronpost, Balti Otsepostituse OÜ do hand over mail to USP
Mail universal services	1	One licence granted to SA Eesti Post
Other non-universal postal services	24	Licences granted to operators in courier services and express mail, 3 licences for direct mail

Source: ECORYS questionnaire (2005), Annual Report Sideamet, market overview Sideamet

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
AS Expresspost	Addressed and un-addressed advertising mail, distribution of catalogues and magazines	13.8 million items 2.4 million euro	Unknown	Max 2	Nationwide, exceptions there
Kirilind	Addressed direct mail, periodicals	Estimate 2 million items of addressed mail	Hundreds of freelancers		Nationwide, exceptions there
D2D OÜ	Items of correspondence, periodicals, un-addressed	-		P.O. Box delivery flexible	20 larger Estonian cities
Lehepunkt	Press distribution, also home-delivery		145 (70 of which are drivers)		"National"

Source: ECORYS questionnaire (2005), websites

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	94.3%	-
Market share of USP (in terms of turnover) in addressed mail	98%	Taking in account small volumes advertising mail and some competition in this segment

Source: ECORYS questionnaire (2005), calculations based on indications of volume

Country information sheet: Finland

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

The Finnish postal market has *de jure* been fully liberalised since 1994 with the acceptance of the Act on Postal Operations (907/1993). This act opened up the provision of postal services to other operators than Finland Post Corporation by allowing other operators to convey and distribute items of correspondence (i.e. domestic and international letters and addressed direct mail). The conveyance and distribution of newspapers, magazines and un-addressed mail have always been open to competition. At the same time, Finland Post became a state enterprise and the postal business and supervisory activities were separated.

From 1 January 2002 onwards, the provision of postal services in Finland is regulated by the Postal Services Act (313/2001). The Postal Services Act aims to ensure the availability of high quality postal services through the provision of universal postal services. The universal postal service should be available throughout the country and comprises, amongst others, a transmission service for domestic and inbound international items of correspondence up to two kilogram and a service for registered and insured postal items.

In order to provide (universal) postal services, postal operators need a licence that is granted by the Council of State. An important requirement to obtain a licence is the guarantee of daily delivery. Finland Post is licensed to provide postal services nationally until 2021 and has the obligation to provide the universal postal service throughout Finland, excluding the Åland islands. Posten på Åland is the licensed universal service provider operating only on the Åland islands. Finland Post is the only operator in Finland with nationwide delivery and a post office network. Suomen Suoramainonta Oy (Finnish Direct Mail Advertising Ltd) had a licence to provide limited postal services valid until 30 June 2003, but it expired.¹⁷

A licensed postal operator granted with a concession to provide limited postal services is liable to pay a fee in case it operates in densely populated areas. The introduction of a fee

¹⁷ The activities of Suomen Suoramainonta Oy were restricted to the areas of Askola, Espoo, Helsinki, Hyvinkää, Järvenpää, Karjalohja, Karkkila, Kauniainen, Kerava, Lapinjärvi, Lijjendal, Lohja, Myrskylä, Mäntsälä, Nummi-Pusula, Nurmijärvi, Pornainen, Tuusula, Vantaa and Vihti.

was established with the enactment of the Postal Fee Act (708/1997) and aimed to secure the provision of postal services in sparsely populated areas. Postal operators need to pay a percentage of their turnover dependent on the population density in the concession area that can differ between 5 and 20% of the turnover.¹⁸

The national regulatory authority Finnish Communications Regulatory Authority (Ficora) is responsible for supervising the compliance with the Postal Act and corresponding regulations. The Ministry of Transport and Communications is responsible for postal sector policy.

Upstream and downstream access

In the Postal Services Act, no specific provisions on regulated access to the facilities of the universal service provider are included, as the licence conditions require a postal operator to provide daily delivery. Cooperation between postal operators, with respect to the transfer of postal items for delivery in a licensed area of an alternative operator, is arranged via article 28. The terms of agreement between postal operators need to be fair and reasonable. In practice, however, the absence of postal operators in Finland, apart from Finland Post, has made this article redundant. Consolidators, mailing houses and publishers carry out upstream activities and have negotiated access contracts with Finland Post for further conveyance of postal items.

Disputes between the regulator and the universal service provider

In recent years, Finland Post and Ficora have had disputes about a number of issues:

- The scope of universal service obligations: the universal service obligations refer to the transmission of items of correspondence to 2 kg, while according to Finland Post the universal service only includes or should include the 1st class consumer letter (paid stamp) and not the 2nd class letter;
- The pricing of letters within the scope of the universal service: Ficora and Finland Post had a dispute about the affordability of the prices of letters. Ficora ruled that the prices of letters are not affordable while according to Finland Post prices are reasonable since costs have been allocated according to the guidelines provided in the postal directive;
- Cross subsidisation: Ficora and Finland Post have a dispute about the subsidisation of services and cost allocation. According to Finland Post, they are negotiating with Ficora how to allocate the costs so that the prices are acceptable;
- Tariffs freeze: Ficora ruled a freeze on the tariffs of Finland Post that was disputed by Finland Post on the basis of a lack of authority on this matter. Indeed, the Postal Services Act is ambiguous on the authority of the national regulatory authority. This dispute has not been settled yet and is pending at the administrative court.

The disputes relate to the traditional problems that exist in deregulated markets in which the incumbent operator tries to defend its position.

¹⁸ The height of the percentage is according to article 4 of Postal Fee Act calculated by dividing the population density in the concession area at the end of the previous calendar year by the figure of 50. This percentage may not be higher than 20%. The fee is not collected in a concession area where the population density is less than 250 inhabitants per square kilometre of the land area.

Short description of relevant developments with regard to the regulatory framework

There are no developments related to changes in the regulatory framework. The provision of postal services is liberalised and the universal service guaranteed. An issue in the Finnish postal market is the scope of the universal service. Finland Post is of the opinion that the scope of the universal service has to be narrowed taking into account the current relevance of the postal services needed for consumers in a changing communications environment. In their view the universal service should comprise the provision of letters and parcels for consumers and small and medium sized enterprises and the delivery of mail to households five days a week at the maximum. The Ministry of Transport and Communications, however, sees no specific need to change the scope of the universal service. Another aspect of the current universal service requirements, the standards for overnight delivery, might be adjusted downwards. The Finnish government has sent a proposition to parliament in November 2004 to adjust the D+n standards for Finland Post downwards. The most important reasons are the increased competition within the industry and the heavy competition by other means of communications outside the industry (such as electronic communication).

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

Government regulation

The provision of postal services (i.e. domestic and international letters and addressed direct mail) in Finland is *de jure* liberalised with the introduction of the Act on Postal Operations. The restricted licences to provide postal services has however pre-empted lasting entry into the Finnish postal market. The legal entry barriers are perceived to be high and because of the condition for daily delivery, high required quality standards, short licence periods and the payment of compensation fees.¹⁹

New entrants

The restrictive licence regime has led to only a very limited development of competition in Finland. Posten på Åland is the universal service providers in a small part of Finland besides Finland Post. Suomen Suoramainonta Oy has applied for a licence to provide postal services under the universal service obligation but never commenced activities in addressed mail. This implies that more than ten years after full liberalisation Finland Post stills enjoys a de facto monopoly position in the provision of universal postal services.

In the delivery of un-addressed items, several operators are active. The most important operators with a nationwide delivery network are, apart from Finland Post, Suomen Suoramainonta Oy and Letterbox Distribution Finland Oy. In the delivery of newspapers and magazines, Finland Post is the largest operator since it holds nearly a monopoly position in daily delivery of newspapers. In early morning distribution of newspapers, according to the Finnish Newspaper Association, 14 organisations are active, that are

¹⁹ See OECD (2003), Regulatory reform in Finland, marketisation of government services state owned enterprises, Paris.

mainly in the hands of the publishers. An example of such an organisation is Etela-Karjalan Jakelu, the delivery organisation of Sanoma WSOY, one of the largest publishers in Scandinavia. In outgoing international mail, DHL Global Mail, Spring and Swiss Post International and the international consolidators UPS and FedEx are active. Various companies engage in upstream activities, such as Finnmail Oy, Itella, Mail service Oy and Postituspojat Oy.

Substitution

Postal operations in Finland are especially vulnerable to electronic substitution due to the relative high Internet access penetration rates. This will influence postal volumes especially for items of correspondence. Addressed direct mail and magazines seem less susceptible to substitution as the development of the volumes shows. Especially, the B2B segment shows and will show a decline, while the B2C segment showed some increase in volumes due to more invoices from companies to households. Finland Post provides the following predictions for a decline in volumes that are caused by electronic substitution.

Electronic substitution

Postal product	% decline in volume of universal service provider
Bank statements	5%
Bills of large customers	15%
Single items of correspondence	10%
Addressed advertising mail / direct mail	0%
Magazines	0%
Catalogues	0%

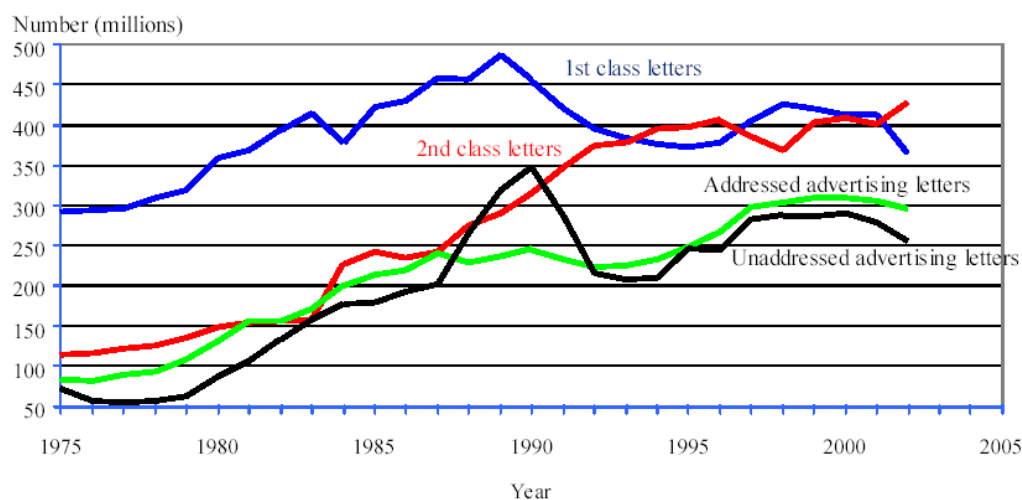
Source: ECORYS questionnaire (2005)

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The postal market in Finland is relatively mature with high volumes per capita and a developed market for direct mail. The high quality of service of Finland Post and the corresponding efficient operations have kept prices for postal services relatively low, given the tough geographical circumstances in the rural areas.

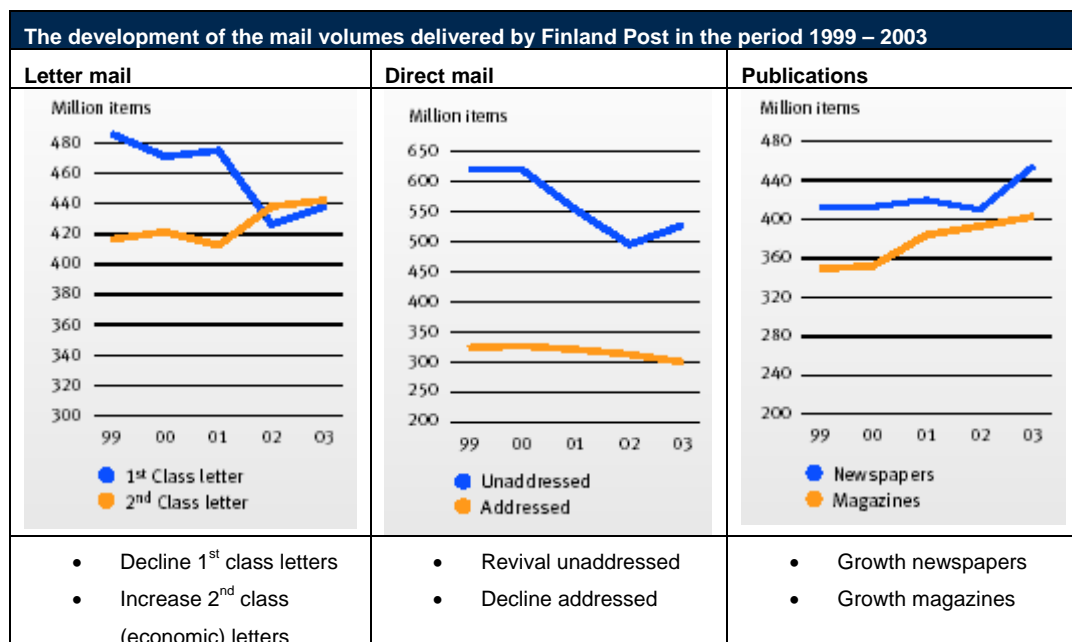
In the following graph, the development of the volume of postal items delivered is shown for the period 1975-2002. The results show that over the last ten years the total number of items delivered has remained roughly the same.

The development of mail volumes delivered by Finland Post in the period 1975-2002



Source: Annual report Ficora 2003

The figure below shows the volumes in the markets for letter mail, addressed and un-addressed direct mail and the delivery of magazines and newspapers by Finland Post from 1999-2003. The market for addressed direct mail has declined in recent years, which we cannot explain immediately. It is unclear to what extent the entrance of new postal operators in the Finnish postal market has pushed volumes down for Finland Post in this segment.



Source: Annual Report Finland Post 2003

1.1.3 The universal postal operator: facts, figures, strategy

Strategies of universal service provider

The combination of a small home market, stagnating mail volumes and relatively severe geographical circumstances have forced Finland Post to pursue an offensive strategy aimed at securing long term viability of its business.

Finland Post expands into upstream, and at the same time competitive, activities by focusing on electronic messaging services. Finland Post has moved in new areas, providing companies with printing, e-invoicing, information management and direct mail services that have become more important for their revenues. Finland Post aims to develop its business towards integrated information and materials flow management, enabling versatile messaging and logistics solutions (Annual Report 2003). The development of hybrid and electronic services is therefore important to Finland Post. In addition, Finland Post foresees growth in e-business and focuses increasingly on logistics by strengthening its position on the domestic market.

Finland Post has expanded abroad last year and is now operating through companies in Sweden, Denmark, Norway, and Germany and associated companies in Estonia and Latvia, mainly in electronic messaging and logistics. In 2003, growth in turnover was realised for 50% through foreign operations.

International strategy

Country	National	Regional	Pan-European	Global
Finland		Pan Nordic business strategy	Alliances and cooperation agreements	

Source: Annual Reports Finland Post

The vision of Finland Post is to become the most customer-driven, innovative and profitable provider of messaging and logistics services in the Baltic rim. In order to realise this, Finland Post continues to focus on (electronic) messaging and logistics, tries to expand further in the Baltic region by engaging in alliances and co-operation agreements with third parties and to set up branches and operations in neighbouring countries. In order to meet the impact of electronic substitution and competition, most relevant for the near future is to control cost in the domestic market and to meet the changing needs of the customers.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

As the Postal Services Act requests a postal service provider to be able to perform nationwide postal services, the barrier to entry is large and no new companies entered into the

market. In the near future new entry is not foreseen, although Suomen Suoramainonta Oy is still interested in providing postal services in the more urbanised areas of Finland.

The distribution of newspapers and magazines is not included in the universal service and open to competition from operators other than Finland Post without the restrictions of a postal licence. The same reasoning applies to the distribution of un-addressed items. The publishers of newspapers and magazines hardly distribute their press items themselves but closely co-operate with Finland Post for early morning and daytime delivery of newspapers. During the last years, Finland Post has even strengthened its position in the morning delivery of newspapers by taking over distributors. For instance, in 2003 Finland Post bought Leijonajakelu from Sanoma. The table below show the importance of the universal service provider in the distribution of newspapers.

Modes of delivery of Finnish newspapers to the letterboxes of subscribers (% of total deliveries)

Mode of delivery	1996	1998	2000	2002	2003
Own delivery	5	3	4	4	4
Joint delivery	54	52	36	34	34
Morning delivery by regular mail	24	33	46	45	45
Daytime delivery by normal mail	17	12	14	17	17
Total	100	100	100	100	100

Source: Statistics Finland (2004), Postal and small freight delivery statistics 2003, November 2004

Effect of competition on market structure and market performance (result indicators), including on US provision

In Finland, the postal market has been *de jure* liberalised for more than ten years, but *de facto* did not lead to the entrance of new postal operators. However, it cannot be argued that the Finnish postal market is performing poorly. The quality of service has been maintained at its high level and price levels have not changed significantly, according to the Ministry of Transport and Communications. The threat of electronic substitution seems to have a disciplinary effect on the performance of the universal service provider. Nevertheless, the burden on the universal service provider has, according to the Ministry, become heavier. Especially, the maintenance of high quality of service and the post office network have become more difficult, which has led the Ministry to propose modifications in the universal service obligations.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Act on Postal Operations (907/1993)	1 January 1994	
Postal Services Act (313/2001)	1 January 2002	
Postal Fee Act (708/1997)	1 August 1997	-

Source: ECORYS questionnaire (2005)

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	No	Licence required
Domestic items of correspondence 50-100 gram	No	Licence required
Domestic items of correspondence >100 gram	No	Licence required
Inbound cross border mail	No	
Outbound cross border mail	No	
Direct mail addressed (incl. catalogues)	No	Licence required
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Licence	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Licences	Universal services: items of correspondence, addressed direct mail, parcels	Confidentiality of correspondence, Minimal capital or financial guarantees, Technical or operational competence, Universal service obligation similar to USP, Quality availability,	2 (Finland Post Ltd. and Posten på Åland)

Source: Postal Services Act

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No, Postal service Act 28 §
	Access to delivery points	No, negotiated access is possible
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005), Postal Services Act

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003	% distribution addressed
Domestic items of correspondence <50 gram	445	19.8%
Domestic items of correspondence 50-100 gram		
Domestic items of correspondence >100 gram	157	7.0%
Inbound cross border mail	43	1.9%
Outbound cross border mail	28	1.2%
Direct mail addressed (incl. catalogues)	484	21.6%
Periodicals / Magazines	349	15.5%
Newspapers	739	32.9%
Un-addressed mail (direct mail, weeklies)	1,209	
Total	3,454	100%

Source: calculations based on Statistics Finland (2004), Postal and small freight delivery statistics 2003, November 2004, ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2000	2004
B2B	25%	21%
B2C	60%	68%
C2B	2%	1%
C2C	13%	10%
Total	100%	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Finland	2003
Population (in million)	5.2 *
Size of the country (in 1000 of square km)	304.5 *
Population density (number of inhabitants per km ²)	17.1
Degree of urbanisation	60.9 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	1,354,979 (26.1%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	290

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005
% Government share / owner Ministry of Industry	100%

Source: Annual Report Finland Post 2004, website Finland Post

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000 in millions of euros	2004 in millions of euros	% (2004)
Mail	730	785	64%
Express			
Logistics	218	421	34%
Other	121	29	2%
Total	1,069	1,235	100%
Finland	1,069	1,160	94%
Abroad	0	75	6%
Total	1,069	1,235	100%

Source: Annual Reports Finland Post, ECORYS questionnaire (2005)

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
Austria			
Belgium			
Cyprus			
Czech Republic			
Denmark			
Estonia	AS Eesti Elektronpost (upstream) 49.14%		
France			
Germany	Eurocom Deufora Infor Systems GmbH (upstream)		Capella GmbH Data Informatic GmbH
Greece			
Hungary			
Ireland			
Italy			
Latvia	SIA Latvijas Elektroniskais Pasts (upstream) 48.75%		LP Logistika OU
Lithuania			
Luxembourg			
Malta			
Netherlands			
Poland			
Portugal			
Slovakia			

Country	Mail	Express	Logistics
Slovenia			
Spain			
Sweden	FU Malmo AB (upstream)		Capella Group AB
UK	Relation & Brand AB (upstream) 48.95%		

Source: Annual Report Finland Post 2004 (main participations only)

Table 1.11 Postal network

Finland Post	2003
Number of postal service points	1,400
Number of P.O. Boxes	8,000
Number of delivery offices	650
Number of delivery points / addresses	2,500,000

Source: NERA (2004), WIK (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	Finland Post
International mail	5 (large)	Finland Post, DHL Global Mail, TNT / Spring, Swiss International Post, UPS, FedEx
Addressed direct mail	0	Finland Post
Periodicals / Magazines	0	Finland Post
Newspapers	14	Finland Post, Etela-Karjalan Jakelu, others
Un-addressed mail	3 (national)	Finland Post, Suomen Suoramainonta Oy, Letterbox Distribution Finland Oy
Upstream mail services	Various	A.o. Finnmail Oy, Itella,, Mail service Oy, Postituspojat Oy

Source: ECORYS

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Suomen Suoramainonta Oy	Un-addressed mail	450 million (volume, very rough estimate)	7,000 deliverers	2 deliveries a week (Wednesday / Saturday)	Nationwide coverage, 32 distribution points (several dependent and independent distribution companies)
Letterbox Distribution Finland Oy	Un-addressed mail	Around 200 million items	5,000 deliverers	1 (Thursday)	Almost nationwide coverage

Source: ECORYS questionnaire (2005), websites, telephone interviews

Table 1.14 Market share of the incumbent operator

	2003	Remarks
Market share of USP (in terms of volume) in the delivery of domestic items of correspondence	99.7%	-
Market share of USP (in terms of volume) in the delivery of addressed direct mail	99.7%	-
Market share of USP (in terms of volume) in the delivery of newspapers and magazines	68.2%	-
Market share of USP (in terms of volume) in the delivery of un-addressed mail	43.4%	-
Market share of USP (in terms of volume) in the delivery of addressed mail	99-99.5%	Newspapers excluded
	84.5%	Newspapers included

Source: calculations based on Statistics Finland (2004), Postal and small freight delivery statistics 2003, November 2004, ECORYS questionnaire (2005)

Country information sheet: France

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

France has been rather late with the implementation of the EC directives 97/67 and 2002/39. At the time of writing, the postal sector regulator has just been established and a new draft postal law has just been accepted (May 2005) setting out the regulatory framework. The telecom regulator ART has been given the responsibility to also regulate the postal sector in France and will be renamed into ARCEP (Agency for the regulation of the electronic communication and postal sectors). ARCEP will have full authority for regulating the postal sector (including on licensing, tariffs, supervision of the US provision and its sustainability, access rules to the universal service, and dispute settlement with a possibility to appeal in court), and its independence will be safeguarded.

In French regulation, no distinction is made between addressed letter mail and addressed advertising mail (direct mail). Hence, the reserved area for letter mail under 100 gram also applies to direct mail. The markets for unaddressed mail, magazines and newspapers are liberalised. Upstream activities have for a long time been liberalised in France. Large customers, mailing houses or mail consolidators can deliver their mail at different level sorting centres of La Poste (at national level, department level [ca. 100], and at postal code level [ca. 40,000]) at discounted prices. The terms of delivery are negotiated and non-discriminatory.

Short description of relevant developments with regard to the regulatory framework

Within the new draft law, a licensing regime is foreseen limited to delivery activities of letter mail. The exact requirements for obtaining a licence for entering liberalised markets have to be set up in a specific decree. Likely issues that will be included are the quality of delivery, the handling of complaints and the transparency of operations. It is not expected that licence requirements include a full national coverage or delivery on every workday. Most probably, no licence will be required for the delivery of express mail and urgent city mail.

The draft law identifies the following four essential facilities to which access has to be guaranteed.

- Access to the P.O. boxes in postal offices (in the big cities many apartments have security codes at the entrance door);

- Access to the postal code system (linking postal codes with exact addresses);
- Access to the information on changes in addresses;
- Possibility to redirect (forward) mail through the national postal operator.

With regard to access to the postal code system, it is foreseen that La Poste will administer this system, but the new postal sector regulator will regulate access to it. It is further anticipated in the draft postal law that the regulator may decide to regulate access to the delivery network of the national postal operator through tariff regulation or dispute settlement on bulk mail contracts. Access to letterboxes is also addressed in the new regulatory framework in a separate article. It is a complex operation in practice and will take time to materialise.

Disputes

La Poste was accused of granting its subsidiaries discounts on prices and differential service conditions, which were not available to third parties. The ECJ ruled, in this SNELPD Case (23rd October 2001, OJ 2002 L 120/19) that the then existing legal framework was not sufficient to monitor the conflict of interest between La Poste and private mail preparation firms. That is "...the economic power which the holder of the exclusive right has over the other undertakings active on the upstream markets gives rise to a conflict of interest. La Poste is led to give preference directly or indirectly to its own subsidiaries to the detriment of competitors on the upstream market. Such conduct gives rise to abuses within the meaning of Article 82." "La Poste's conflict of interest in itself constitutes an abuse, whether or not abuse has taken place."

Short description of the postal sector policy

Postal sector policy is slow compared to many of the former EU15 members. So far, an independent regulator is present (ARCEP) but it still has to develop a licensing system, and a policy regarding the essential facilities. The regulatory power of ARCEP will start being effective six months after the adoption of the new Postal Act.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

Government regulation

Direct mail is still in the reserved area (up to 100 gram). In contrast to other countries, consolidation in the form of work-sharing is working for a long time. Uncertainty exists with respect to licensing and other important decision variables for entrants and existing parties on the postal market.

New entrants

A large number of consolidators are present. One competitor is active in delivery and has a geographic coverage of over 90%. It does not deliver with a daily frequency, however.

Substitution

The precise impact on each mail sub-segment is not known as no studies have been conducted.²⁰ Nevertheless, for several sub-segments, a negative impact of electronic substitution is likely. These segments are B2B, mostly in billing, mail from public authorities, and C2C mail. Direct mail, as well as, catalogues, is not likely to feel an impact of substitution.

Buyers

The top 500 buyers constitute approximately 50% of the turnover of La Poste. Those buyers are predominantly interested in delays, costs, and quality. At the moment, competitors are not able to offer services that are comparable to those of La Poste in addressed non-advertising mail. If the market is fully liberalised, a choice may exist for these buyers.

Short analysis of contestability/attractiveness of market segments in the mail market (if different from general analysis), in relation to the market size of the postal sector and country information

France is a large country with a substantial mail volume per capita. Around 25% of the population lives in rural areas that are often sparsely populated and include hills and mountainous territory.

Mail volumes for administrative mail and consumer mail are expected to decline the coming years, whereas for addressed advertising mail a further rise in mail volumes are foreseen. For administrative mail, the mail volume goes down because of *rationalisation* (for instance through less frequent mailings, putting two bills in one envelop, ensuring that close to 35 gram of mail is put in an envelop for that weight category) and because of *substitution* (electronic billing in the B2B area, internet for consumer mail). For 2007, La Poste estimates that the total mail volume for addressed mail will be 10% lower than in 2003.

The development of mail volumes for unaddressed advertising mail is unclear. First, not everyone likes to receive this type of mail. At the moment, 10-15% of the households have stickers on their letter boxes saying that they do not want to receive this type of mail. Further, there is a new tax of 15 euro per 1,000 items to discourage (over)production and the internet is challenging this market segment.

A very attractive market segment to enter after liberalisation is the delivery of addressed bulk mail, constituting the largest part of the business mail segment that constitutes 85% of the total mail stream in France. Consumer mail does not seem to be of particular commercial interest.

²⁰ La Poste has investigated the impact of the use of the 'Carte Vitale' (in medical care) on the number of items correspondence in last years. La Poste estimates that the use of the 'Carte Vitale' reduces its turnover by about 200 million euro in 2004 while in 2000 the loss was 20 million and in 2002 120 million euro. Source: Les comptes de la Gestion de la Poste (1991-2002), by Cour des Comptes, October 2003.

1.1.3 The national postal operator: facts, figures, strategy

Facts and figures for the national postal operator and the strategy of the national postal operator (both nationally and internationally)

La Poste is corporatised since 1991, with 100% of the shares belonging to the French State. From 2003-2008, the delivery of mail will be reorganised, including a substantial reduction in the number of jobs (through retirements - many of the employees are relatively old - and voluntary leave). The aim is to rationalise the production process and to reduce average costs per mail item processed. On the other hand, an agreement has been signed recently giving all part time employees of La Poste the right to change their contract to full time. After losses in 2001 and 2002, La Poste managed to make a small profit in 2003 and 2004.

The prime ambition of La Poste in its mail business is to reorganise the production process and to consolidate on the domestic market. Expansion of its activities in other EU countries (La Poste has a number of business alliances and majority as well as minority positions in various subsidiaries, amongst others in the US and the UK), is of secondary importance but should not be excluded. In parcel distribution La Poste already established a European network via DPD.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

The main competitor of La Poste and its daughter company Media Post in the unaddressed mail, catalogues, magazines and newspaper segments is ADREXO, part of SPIR.²¹ Apart from these two key players, also a number of local companies are active in this market segment, but their number is decreasing.²² The largest operator active is Kicible. Two years ago, La Poste bought the third biggest company (after La Poste Group and ADREXO) *Delta diffusion* and merged this company together with her activities on this market segment into Media Post.

Kicible is part of S3G, the largest publisher of un-addressed advertising mail in France. S3G issues around 40 titles or equivalently 25 millions items each week. Kicible is active in delivery of mainly un-addressed items, as published by S3G, but also delivers un-addressed mail for other publishers. In addition, Kicible is active in the delivery of domestic items of correspondence (>100 g) and in the distribution of mail between companies active in liberal professions. Kicible is particularly active in the South of France and covers 20 departments, reaching around 2.5 million letterboxes. Its 1,500 deliverers distribute around 500 millions items of un-addressed mail.

²¹ Amongst others, SPIR publishes different newspapers and magazines and has five printing plants. The activities of SPIR are mainly concentrated in France, but also comprise publishing and delivery activities in countries like Belgium, the Netherlands, Switzerland and the UK (in particular real estate magazines/newspapers).

²² Local companies are in particular active on the B2B area, such as handling the mail exchange between medical doctors, or for certain clubs or sectors.

ADREXO focuses on the last mile delivery and has an almost complete territorial coverage with delivery to around 23.5 million from the in total 25 million letterboxes in France. Corsica is not covered by ADREXO's delivery network. ADREXO has around 26,000 employees and an annual turnover of circa 200 million euro. Delivery takes place at least three times per week in urban areas and one to two times per week in rural areas. Customers bring their mail to one of the distribution centres of ADREXO. There are 220 distribution centres at the moment with the aim to increase this number to 300 in the coming years. It is the ambition of ADREXO to become the first private postal operator in addressed mail in France and to compete with La Poste.

ADREXO was established in the early 1970s as a distribution company specialised in free weekly press and magazines around Aix-en-Provence. At first, only the magazines of SPIR were distributed. Later on, also the distribution of magazines of other publishers was taken care of by ADREXO – at the moment ADREXO covers around 175 titles. Further, unaddressed mail, catalogues and small parcels were added to the product portfolio. ADREXO has established itself successfully in a number of niche markets and developed a particular edge in the delivery of heavy documents. All distributors have their own cars and can take 400 kg on each delivery round. For example, ADREXO is one of the three distributors of the *Yellow Pages*, with a 30-40% market share for this particular product, and has a strong position in the delivery of certain small parcels (free gifts to consumers as part of the direct marketing of companies).

ADREXO wants to enter into delivery of addressed bulk mail in the business to business and business to consumer areas as soon as the market is liberalised. They have not an interest to start delivering consumer mail (C2B and C2C). Their strategy is to maintain their focus on the last mile delivery and to cooperate with (pre-sorting) consolidators and transport companies. ADREXO has no links with foreign postal operators but might consider the development of business relationships with foreign companies, for example on the delivery of advertising mail. Liberalisation of the addressed mail market above 50 gram increases the market open to competition only to a limited extent (e.g. ADREXO sees some potential for acquiring part of the delivery of small catalogues of between 50 and 100 gram).

The main impediment to the development of competition in France is according to ADREXO the current lack of clear regulation (also related to the late implementation of the above mentioned EC directives) and the risk of remaining unclearness or unsound regulation. No sound company can make investment decisions on the type of investments needed for preparing for bulk mail delivery as long as the regulatory environment is unclear (for instance the requirements to obtain a licence are not yet determined). A further challenge to enter the (bulk mail) market is the reluctance experienced so far of French customers to change from La Poste to other distributors. On the other hand, some large customers, like banks, may be prepared to help alternative operators invest into developing their capacity to handle addressed bulk mail and to target the services to the needs of these large customers. Other impediments to the development of competition, such as the current monopoly of La Poste to deliver registered mail, access to information on the link between exact addresses and postal codes and access to apartment buildings with security systems, are expected to be tackled in the new postal law.

La Poste is handling around 50% of the delivery of daily newspapers (in particular national newspapers and in delivery in the country side) and close to 100% of the non-daily newspapers. Regional newspapers in Western, Northern and Eastern France usually have their own delivery network. La Poste is compensated by the French state for press distribution in remote areas.

In the upstream market, and this is rather specific to France, various mail houses and mail consolidators are active. The main activities are to collect, pre-sort and to consolidate various mail streams and to hand over this mail to La Poste for the final delivery. This part of the value chain has been open to competition for many years. La Poste assesses, that this type of activities will continue to be important for the mail market and for La Poste itself. Recently, Deutsche Post took over the pre-sorting company Koba. In a press release, Deutsche Post announced that this take over should not be regarded (by La Poste) as an aggressive move, and that there was no intention to enter into last mile delivery. A number of consolidators are in the hands of La Poste, and a (larger) number is independent of the USP. The estimated market size in 1998 was around € 1 bln. At that time the 22 largest consolidators had a combined market share of about 55%. As of 1990, technical contracts have been used between La Poste and the consolidators where work is handled in 1,000s. These contracts are not available to all consolidators. A certain minimum volume has to be guaranteed. Datapost, Mikros (merged into Aspheria) and Dynapost are subsidiaries of La Poste.

The express mail market in France is competitive, with the main international companies present in France. Also a lot of small companies engage in high speed delivery of mail, in particular in a number of cities. The subsidiary of La Poste, Chronopost, has around 25% market share. In comparison to Germany, where there is a lot of road transport for express mail, in France there is a lot of overnight air transport.

La Poste handles the delivery of parcels, sent and received by consumers (C2C). On the B2C parcel market, La Poste, several mail order companies with their own delivery network (such as *La Redoute* and *Yves Rocher*), and ADREXO are active. La Poste considers the competition very strong on this segment.

Effect of competition on market structure and market performance (result indicators), including on US provision

The estimated market share of La Poste (for 2004) in the market for un-addressed advertising mail is around 53%. It has a similar market share in the delivery of newspapers and periodicals (47%).

La Poste's market share in the delivery of addressed advertising mail and domestic items of correspondence is close to 100% in 2004 and has not changed a lot in the last few years. In the distribution of outbound international mail, La Poste faces tough competition. However, information about volumes and market shares are unknown.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postal law	21 May 2005	
Law 99.533 (06-25-1999) Of Orientation For Installation & Durable Development Of The Territory	25 June 1999	
Law 90-568 Dated July 2 nd 1990, modified, Relative To The Organisation Of The P&T Public Service	2 July 1990	

Source: ECORYS questionnaire (2005), Postal legislation

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	France is expected to follow the time schedule of the EC on the gradual liberalisation of the mail market and will liberalise earlier
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	In French regulation, no distinction is made between addressed letter mail and addressed direct mail or addressed catalogues
Inbound cross border mail	No	
Outbound cross border mail	No	
Direct mail addressed	Yes, <100 gram No, >100 gram	
Periodicals / Magazines	No	
Newspapers	No	
Catalogues	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Not yet relevant for the postal market			

Source: ECORYS questionnaire (2005)

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	Unclear
	Access to sorting centres	There is negotiated access to sorting centres of La Poste (at national level, department level, and at postal code level)
	Access to delivery points	
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003	% distribution addressed
Domestic items of correspondence <50 gram	8,445	45.0%
Domestic items of correspondence 50-100 gram	641	3.4%
Domestic items of correspondence >100 gram	1,604	8.5%
Inbound cross border mail	370	2.0%
Outbound cross border mail	415	2.2%
Direct mail addressed (incl. catalogues)	4,400	23.4%
Periodicals / Magazines		
Newspapers	2,900	15.4%
Un-addressed mail (direct mail, weeklies)	19,000	
Total	37,775	100%

Source: ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2003
B2B	15%
B2C	70%
C2B	10%
C2C	5%
Total	100%

Note: information based on view La Poste

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

France	2004
Population (in million)	59.9 *
Size of the country (in 1000 of square km)	544 *
Population density in 2003 (number of inhabitants per square km)	110.1
Degree of urbanisation	76.3 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	4,119,983 (6.9%) ***
Number of addressed mail items per inhabitant	318

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

La Poste is a corporatised state enterprise.

Table 1.8 Government share in incumbent postal operator

	2005	Status
% Government share	100%	No change under consideration, rumours about privatisation

Source: ECORYS, TNT (2005)²³

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000	2004	%
	in millions of euros	in millions of euros	(2004)
Mail	9,903	10,873	58%
Express	2,247	2,387	13%
Parcels / Logistics	3,771	1,097	6%
Financial Services	98	28	23%
Other			
Total	16,020	18,677	100%

Source: Annual Report and Group results La Poste

Table 1.10 Overview international presence, alliances and partnerships

Country	Mail	Express	Parcel / Logistics
Austria			
Belgium		Chronopost International Belgium Jet Worldwide Belgique DPD Belgique	DPD Belgique
Cyprus			
Czech Republic		DPD	DPD
Denmark		Jet Worldwide	
Estonia			
Finland			
Germany		GeoPost DPD (various subsidiaries) Jet Worldwide Tat Express	GeoPost DPD (various subsidiaries) Denkhaus Versand Logistik Tat Express
Greece			
Hungary			
Ireland		GeoPost Interlink	GeoPost Interlink
Italy		Chronopost International Tat Express	
Latvia			

²³ TNT (2005), the international mailman: fact or fiction, presentation at the European Postal Services Conference, Rome.

Country	Mail	Express	Parcel / Logistics
Lithuania			
Luxembourg		DPD Luxembourg	DPD Luxembourg
Malta			
Netherlands	Insa BV (upstream) Sofipost	Chronopost International Nederland DPD Nederland	DPD Nederland
Poland		Masterlink	Masterlink
Portugal		Jet Worldwide Portugal	
Slovakia		DPD	DPD
Slovenia			
Spain		Tat Express Chronopost Expresse Espana	
Sweden			
UK		Interlink Express GeoPost	Interlink Express GeoPost Parceline DPD

Source Annual Report La Poste 2003 (main participations only).

Table 1.11 Postal network

La Poste	2003
Number of postal service points	17,000
Number of P.O. Boxes (2002)	100,000
Number of street letter boxes (2000)	134,500 (244 per 1000 km ²)
Number of delivery offices (2002)	4,750 *
Number of delivery points / addresses	26,000,000

Source: NERA (2004), WIK (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	2	La Poste, Adrexo (>100 g), Kicible
International mail	6	La Poste, DHL Global Mail, TNT, Spring, Swiss Post International (especially outbound international mail), IMX and small others
Addressed direct mail	2	La Poste, Adrexo (> 100 g), local operators (> 100 g)
Periodicals / Magazines	2	La Poste, Adrexo, Kicible
Newspapers	Several	La Poste, Adrexo, Regional publishers of newspapers in Western, Northern and Eastern France
Un-addressed mail	3 (many local)	Mediapost (La Poste), Adrexo, Kicible, local operators
Upstream mail services	Many	Mailing houses and consolidators (e.g. Dynapost and Maileva (La Poste), Koba (Deutsche Post) and many others

Source: ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Adrexo	Direct mail catalogues, magazines and newspapers, un-addressed mail,	7,010 m (volume) of which 25 addressed Circa 200 million euro	26,000	at least three times per week in urban areas, one to two times per week in rural areas	Complete territorial coverage (except Corsica), delivery to around 23.5 million from the in total 25 million letterboxes 220 distribution centres
Mediapost (76% La Poste)	Un-addressed mail	10,003 m (volume) 350 million euro	15,750 14,340 (deliverers)	Max 7 days a week	National coverage, 170 distribution centres
Kicible	Un-addressed mail	500 m (volume) estimate -	1,500	-	Active in 20 departements (2.7 million from the in total 25 million letterboxes, 38 distribution centres

Source: ECORYS questionnaire (2005), websites, interviews

Table 1.14 Market share of the incumbent operator

	2000	2004
Market share of USP (in terms of volume) in the delivery of domestic items of correspondence	100%	99.99%
Market share of USP (in terms of volume) in the delivery of magazines / periodicals and newspapers to letter boxes (estimate)	55%	47%
Market share of USP (in terms of volume) in the delivery of addressed direct mail	100%	99.8%
Market share of USP (in terms of volume) in the delivery of addressed mail		92-93% (incl. newspapers) >98% (excl. newspapers)
Market share of USP (in terms of volume) in the delivery of un-addressed mail	-	53%

Source: ECORYS calculations based on questionnaire (2005) and ECORYS volume data

Country information sheet: Germany

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The Postal Act (Postgesetz) of 22 December 1997 provides a comprehensive framework for the regulation of postal services in Germany. The postal act provides a definition of licensed services, the regulation of universal postal services and rates, provision about access regulation and the conditions for licences granted by the postal regulator, the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway (Bundesnetzagentur).²⁴

The universal services and the requirements that the universal service provider needs to meet are regulated in the Postal Act and in the Universal Postal Services Ordinance (PUDLV). The universal service comprises the conveyance of the standard postal products as described in the postal directive, namely ordinary, registered and insured domestic and cross border mail up to 2 kg and parcels up to 20 kg, but also the delivery of newspapers and periodicals. A minimum of 12,000 Deutsche Post fixed postal outlets, in which all universal postal services are offered, should be supplied; of which their own employees should staff at least 5,000 outlets.²⁵ In addition, at least one outlet should be established in municipalities with more than 2,000 inhabitants, while in municipalities with more than 4,000 inhabitants a postal outlet should be reached within a distance of 2 kilometres. In rural areas, at least one outlet should exist in each area of 80 square kilometres. With respect to the access to letterboxes, Deutsche Post needs to provide a sufficient number so that customers in urban areas do not need to travel more than 1 kilometre. In terms of quality, Deutsche Post needs to deliver at least 80% of the mail received overnight, and 95% one day later, and deliver six times a week.

In the regulation of postal markets in Germany, postal services are defined as the conveyance of items of correspondence and addressed direct mail as well as the conveyance of books, catalogues, newspapers and magazines in case they are conveyed by companies that are not active in the postal markets.²⁶ The conveyance of un-addressed

²⁴ Since 13 July 2005 the Regulierungsbehörde für Telekommunikation und Post (RegTP) has been renamed after the expansion of activities in the beginning of the year.

²⁵ In this country information sheets we will refer to Deutsche Post as the universal service provider. In the main text the name DPWN (Deutsche Post World Net) is employed.

²⁶ Of course, also the conveyance of parcels not weighing more than 20 kg are part of the universal service, though less relevant in this study.

postal items is not considered as a postal service. From the date of the enactment of the Postal Act, items of correspondence above 200 gram and addressed direct mail above 50 gram (in a quantity of over 50 items) were liberalised under the Postal Act. The conveyance of books, catalogues, newspapers and magazines is also open to competition. Currently, the reserved area is limited to the conveyance of domestic and inbound international items of correspondence up to 100 gram and addressed direct mail up to 50 gram (in a quantity of over 50 items) under the amended Postal Act.

Under the Postal Act, a licence is needed for the collection, transportation or distribution of domestic items of correspondence, addressed direct mail and incoming cross border mail weighing up to 1,000 gram Deutsche Post has an exclusive licence for the conveyance of domestic items of correspondence, addressed direct mail and addressed catalogues (the reserved area). Applicants receive a single overall licence but the Bundesnetzagentur has for administrative and statistical reasons introduced what are called sub-types of the licence (see table 1.3), which can be combined. The licensee can choose the combination freely. Apart from the conveyance of ordinary postal items outside the reserved area (licence A) and for the conveyance of ordinary postal items outside the reserved area (licence B), separate sub-types exist for document exchange (licence C) and for value added services that are distinct from universal services, comprising special features and are of a higher quality (licence D). Three other sub-types relate to access of the facilities of Deutsche Post. An applicant for a licence needs to prove that he is capable of providing an efficient and reliable postal service, has the profound knowledge to provide postal services and has to pay a small fee. Bundesnetzagentur has, at the end of 2004, issued in total 1,779 licences.

The German postal act offers opportunities for customers and competitors to get regulated downstream access to the facilities of Deutsche Post. Competitors, but especially large clients, hand over their mail to the outward and inward sorting centres of Deutsche Post for further despatch. In return for their work sharing activities, competitors and customers receive a regulated discount between 3 and 21% of the price, dependent on the point of entry and the extent of work carried out. Bundesnetzagentur determines the discount percentages. Deutsche Post refused to allow competitors to hand over postal products to them that fall under the reserved area. Regulated access to the P.O. Boxes of the incumbent and change of address information is also established in Germany. According to article 29 of the Postal Act, the incumbent postal operator is obliged to supply the competitors, upon request and against proper payment, access to its P.O. Boxes and to information on the change of address.

The Federal Ministry of Economics and Labour is responsible for postal sector policy in Germany. Bundesnetzagentur is the regulatory authority and responsible for the issuance of licences, supervision over the universal service obligation, rate approval, arbitration and determination on access conditions and rates and assessment of abuse of a dominant position.

Short description of relevant developments with regard to the regulatory framework

The legal and regulatory framework for the postal sector has been, and still is for some major issues, faced with problems in the development of competition as elaborated hereafter. This has led to numerous disputes.

Access to sorting and distribution facilities

In the Postal Act (see § 28 Postgesetz), in principle, options are given for a general mail consolidation (i.e. downstream access) to the sorting centres of the incumbent postal service provider Deutsche Post, but in practice, the options for customers were not given to competitors of Deutsche Post. From the wording of the Postal Act, it is not clearly stated whether or not competitors of the incumbent have the right to consolidate mail items from different senders weighing less than the weight and price limits described in the exclusive licence of Deutsche Post. Moreover, it is also not clear whether they can ask for rebates for pre-sorting when bringing the mail to the sorting centres of Deutsche Post. The European Commission had, in its decision from 20 October 2004, decided that Germany, by extending the exclusive rights of Deutsche Post to the collection of mail and mail preparation services, had not transposed the postal directives properly into national law. Moreover, the Federal Cartel Office (Bundeskartellamt), in its decision of 11 February 2005 ordered Deutsche Post to stop discriminating its competitors as regards consolidation of mail and denying rebates for work sharing, thus providing full network access for them. Both the German government and Deutsche Post refused to accept the respective decisions and went to the law courts. The litigation is still pending. Furthermore, the Federal States Council (Bundesrat) has presented a draft amendment to the Postal Act on 18 February 2005, aiming at the abolition of the current restrictions for consolidators. The Council was however overruled by the Parliament (Bundestag). In the past few years, the Ruling Chamber of the Bundesnetzagentur responsible for postal issues has also dealt with numerous cases about the practical implementation of the access conditions, determining rates and discount rates, setting cost allocation methods and dealing with potential anticompetitive behaviour of Deutsche Post via access agreements.

Access to P.O. Boxes

In the past, the abovementioned Ruling Chamber of Bundesnetzagentur received complaints from competitors claiming that Deutsche Post AG denied access to its P.O. Box facilities. After having decided on the conditions and the procedure of access and after having received an affirmative decision by the administrative law court, Deutsche Post was ordered to grant access to its P.O. Box facilities. Apart from access as such, the access charge was a core element of dispute. As Deutsche Post and its competitors could not agree on the charges payable, the Ruling Chamber had to set the prices, which reflect the efficient operator costs.

Change of address information

The Postal Act (article 29) obliges the incumbent to supply the competitors upon request and against proper payment with the actual information on the change of addresses. Deutsche Post and its competitors could not agree on an access arrangement so that the details of access had to be decided by the Ruling Chamber upon request of the competitors. Hereby the ways of transmission of address data as well as the price charged

by the Deutsche Post were core elements of dispute. Deutsche Post denied access to its address management system emphasizing that there exists a danger that other postal operators could merchandize those data of address change to other companies. Due to this fear, Deutsche Post developed and implemented a new so-called “black box access variant” which provides the transmission of address change data in an encrypted form.

Redirection of mail

Deutsche Post and its competitors had a dispute about found and wrongly addressed letters, in particular about how to deal with them, and the charge for redirection. Postal items wrongly delivered by alternative postal operators and, after that, injected in the postal network of Deutsche Post were not redelivered by Deutsche Post or clients had to pay a penalty. Preliminary investigations were conducted based on section 32 of the German postal act and a proper solution finally was found.

Moreover, disputes about the scope of the reserved area, alleged violation of the reserved area and alleged excessive prices for letter mail have been dealt with abundantly at German law courts.

Short description of the postal sector policy

The German government aims at full liberalisation of addressed mail and regulated access to the facilities of the incumbent. The reduction of the weight/price limit according to directive 2002/39/EC (over 50 gram for single items of ordinary correspondence and pricing of 2.5-fold public tariff in first weight step of fastest standard category) at 01-01-2006 has been transposed into national law and is integrated in the current Postal Act. In addition, the Postal Act has fixed the expiry date of the existing exclusive licence for Deutsche Post on 31-12-2007. Regulation of pricing and of downstream access to the facilities of the dominant postal operator Deutsche Post will continue after full liberalisation.

The scope of the universal service is according to the Bundesnetzagentur under discussion and it is quite not clear whether it will remain unchanged after full liberalisation. Under the current regime, the universal service obligation will apply, after full liberalisation of the German postal market, to all postal operators. In the case of market failure, Bundesnetzagentur has the option to tender for the universal service provision. In practice, however, Deutsche Post will be, at least for a while, the only postal operator capable of providing the universal service on a nationwide basis. In theory, a postal operator can be compensated for fulfilling a universal service obligation in case it has been proven that this obligation is a burden. In that case, the Postal Act allows for the establishment of a universal service fund.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

New entrants

In the German postal market, a considerable number of postal operators have entered since 1998. The majority of the activities of the licensed operators are value added services (licence D) offering a more swift or advanced service compared to the standard (universal) service of Deutsche Post. However, postal operators also supply the delivery of items of correspondence and addressed direct mail as far as this is compatible with the exclusive licence for Deutsche Post. Several operators make use of the opportunity to hand over their collected and pre-sorted mail to Deutsche Post for further despatch. Although entry has occurred substantially since 1998, most postal operators are active at a local level, but there is a clear tendency to strive for interconnected delivery networks. At the end of 2004, 1,779 licensees were granted a licence of which 1,116 operators were active at that time.

Substitution

Total mail volumes in Germany still show some growth, although substitution of mail by alternative media limits growth of the volumes in transaction mail. Postal operators expect a decline of the total volume of transaction mail with around 2-3% a year the coming five years. The direct mail market is able to grow in the coming years given the fact that this segment is still underdeveloped (with other countries) and the economic circumstances in the last three to five years have prevented this market from growing. Overall, the total mail market in Germany will probably remain of the same size the coming years.

Buyers

The bargaining power of buyers of postal services (the suppliers of mail) is large in the main segments of the postal sector (B2X). Large customers such as banks, utilities and publishers possess buying power and demand value for money. Moreover, increased outsourcing by businesses of mail activities and the need for value added services are an important factor at work in Germany. Top 100 accounts have a considerable impact on total revenues, while the Top 600 is responsible for around 80% of total mail volume. New service providers are aiming at offering value added services attractive in terms of pricing and service levels especially to B2X mailers.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The German postal market is one of the largest mail markets in Europe together with France and the United Kingdom. The share of advertising mail is between 35 and 40% of total mail volume, leading to around 87 items of direct mail per capita a year. This implies, compared to neighbouring countries, that there is room for further growth of the market for advertising mail. According to Bundesnetzagentur, the 600 largest users of postal services in Germany are responsible for about 80% of total mail, of which the largest share still falls under the reserved area. The opportunities for competitors still are

large in the coming years, as liberalisation will open up opportunities to offer an alternative to Deutsche Post. The population density and the degree of urbanisation of Germany are relatively high, meaning that postal delivery can be done at relatively low costs per mail item. However, postal operators that focus on the Ruhrgebiet and the ten largest cities outside this area reach a large majority of the entire German population. Delivery in the remaining areas is a lot more difficult.

1.1.3 The universal postal operator: facts, figures, strategy

Deutsche Post AG is part of Deutsche Post World Net, considered as a global integrator in mail, express and logistics (see footnote two). DPWN realized a turnover of € 43.17 billion in 2004 with a 7.9% growth compared with the previous year. 48% of the turnover of Deutsche Post is earned abroad. The postal market in Germany has, according to Bundesnetzagentur, a turnover of about € 23 billion in 2004 of which 2/3 is already open to competition, mainly the Courier, Express and Parcel services (CEP market). Deutsche Post takes around two thirds of the large market for mail, courier, express and parcels services. In the provision of mail, in particular the licensed sector, Deutsche Post has a market share of 95%, in terms of turnover, out of a turnover of 10.1 billion euros.

Strategies of universal service provider

Deutsche Post World Net's (DPWN) corporate vision is "we aim to be the world's No. 1 logistics services provider". DPWN aims to be a one-stop provider, offering the full range of logistics services – from document transport to complete supply chain management – to its customers worldwide. DPWN also aims to be the global leader in setting standards for quality and customer satisfaction.

In all main business areas, DPWN has a global strategy with increasing investments in postal operations abroad. Less than 50% of the turnover is realised in Germany, while Europe accounts for some 25% of total turnover. DPWN has strong brand names in different markets and a broad customer base in especially the home market and the European market. Currently, DPWN is represented in over 220 countries and territories worldwide. Deutsche Post believes it can profit from the global tendencies of outsourcing and one-stop-shopping and responds to these developments by building up a network of accounts for top clients combining mail, express and logistics.

In its strategic plans, Deutsche Post stresses a number of developments. Deutsche Post concentrates on harmonizing their networks, products and quality standards under the Deutsche Post, DHL and Postbank brands. In the autumn of 2004, the new brand name DHL Global Mail replaced the existing brand names in express and logistics. Moreover, Deutsche Post is in the process of integration of its various networks to make them more modern, efficient and rapid. Deutsche Post tries to reach economies of scale due to a further standardisation of procedures and products. The compass of corporate restructuring forms the STAR program that clearly states the following aims: achievement of uniform branding, harmonisation of sales structures, standardisation of the product range and the optimisation of horizontal functions (such as IT).

In the mail business, Deutsche Post is systematically leveraging the opportunities available from increasing market liberalisation. Deutsche Post acquired postal operators in the USA, the UK, the Netherlands, France and Spain in 2004 and already positioned DPWN as a high-quality service provider in Europe's most important markets. In addition, Deutsche Post agreed cooperation with major national postal or express operators in the USA, Japan and Mexico. In October 2004, Deutsche Post began bundling the international mail services outside Germany under a new umbrella brand. Deutsche Post Global Mail has become DHL Global Mail because of the one-stop-shopping concept. DPWN also seriously examines opportunities to acquire equity interests in foreign postal enterprises. Any such investment, however, would have to fulfil three criteria: The target has to fit strategically in the group's portfolio, the regulatory environment must be transparent and acceptable and the deal has to pass a financial rate hurdle: a ROI of at least 12% - 15% within two to three years.

In the table below, the main elements of the strategy of DPWN in the area of mail in presented.

Deutsche Post World Net's mail strategy

	Protection of core business (Until 2004)	Regional and functional expansion (2004 – 2007)	Development of long term growth perspectives (Beyond 2007)
Cost control / flexibility	Continuous improvement mail concept 2000	Target: operating excellence Implementation of innovative work models	Adapt scope of services Check internal pricing mechanisms
Revenue protection / increase	Sales initiative direct marketing Sales initiative mail communication	Build up of solutions platforms for mail communication and direct marketing (incl. Value added services)	Development of new C2x and B2x business models in the (broader) communications market
Build-up / expansion of business	Promotion import / export Build up / consolidation domestic NL and UK	Expansion of European activities Build up of US business	Make use of international deregulation steps Develop solutions business

Source: Deutsche Post World Net

In the domestic postal market, Deutsche Post is cutting costs in their operations in order to face competition. In the last years, the company has laid off a large number of employees. In 1999, Deutsche Post employed in the licensed area more than 177,000 employees, while at the end of 2004 less than 153,000 employees are working.

Moreover, Deutsche Post uses the loopholes in the German Postal Act to shed up its core postal market. Deutsche Post engages in a tactic to withhold competition by legal action. These tactics involve suing competitors working with the D-licence for bypassing the exclusive licence, and by patenting many industrial processes that are used for mail processing, like reading the address of a letter. In addition, Deutsche Post has put a claim on many, approximately 700, brand names, including a lot of brand names containing

‘post’ and ‘mail’. Whether or not Deutsche Post will indeed obtain these patents and brand is unclear, as these patents and brands reservations currently are challenged at court. If Deutsche Post however managed to obtain these patents and brands, it will lead to a significant rise of the barriers to entry. Other anticompetitive tactics are the setting of technical standards for access of competitors, such as the size and format of letters.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

At end of 2004, Bundesnetzagentur counted 1,116 licensed active competitor postal operators within the licensed area of the conveyance of letter items with a weight of less than 1 kg. The competitors combined reached a turnover of 514.2 million euro in 2004, of which the D-licence is responsible for 253.1 million euro.

Although the number of licensed active postal operators in Germany seems very high, most postal operators are just small local companies that distribute mail in municipalities or a cluster of municipalities. Bundesnetzagentur has identified in its latest annual report that ten postal operators reach a turnover of more than ten million euros in 2004.

In the German postal markets, competition can be classified in a few types of entry. We discern the following categories:

- Local entrants active in express and courier services expanding into mail services;
- Local delivery organisations of un-addressed mail stepping into the addressed market;
- Regional press distributors expanding into mail services;
- Internal post operations of companies outsourced;
- Interconnected local postal operators.

A large number of entrants consist of local operators that are active in express and parcel delivery that also started to offer mail services at the local level since the end of the nineties. These operators are active in municipalities or a set of municipalities and normally deliver value added services (D licence). The core of the operations forms the handling of time sensitive mailing items to be delivered overnight with 100% certainty. Deutsche Post is not willing to offer this kind of service so that competition has its chance in the local market. The service offered by these entrants competes with express and courier services and is substitutable to some extent with this service.

Several entrants are active in the local delivery of un-addressed items and have started to offer addressed direct mail and to a lesser extent items of correspondence. These companies are mainly active in urbanised areas and already possess a freelance work force of deliverers that are paid flexible in line with the number of items delivered.

The German market of press publications is predominantly regional or local for newspapers and mostly regional for magazines. The vast majority of publishers of newspapers are based regionally or even locally and distribute their newspapers themselves, via a network of local or individual subcontractors. A number of newspaper

delivery organisations has started to provide distribution services for mail. The scope of the activities of these organisations varies, most starting from local operations but sometimes expanding into delivery operations at the level of a state (for example Süddeutsche Zeitung Logistik GmbH). Publishers of magazines mainly used the postal service of Deutsche Post to distribute their magazines in the past, but now gradually look at opportunities for alternative delivery.

Another example of entry is postal operators that have originated from internal postal organisations of large companies. The tendency to outsource non-core operations by companies created new operators that became active in the market, in the first place as document exchange service provider but also consolidators or even full-size providers. An example is Deutsche Brief Service GmbH (DBS), a company that was formerly part of Mannesmann / Vodafone group.

Another kind of service providers are the newcomers who started with virtually nothing but a minimum of equipment and a workforce that consisted of themselves and their family. Most of them were fleeing unemployment, and in some regions, especially in the eastern part of Germany, a clear correlation between density of licensees and the scale of unemployment can be stated. Many of these operators are still surviving in their geographic niches, thereby disproving the assumption that fringe regions under market conditions will not be served with proper postal services.²⁷

Finally, a new type of competition came up in the last few years. Large competitor postal operators cooperate with each other in the distribution of their mail in order to reach nationwide coverage and to have a more solid turnover base. Mainly regional newspaper delivery organisations started bundling their networks to reach a regional scope in order to be able to distribute also items of correspondence and mainly addressed direct mail. However, the current existing delivery networks of the newspaper delivery organisations do not (yet) provide a ubiquitous nationwide delivery network if they are linked together. A few other operators such as EP Europost, PIN AG and DBS try to buy small delivery organisations or contract these organisations as subcontractors to establish a more widespread network.

Competitors have chosen a different business model than the incumbent mainly trying to offer an alternative supply-chain to their corporate customers. With computer-generated mailings, the initial stages of collection and transport to sorting centres are no longer needed. Pre-sorting can be done in many ways fit to the demands of the customer, but providing opportunities for the operators as well to provide value added services or to offer cheaper services. Tailor-made solutions for corporate clients do not always require the massive technical infrastructure provided by the incumbent, while also some clients have their own service requirements sometimes choosing for less speed but cheaper prices of mail. Especially in such market segments competitors have proven to be successful.

The strategy of new entrants differs for the postal operators that are willing to become national operators. EP Europost uses a model in which it is the spider in the web of

²⁷ Courtesy of Bundesnetzagentur

contractors and subcontractors that coordinates mail streams and operations (such as IT, logistics and branding), while the publishers (so far at least) use a model of interconnection of the existing networks without a coordinator.

Little postal operators (especially the smaller operators) do make use of the opportunity to hand over their mail they cannot deliver themselves to Deutsche Post for further delivery. Important reasons are the limited possibilities to hand over postal products that fall under the reserved area and the high price (or low discount) that they have to pay to Deutsche Post for the low volumes they offer.

The following table provides an overview of the largest competitor postal operators in the German market.

Overview main competitors

Main competitors	Background	Main strategies
PIN AG - Berlin	Established in April 1999 in Berlin. Now subsidiary of Axel Springer Verlag, and Georg Holtzbrinck Verlag. Required 60% share in December 2004 with option to extend to 80% later on.	Focus on value added services with other service option than incumbent with currently 1,000 employees. Fast development from € 35.5 m up to € 50 m at the end of 2004. Investment € 10 m in near future to anticipate liberalisation.
EP Europost - Hannover	Subsidiary of Dutch TNT and Hermes Versand Service Established in 2000 and active since 2001	Targeting national volumes in B2C market with value added services for transaction mail and direct mail as well as economy mail. Focus on 4 th party Logistics through top down national network development approach using publishers and city couriers, use of parcel network Hermes Focus on VAT exempted clients
DBS Deutsche Brief Service GmbH - Düsseldorf	Internal postal company of Mannesmann, divested in 2000	Targeting national volumes in B2C market with value added services for transaction mail and direct mail
WPS Westdeutsche Allgemeine Zeitung GmbH – Essen	Subsidiary of Westdeutsche Allgemeine Zeitung.	Targets value added mail services through bottom up national network development approach using regional publishers. Challenge is coordination IT, logistic systems, support services, etc.
Suddeutsche Zeitung Logistik GmbH – Munchen	German publisher Suddeutscher Verlag, publisher German newspaper Suddeutsche Zeitung Start announced in January 2005	Has already started delivering letters in the Munich area. The company hopes to expand its service in the next year and will aim to gain more customers, notably companies and authorities, delivering their post at the same time as their subscription."
VKG Verlagvertriebs KG	Bauer, a large publishing company, own delivery organisation	Handles all domestic magazines of H. Bauer publishing group, active in magazines and direct mail deliver and catalogues, 33,000 deliverers, 140 million deliveries a year, 340

Main competitors	Background	Main strategies
West Mail (for example)	Joint venture in mail delivery by DuMont-Schauberg, Rheinische-Bergische Druckerei- und Verlagsgesellschaft and W. Girardet (three local newspaper publishers)	subcontractors, 38 depots, delivery two times a week (Wednesday and Friday), one third of the volumes consists of magazines of Bauer, 83% nationwide coverage, also deliver magazines of other publishers (Axel Springer, Burda, Egmont) Example of a joint venture between local newspaper publisher that recently has started its activities
Berliner Presse Vertrieb (for example)	Local operator of press distribution	Example of a local subcontractor Under assignment of the large publishing companies, this operator distributes magazines in the Berlin area

Note: please note that the overview of competitors is not exhaustive but mainly serves as an overview of the type of competitor postal operators that entered the market.

Effect of competition on market structure and market performance (result indicators), including on US provision

Total mail volume in the licensed area has increased in 2004 to around 17.3 billion items after a relative stable market volume of 16.6 billion in four preceding years according to the recent market overview by Bundesnetzagentur. The increase in volume can be attributed to a higher addressed direct mail items delivered in 2004. The rise in the number of items addressed is remarkable since the German economy still has not recovered in the last year. To our opinion, the development of competition in Germany partly explains market growth.

The overall postal market in Germany has, as said, a turnover of about € 23 billion in 2004, including courier, express and parcel services. The revenues in the licensed area (i.e. the conveyance of letter post items up to 1 kg) have a size of around € 10.1 billion. This is a growth of around 2% in 2004. Currently, according to estimations by Bundesnetzagentur, 67% of the German addressed mail market, in terms of turnover, is still reserved to Deutsche Post.

Employment in the German postal sector has grown in 2003 after years of decline in employment. Deutsche Post still reduces their number of employees but competitors in the licensed area have substantially increased employment opportunities by expanding their workforce from 23,727 in 2002 to 37,419 in 2003.

Deutsche Post delivered 16,419 million addressed postal items in the licensed area, while competitors delivered 773 million items, according to an overview by Bundesnetzagentur. These figures would imply that competitors in total have a market share of around 4.5%. In revenue terms, Deutsche Post has a market share of 94.9% in 2004 in the licensed area. Competitors steadily gain a higher market share combined. As 90% of the turnover of Deutsche Post is still part of the reserved area, the effects of competition on market

structure and market performance has still been limited until now. The effects will mainly show up with the full liberalisation of the German mail market in 2008.

The quality of service of the postal provision is rather good in terms of delivery speed. Deutsche Post outperforms the standards set regarding the delivery of mail items on the first or second day after collection. In 2004, 87.9% of the letters sent arrived one day later, while 99.5% arrived two days after collection.

The impact of full liberalisation on the position of Deutsche Post will depend on the future regulatory regime (entry and price regulation and the universal service requirements) since these instruments determine the commercial flexibility of the operator.

Competitors of Deutsche Post expect the market share of Deutsche Post to drop to roughly 65% in the long run after liberalisation, mainly consisting of the 'unsorted mail'. The other 35%, being high volume transaction mail and city mail, will be in the hands of competitors. Due to the need for national coverage and the current limits on the number of distribution networks, competition on national level is expected to be limited to 2 or 3 competitors for Deutsche Post covering the whole of Germany, according to all parties interviewed.

Bundesnetzagentur concludes that there is a rationale for regulated upstream and / or downstream access in the future. The main arguments used are that access is needed, because otherwise the application of the essential facilities doctrine (as a general rule providing for access to bottle-neck resources) to the postal sector is not assured. The delivery network of Deutsche Post is and will be regarded as a bottleneck facility. A second argument is that new market entrants must be sure that they can rely on the incumbent as "provider of last resort" for being able to offer "one-stop-shopping" services.

The operational margin on mail provision will decline in the coming years. Although profitability of the mail division of Deutsche Post has lowered a bit in the last years, competition will put a downward pressure on the current margin of 15-20% of Deutsche Post.

The scope of the universal service needs to be adjusted in the future according to Deutsche Post and a few competitors. The current standard of overnight delivery is applies to a large majority of all letter mail, while this is not strictly necessary for mail that can be labelled as second-class mail. Moreover, the level of competition in overnight delivery is existent in Germany (D-licence).

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postal Law (Postgesetz)	1 January 1998	<ul style="list-style-type: none"> • First amendment of the Postal Act of 7 September 2001 • Second amendment of the Postal Act of 7 February 2002 • Third act amendment of 1 January 2003
Universal Postal Service Ordinance (PUDLV)	1 January 1998	Amendment 22 August 2001 Regulation of basic postal service requirements
Postal Service Pricing Ordinance	23 November 1999	Regulation for setting the prices of universal postal services
Postal Services Licensing Fees Ordinance	1 January 1998	Regulation for setting fees for postal services licences
Postal Services Data Protection Ordinance	2 July 2002	Regulation for setting rules for data protection in connection with postal services

Source: WIK (2004), website and information provided by Bundesnetzagentur

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	Until 31 December 2005
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Liberalised > 100 gram
Outbound cross border mail	No	
Direct mail addressed (incl. catalogues)	No	For item > 50 gram at a minimum size of 50 copies
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (December 2004)
A licence	> 100 gram or three times the basic price	General conditions: a licensee needs to prove that he is capable of providing an efficient and reliable postal service, has the specialised knowledge to provide postal services	1,213
B licence	Letters with same content > 50 gram and > 50 items		1,199
C licence	Document exchange	Licence fee: a licensee has to pay a small fee	816
D licence	High qualitative and value added services		1,419
E licence	Delivery to DP AG access points		1,512
F licence	Collection at P.O. Box premises DP AG		1,446
G licence	Outgoing cross border		240
H licence	Incoming cross border		230

Note: the number of licences approved is sometimes higher than the number of licensees currently active. Several licences have already been withdrawn but we do not possess information about the actual number of licensees active per licence type.

Source: Website NRA Germany, Postal Act, Annual Report RegTP 2003, information Deutsche Post

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	Yes (Art 29)
	Access to sorting centres	Yes (Art 28)
	Access to delivery points	No
Upstream access	Access to street letter boxes	Yes (Art 29)

Source: ECORYS questionnaire (2005), Postal Act

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2004	% Distribution addressed
Domestic items of correspondence <50 gram	7,622	38.7%
Domestic items of correspondence 50-100 gram		
Domestic items of correspondence >100 gram	1,788	9.1%
Inbound cross border mail	500	2.5%
Outbound cross border mail	400	2.0%
Direct mail addressed (incl. catalogues)	7,201	36.5%
Periodicals / Magazines	2,230 ¹	11.3%
Newspapers		
Un-addressed mail (direct mail, weeklies)	15,600	
Total	35,341	100%

Note: the figures are estimations by ECORYS as the division in postal products used does not match current data collection methods in Germany. Therefore, the figures need to be interpreted carefully.

¹ USP only, no separate information about the number of periodicals, magazines and newspapers delivered by companies not engaged in postal operations

Source: calculations based on ECORYS questionnaire (2005), Annual Report RegTP 2003, Fedma (2003)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2004
B2B and B2C	85%
C2B and C2C	15%
Total	100%

Note: USP only, excl. advertising mail and magazines

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Germany	2004
Population (in million)	82.5 *
Size of the country (in 1000 of square km)	357.0 *
Population density (number of inhabitants per km ²)	231.1
Degree of urbanisation	88.1 **
Number (and percentage) of inhabitants 5 largest cities (2005)	7,995,198 (6.7%) ***
Number of addressed mail items per inhabitant	239

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005
% Government share/owner Ministry of Industry	44.7%

Note: the German government directly owns 7%, 37% indirectly owned via government development bank (KfW). In June 2005, KfW sold over 10% of Deutsche Post shares to the public.

Source: Annual Report Deutsche Post 2004, ECORYS questionnaire (2005), press release Deutsche Post (2005), information provided by Bundesnetzagentur

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000 in millions of euros	2004 in million of euros	% (2004)
Mail	11,733	12,747	28.5%
Express	6,022	17,792	39.8%
Logistics	8,289	6,786	15.2%
Other	7,990	7,349	16.5%
Total	34,034	44,674	100%

Note: please note that over time, the business division have changed and DHL is consolidated in the Deutsche Post figures.

Source: Annual Reports Deutsche Post, ECORYS questionnaire (2005)

Table 1.10 Overview acquisitions, alliances and partnerships

Country	Mail	Express	Logistics
Austria			
Belgium			
Cyprus			
Czech Republic			
Denmark			
Estonia			
France	KOBA ('04)	Ducros ('99)	
Germany	McPaper AG ('98)	Trans-o-flex ('00)	
Greece			
Hungary			
Ireland			
Italy		MIT, San Giuliano Milanese ('99), Casa die Spedizioni di Ascoli ('03)	
Latvia			
Lithuania			
Luxembourg			
Malta			
Netherlands	Interlanden ('03, '04)	Van Gend & Loos ('99) Selektvracht ('99)	Nedlloyd ('99)
Poland			
Portugal			

Country	Mail	Express	Logistics
Slovakia			
Slovenia			
Spain	Unipost ('04)	Guipuzcoana ('99, '03, '04) Narrondo Dessarrollo ('02)	
Sweden			ASG ('99)
UK	Speedmail ('04)	Securicor ('99, '03)	

Note: main participations only

Source: Annual Report Deutsche Post 2004

Table 1.11 Postal network

Deutsche Post	2004
Number of postal service points	13,019
Number of P.O. Boxes	977,000
Number of delivery offices	108,000
Number of delivery points / addresses	39.7 million

Source: information provided by Bundesnetzagentur

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	999 (licensed in 2003)	See overview of register Bundesnetzagentur at their website
International mail	263 (licensed in 2003)	
Addressed direct mail	250 (licensed in 2003)	
Periodicals / Magazines	n.a.	
Newspapers		
Un-addressed mail	Numerous	-
Upstream mail services	Various	-

Source: ECORYS questionnaire (2005)

Table 1.13 Main competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
PIN AG - Berlin	Letter mail, bulk mail, parcel mail, international mail	500,000 / day Turnover 35.5 million euro (2004)	1,000	Daily	East-Germany, and Köln: in development, (Frankfurt – coming)
EP Europost - Hannover	Bulk mail >100,000 items <500g Mail >500 items <50g Direct mail and catalogues 50-1000 g >10,000 items	Volume and turnover figures not presented, Turnover has doubled in last three years	-	Two or three times a week, day-definite delivery according to customer needs	Claim 70% coverage
VKG Verlagvertriebs KG - Hamburg	Magazines and direct mail delivery and catalogues, delivery	140 million deliveries a year	33,000 deliverers via subcontractors	Two times a week (Wednesday and Friday),	83% nationwide 340 subcontractors, 38 depots, 100% nationwide
MDM modern direct mailing Kirchheim/Teck	Magazines, catalogues and direct mail delivery	50 million deliveries a year, turnover 27 million	10,500 delivers	-	100% nationwide
WPS Westdeutsche Allgemeine Zeitung GmbH – Essen	Letter mail -> up to 1000 g	50,000 items / weekly	About 800	5	Part of Ruhrgebiet (Duisburg-Gelsenkirchen-Dortmund)
DPD Deutscher Paketdienst Aschaffenburg	Letters and parcel mail (standard and express)	Volume and turnover figures for Germany not presented separately	-	Daily	100% nationwide, 470 depots
PrimeMail – Hamburg (joint venture Hermes and Swiss Post)	Items of correspondence, direct mail and catalogues	Turnover 10.4 million euro (2004)	10,000 delivers	Daily	100% nationwide, 63 depots
Blitzlogistik (example of a regional player)	Letter mail up to 1,000 g collection-sorting-delivery	30,000 items/day	400	“Daily”	Approx. Rhineland-Westphalia

Source: ECORYS questionnaire (2005), company websites, information provided by Bundesnetzagentur

Table 1.14 Market share of the incumbent operator

	2000	2003
Market share of USP (in terms of volume) in the delivery of addressed direct mail (estimate)	-	94%
Market share of USP (in terms of volume) in the delivery of addressed mail	98%	96%

Source: ECORYS questionnaire (2005), Annual Report RegTP 2003, calculation based on volume data

Country information sheet: Greece

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

The postal sector is regulated in the Greek Postal Act, Law 3185/2003, amending Law 2668/1998.²⁸ Market opening in Greece follows the EU directives. At the moment items of ordinary correspondence with a weight limit above 100 gram and a pricing of three times the public tariff in the first weight step of the fastest standard category are liberalised, as is direct mail (above 100 gram for a single item), and incoming cross border mail (above 100 gram for a single item). The delivery of addressed bulk mail is not liberalised. Outbound cross border mail is also not liberalised. The delivery of periodicals and magazines is open to competition as well as the delivery of subscribed newspapers.

The universal service comprises the delivery of letters up to 2 kg and parcels up to 20 kg. The universal service provider is, amongst others, required to make at least five days per week one collection and one home delivery for every user of postal services. The Ministerial Decision 79293/2000 specifies, *inter alia*, the performance standards for delivery within one and three days of posting (D+1 and D+3) for First Priority Domestic mail and First Priority International mail. The quality specifications (delivery performance standards for domestic mail) on the basis of which the universal service is to be provided within the Greek territory, have been set for 2002 at 77% (for delivery within one day of posting) and at 90% (for delivery within three days of posting) for First Priority Domestic mail.

All postal operators in Greece are required to file a notification of their operations with the national regulatory authority of Greece, the Hellenic Telecommunications & Post Commission (EETT). Notification is required for all companies that operate commercial conveyance of letters and other addressed consignments. For courier services a general authorisation is obtained through notification. For other postal services that belong to the liberalised area, an individual licence is required. The reason behind the difference for both kinds of services is that courier services concern postal items of a special urgent

²⁸ As there is not an English translation of the Postal Act, the exact content of the Postal Act was not available during the project. Greek content (probably) available at <http://www.yme.gr/viewpage.php?section=438&sessdata=19935d3660b179854fa4f3f6c345bbab#1>

transportation, have particular handling, postal item routing and delivery time characteristics.²⁹

The Ministry of Transportations and Communications is responsible for postal sector policy in Greece. The regulator EETT supervises and regulates the postal services market. EETT's purpose is to promote the development of the postal sector, to ensure the proper operation of the relevant market in the context of sound competition and to provide protection of the interests of the end-users.

Short description of relevant developments with regard to the regulatory framework

The postal regulator has dealt with disputes regarding:

- Alleged unlawful distribution of mail by a competitor in the reserved area. The case concerned unlawful collection of postal items mainly in the reserved area by two global operators. In both cases, the dispute concerned re-mailing practices;
- Illegal operation of courier companies, without the necessary general authorisation for the provision of postal services, issued by EETT.

The USP decided to reclassify certain direct marketing activities as personal mail, which led to extremely high tariffs, according to Fedma. The Greek regulator criticised Hellenic Post for this activities and has imposed sanctions, which until now the USP has not acknowledged.

Short description of the postal sector policy

The Ministry of Transportations and Communications has not yet announced its intentions concerning further liberalisation of the postal market. According to the regulator, the preferable scenario for the period after 2009 is liberalisation of the delivery of addressed mail and regulated access to the facilities of the incumbent. The main reason given for a gradual liberalisation of the postal market in Greece, are the specific geographic conditions prevailing in Greece with a large number of islands and remote villages in mountainous areas.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

Government regulation

The Greek postal market is to a large extent reserved to Hellenic Post and will, after 1 January 2006 be reduced to 50 gram. Because of the specific geographical conditions of Greece with many island, the universal postal services need more attention in Greece than in other countries.

²⁹ Website EETT

New entrants

At the end of 2004, nearly 300 postal service operators were registered by EETT. These operators are all active in express and courier services. For the distribution of ‘regular’ addressed mail, only a few licences have been requested and handed out. However, quite some courier companies with general licences also –illegally- handle mail items that require an individual licence.³⁰ Hellenic Post estimates that in total 10% of the market has been captured by competitors.

Substitution

Substitution is expected to have a (further) negative impact on mail volumes. An estimate of the size of the impact could however not be given.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

One of the most important characteristics influencing the Greek postal market is the geography of the country. Due to the many islands and the low degree of urbanisation the average cost of collection and delivery is relatively high. In addition, both the total and the per capita mail volumes are relatively low. The share of direct mail in the total mail volume is around 6%, a figure that is very far below the European average. Due to the high costs of postal delivery a large increase in direct mail volumes is not very likely, with the possible exception of Athens and some urban areas.

Because of the severe cost heterogeneities in delivery, competition in a liberalised market is most likely to take off in Athens and other urban areas, severely reducing the possibility of the USP to cross-subsidise its activities in the remote, more costly, areas. The current costs and profits of the national postal operator for the various types of regions are given in the following table.

Costs and benefits of providing universal services of ELTA per type of region (millions of euros)

Type	Revenues	Costs
Urban area	86	56
Semi-urban area	23	36.5
Remote area	12.5	28.5

Source: Annual report EETT

Under the current circumstances with a low level of competition, ELTA manages to cover the costs of the universal service obligations in rural areas with the profits from the urban areas.

³⁰ This has been mentioned both by Hellenic Post -ELTA and KEPKA, the Consumers’ Protection Center of Greece.

1.1.3 Facts and figures for the national postal operator and the strategy of the national postal operator

The Greek national postal operator Hellenic Post (ELTA) has experienced growth in mail turnover over the last four years from 283 million euro to 447 million euro. Growth in turnover has especially been strong in the non-priority segment. Growth in the segment of advertising mail, both addressed and un-addressed has been modest over the same period, while distribution of newspapers and periodicals has remained relatively stable. ELTA has been losing market share in the international mail market due to the operations of international postal operators. The loss is noticeable in both inbound and outbound ordinary letter mail and value added services such as express mail.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

In the distribution of regular addressed mail, there are no competitors. The only competitors of ELTA are active in courier and express services.

Effect of competition on market structure and market performance (result indicators), including on US provision

Given the fact that the NRA has given only two special licences, official competition is minimal. However, in practical terms, most of the generally licensed companies have developed activities within the domain of the universal service. In the outbound cross border mail area, three global operators seem to be active without having a licence for this purpose.

Hellenic Post – ELTA expects in the case of liberalisation of the postal market to lose over 25% of its market share in addressed items of correspondence and addressed advertising mail. For incoming cross border mail, the expected decline of the market share is 5 to 10%. One large corporate customer expects that a further liberalisation of the postal market will result in better services at reduced costs. With this in mind, this customer is in favour of a fully liberalised postal market, enabling him to choose between different postal operators.

The quality of service of ELTA stays behind the quality targets set under the Ministerial decision. The latest available results of the measurements conducted for the first and second semester of 2002 shows a figure of 47% for D+1 and 90% for D+3.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postal Law (Law 3185/2003, Amending Law 2668/1998)	26 Sept. 2003	-
Regulations of General Authorisations for the provision of postal services (EETT Decision - Official Gazette 1682/B/2003)	14 Nov. 2003	
Regulations of Individual Licences for the provision of postal services (EETT Decision - Official Gazette 1906/B/2003)	22 Dec. 2003	
Determination of the quality specifications and terms of provision of the Universal Postal Service (Ministerial Decision - Official Gazette 1588/B/2000)	29 Dec. 2000	
Determination of cases in which a lump – sum compensation is imposed for deficient provision of postal services (Ministerial Decision - Official Gazette 683/B/2000)	2 Jun 2000	
Establishment of recognition distinctive mark for the postal enterprises entered in the EETT relevant Register (EETT Decision)	-	
Regulations on objective costing procedures for the Universal Service Provider (EETT Decision - Official Gazette 1993/B/2003)	31 Dec. 2003	
Regulations on EETT auditing procedures concerning postal services and determination of the type and procedure of investigations or other auditing acts to which EETT proceeds in order to ascertain violations of the Postal Law 2668/1998 (Ministerial Decision - Official Gazette 970/B/2004)	2004	
Regulations on EETT auditing procedures concerning the examination of postal services users complaints and settlement of disputes arising between the Public Sector and postal enterprises, between postal enterprises, as well as, between postal enterprises and postal services users (Ministerial Decision - Official Gazette 1083/B/2004)	2004	
Regulations concerning the audit and the auditing procedure to ensure the exclusive rights of Universal Service Provider (Ministerial Decision - Official Gazette 1186/B/2004)	2004	
Determination of the requirements for the submission, acceptance, modification, renewal and revocation of Statement for the provision of postal services under General Authorisation (Ministerial Decision - Official Gazette 437/B/1999)	1999	
Modification of Ministerial Decision N. 79293 of 11 December 2000 (as above under 3) concerning the determination of the quality specifications and terms of provision of the Universal Postal Service (Ministerial Decision - Official Gazette 107/B/2005)	2005	

Source: ECORYS questionnaire (2005), WIK (2004), legal documents

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Above 100 gram liberalized
Outbound cross border mail	Yes	
Direct mail addressed (incl. catalogues)	Yes	Above 100 gram liberalized
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been issued? (2005)
General Authorisation Individual Licence	Courier services Postal items weighing from 100 gram to 2 kg. Newspapers, books, catalogues and magazines, weighing up to 2 kg.		295 6

Source: ECORYS questionnaire (2005), EETE website

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram	342.1	42.2%
Domestic items of correspondence 50-100 gram	43.3	5.3%
Domestic items of correspondence >100 gram	7.9	1.0%
Inbound cross border mail	40.6 ¹	5.0%
Outbound cross border mail	47.6 ¹	5.9%
Direct mail addressed (incl. catalogues)	74.8 ¹	9.2%
Periodicals / Magazines	84.0	10.4%
Newspapers	170.0	21.0%
Un-addressed mail (direct mail, weeklies)	-	
Total	810.3	100%

Note: split in domestic items of correspondence calculated by ECORYS

¹ USP only

Source: ECORYS questionnaires (2005), Fedma (2004), UPU (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2003
B2B	n.a.
B2C	n.a.
C2B	n.a.
C2C	n.a.
Total	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Greece	2004
Population (in million)	11.0 *
Size of the country (in 1000 of square km)	131.6 *
Population density (number of inhabitants per square km)	83.6
Degree of urbanisation	60.8 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	1,556,880 (14.2%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	58

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	Status
% Government share	100%	-

Source: Annual reports ELTA, ECORYS questionnaire (2005)

Table 1.9 Division of turnover of the national postal operator per business area

Business areas	2000 in millions of euros	2004 in millions of euros	% (2004)
Mail	270	393	88%
Express	13	21	5%
Logistics	-	-	-
Other	-	33	7%
Total	283	447	100%

Source: ECORYS questionnaire (2005), Annual Reports Hellenic Post – ELTA

Table 1.10 Overview of joint ventures (JV), alliances (A) and cooperation agreements (C)

Country	Mail	Express	Logistics
None			

Source: Annual Reports Hellenic Post - Elta

Table 1.11 Postal network

Hellenic Post - Elta	2004
Number of postal service points (2003)	219
Number of P.O. Boxes (2002)	12,363
Number of street letter boxes	-
Number of delivery offices (2002)	865
Number of delivery points / addresses	-

Source: NERA (2004), Annual Reports Hellenic Post – Elta

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of postal operators
Domestic items of correspondence	2	ACS S.A., Delta Post S.A
International mail	4	Only outbound: DHL Global Mail, UPS, FedEx, TNT
Addressed direct mail	2	Delta Post S.A, Metropolitan Ltd
Periodicals / Magazines	0	ACS S.A., Delta Post S.A., ISS Ltd
Newspapers	2	ISS Ltd, Apostoli S.A.
Un-addressed mail	3 (large) / 165	Delta Post S.A, two other small large, 165 operators under general authorisation
Upstream mail services	-	

Source: ECORYS, information provided by NRA

Table 1.13 Competitors on the postal market

Postal operator	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Delta Post	170 million items delivered	50 permanent 2,500 part-time	1	Nationwide

Source: ECORYS questionnaire (2005), website

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	100%	-
Market share of USP (in terms of volume) in the delivery of addressed direct mail	100%	-

Source: ECORYS questionnaire (2005)

Country information sheet: Hungary

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The regulatory framework for postal services in Hungary comprises of the Postal Act (Act CI) and a number of decrees further specifying the provisions of the law. The Postal Act, which came into force in January 2004, regulates the provisions on granting individual licences and general authorisations. The decrees regulate such issues as individual licences for postal services, notification of the provision of postal services (general authorisation), which data should be supplied by the postal operators, market surveillance activities and access to postal services for the disabled.³¹

Currently, the reserved area covers items of correspondence and addressed direct mail below the weight limit of 100 gram and priced less than three times the public tariff. Cross-border mail below 100 gram is also reserved to the universal service provider, Magyar Posta. The conveyance of periodicals, magazines, books, catalogues and newspapers to the letterboxes at peoples' homes is open to competition. The distribution of newspapers for subscription and un-addressed mail is not considered a postal service in Hungary.

The universal postal service applies to domestic and international items of correspondence, direct mail and printed matter not exceeding two kilogram per item and domestic and international postal packages not exceeding 20 kilogram per item. At least for the duration of the still existing monopoly regulations, the Hungarian postal operator is obliged to provide all universal postal services all over Hungary in compliance with defined quality standards. Customers benefit from uniform quality standards, such as pre-defined delivery targets for items or minimum density requirements.

Competitors in universal postal service provision have to acquire individual licences for one or more regions and meet the quality standards for the given products. For postal operators that provide non-universal services, a general authorisation is required. The authorisation is nothing more than a registration. The distribution of newspapers and un-addressed mail is fully open to competition and requires no authorisation.

³¹ For detailed information, see Section 1.2.1 (Table 1.1) of this information sheet.

An application for a licence to provide postal services may be filed for the provision of one or more postal services falling within the scope of the universal postal service. Restrictions apply to reserved services in any of the following geographical areas based on Art 6 of Decree 68/2004 (IV.15) of the Hungarian Government on market entrance by postal service providers:

- One or more municipalities other than cities;
- At least one county, with the exception of Pest county;
- Pest county, plus at least two or more counties;
- Budapest and at least two counties (with the exception of Pest county) together;
- The whole country.

For each of these regions, it is possible to apply for individual licences for the various universal postal services, such as the conveyance of items of correspondence and addressed direct mail. In this way, Hungary establishes a basis for competition among all service providers. In many other countries, standards have to be met only by the respective universal service providers, but not by their competitors. In order to avoid delivery companies concentrating on one metropolitan area, which may promise large profits, the Hungarian legislation has come up with a special solution. For example, a delivery company acquiring a licence for the national capital of Budapest must offer its services also in at least two more, assumed to be less profitable, geographic areas. Moreover, each licensee must undertake to establish a given number of branch offices, in the interest of customer protection. In these branch offices, customers can collect items that could not be delivered.

In the Hungarian postal legislation, no specific provisions are included on regulated mandatory access to the facilities of the incumbent postal operator. According to Article 36 of Chapter VIII “Rules of cooperation between postal service providers” of the Act CI of 2003: “the universal postal service provider shall provide access to its universal postal service network for the postal intermediary and the licensed postal service provider, when the postal service provider requesting access intends to provide postal services with regard to postal items addressed to an area of public administration where it does not have a postal network suitable for delivery.” Moreover, “the postal service provider subject to this obligation shall respond to the request of the entitled postal intermediary or service provider in writing within thirty days. When the parties are unable to arrive at an agreement within ninety days from the date of the request, either party may turn to the communications authority that shall decide the disputed issues within thirty days.”

The tasks of the Minister in charge of the postal sector include amongst others the development of a national postal policy, coordination of the postal sector and monitoring of the universal postal service.³² The post related tasks of the Hungarian postal regulator, the National Communications Authority Hungary (NCAH), are to ‘take action in relation to the notification (general authorisation) and individual licensing of postal services and the management of the registries prescribed by legal regulation. In addition, NCAH is responsible for market surveillance, the licensing of postal equipment, approval of the rules of business, other official matters and to ‘act as the specialised postal authority’.³³ In

³² For a full overview of the tasks of the Minister, see Act CI of 2003 on the Post, article 44.

³³ Act CI of 2003 on the Post, article 45.

addition, it is required to advise the government on (the need for) legislation and assist it with the enactment or amendment of postal legislation. In addition, the auditing related to the cost calculation of the universal postal services and their accounting separation is a task of the NCAH.³⁴

Short description of relevant developments with regard to the regulatory framework

The main requirements for postal operators to obtain an individual licence from the NCAH, the Hungarian regulator, are meeting the legally defined minimum level of universal postal services, consisting of personal conditions and objective conditions. Personal conditions can be met by having a leader (or the private entrepreneur) managing the company/enterprise full time and having (a) a degree in postal or logistic studies or (b) a degree in any other field of study and at least three years of experience in postal or logistic services. Objective conditions relate to issues like premises, vehicle fleet and technical equipment required for the collection, clearance, transmission and delivery of postal items, and sufficient financial collateral.³⁵ In addition, individual licences can only be obtained for regions defined by Decree 68/2004.

Disputes

The postal regulator had to deal with disputes concerning, amongst others:

- Definition of letters, addressed mail or printed matter: The core of the legal dispute between a customer and the National Regulatory Authority was whether an item of mail containing the impressions of rubber stamps and business (calling) cards could be classified as letters. The position of the national postal operator was that these objects could not be posted as letters due to the nature of their content; the customer and the NRA believed the above objects fell within the definition of the letter as they contained information of an individual and personal nature. The court ruled in favour of the NRA and the customer, and obliged the national postal operator to accept items with such content as letters;
- Unlawful distribution of mail by a competitor in the reserved area (a case from 1994, not further specified here);
- Differentiating between postal services and, for example, road transport services primarily in the market of parcel consignments and goods consignments under 20 kg;
- Concept of sender (whether a company only created by large public utility service providers to take advantage of the fee reduction originating from the postage of large volume consignments is classified as a sender);
- Whether adding various value-added services to a service that falls within the scope of the universal service (e.g., delivery to addressee only, repeated delivery attempts) will still fall within the universal service;
- What does the directive's definition "postal service" cover precisely? Is it a postal service if a service provider performs only acceptance or only transport (e.g., by rail), or only delivery?;

³⁴ Act CI of 2003 on the Post, article 46.

³⁵ The full overview for requirements for entry is listed in the Decree 68/2004. (IV.15) of the Hungarian Government on Market Entrance by Postal Service Providers

- Failure to reach agreement on access conditions to the Magyar Posta's network. If no negotiated agreement on access can be reached, the regulator must rule on the conditions between 30 days.

Short description of the postal sector policy

As stipulated in the EU postal directive, Hungary plans to liberalise the addressed mail market for mail above 50 gram from 1 January 2006.

The Hungarian policy maker is in favour of regulated downstream and upstream access to the network. According to the policy maker, regulation is necessary to avoid confusion, which could emerge if access would not be regulated. Moreover, access regulation serves the transparency requirement. Regulated access will lead to better monitoring and control of the market in the opinion of the Hungarian policy maker.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

Government regulation

A specific item in Hungary's postal legislation is the design of the licensing regime. Individual licences are granted only if universal postal services are provided on a national level, or in a region covering both rural and urban counties. So far, no licences have been granted to competitors. At the moment, a negotiated access regime is present, with a role for the NRA if agreement between parties cannot be reached. The policy maker is contemplating the introduction of a regulated access regime.

New entrants

So far, competitors are active in the field of non-universal services: guaranteed delivery time services (mainly courier services), express mail and integrated post. The distribution of newspapers and periodicals for subscription and un-addressed mail are fully open to competition.

Substitution

As regards substitution, a decrease in number of items of correspondence was observed due to electronic substitutes such as Internet and SMS services. Also, the IT technology growth is regarded as a threat to the traditional mail market. The volume of private letters is showing a declining trend.³⁶ Hungarian Post expects a decline of 1% on average annually.

³⁶ Annual Report 2003, Magyar Posta, p. 22.

Short analysis of contestability/attractiveness of market segments in the mail market (if different from general analysis), in relation to the market size of the postal sector and country information

The number of total mail items per capita for Hungary is still a bit below the (non-weighted) European average. Growth is expected in the field of direct mail, which has a share of roughly 60% of total mail volume and which market has been continuously expanding.³⁷ Although new technologies do pose a threat to current services, they can as well be a potential source of development (e.g., hybrid mail). The degree of urbanisation and the population density of Hungary do not differ significantly from the European average and do not give reason for adjustment of the general analysis.

1.1.3 The national postal operator: facts, figures, strategy

The Hungarian Post Office Ltd. is trading as Magyar Posta Részvénytársaság. It was founded by the Minister for Transport, Communications and Water Management and started its activities on 1 January 1994 as successor to the Hungarian Post Corporation. Since 1994, the national postal operator, Magyar Posta, is a joint stock company with 100% of its shares in the hands of the State. In 2003, it recorded a profit of 59.9 bln HUF (before tax).³⁸ One of the main goals of Magyar Posta is to retain the current market share in the field of conventional postal services such as items of correspondence and postal activities such as distributing newspapers for subscription. At the same time, it intends to expand and modernise its scope of services. Although the rapid growth of IT technology has been and will be a threat to the traditional mail market, Magyar Posta is aware of the fact that the IT growth will constitute opportunities for further growth and development. It wants to become a key player in the field of addressed and un-addressed advertising mail. It wants to develop hybrid mail, which is regarded as having a high potential for growth. Magyar Posta also regards the logistics market as an attractive one, especially after EU accession.³⁹ Most of the current investments are focused on modernisation, IT development and the development of the transport network.

The next table provides an overview of the main mail segments generating income for Magyar Posta.

Breakdown of mail revenues Magyar Posta 2003	
Letter post (incl. Direct mail)	69.1%
Parcels and EMS	8.9%
Newspapers	7.9%
Trade, retail services	6.3%
Other mail activity	5.6%
International mail services	2.2%
Total	100%

Source: Annual report Magyar Posta 2003

³⁷ Annual Report 2003, Magyar Posta

³⁸ Approximately 241 million EUR at exchange rate 247.92 (18 March 2005, data from Hungarian Central Bank)

³⁹ Annual Report, 2003, p.18-19

The strategy of the Hungarian Post Office Ltd. sets the objective of modernising the company and updating its services and network. One of the goals is to increase customer satisfaction. To achieve this Hungarian Post is aiming to reduce the waiting time for private customers and to reduce delivery times for businesses. Also the introduction of track and trace and value added services are aimed to increase the service to the customer. Product development also takes an important position in the strategy of Hungarian Post. Current plans involve the introduction of tailor-made services for large mailers. A third pillar of the strategy of Hungarian Post is the development of the operation of a postal network. One example of the strengthening of the capacity of the network is the agreement between Hungarian post and Österreichische Post regarding the distribution of cross border advertising items.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

So far, no individual licences have been granted to provide universal postal services in the country. As is the case in other countries, operators are active in non-universal services: guaranteed delivery time services, express mail and integrated post. The most significant registered postal operators are DHL, TNT, UPS, General Logistics Systems Kft, Magyar Posta EMS and Magyar Posta Postafutár. Moreover, there are a large number of small operators. In the distribution of un-addressed mail Feibra, recently Österreichische Post announced a takeover, is the largest competitor to Magyar Posta. In 2003, Feibra distributed 350 million items.

Effect of competition on market structure and market performance (result indicators), including on US provision

In recent years, from 1999/2000 to 2003/2004, Magyar Posta seems to have lost market share in the non-universal services and the distribution of newspapers and magazines for subscription and un-addressed direct mail (volume decreases of 10% and 15% respectively). The Hungarian NRA envisages a 15-25% decrease of market share of Hungarian Post both in terms of volume and turnover of advertising mail and addressed mail in case of full liberalisation. The USP expects a much smaller decrease in advertising volumes and revenues (between 5 and 10%).

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction
Act CI of 2003 on the Post	17 November 2003
Act C of 2003 on Electronic Communications	2003
Decree 68/2004 of the Hungarian Government on Market Entrance by Postal Service Providers	15 April 2004
Decree 12/2004 of the Minister of Informatics and Communications on the data supply obligations of the players in the postal market for the communications authority and the management of data	22 April 2004
Decree 13/2004 of the Minister of Informatics and Communications on the market surveillance activities of the communications authority concerning postal services and postal intermediary services	24 April 2004
Decree 14/2004 of the Minister of Informatics and Communications on the requirements of the quality of postal services concerning consumers protection and access to postal services by the disabled	24 April 2004
Government Decree 141/2002 Korm. Concerning the Scope of Authority and Powers of the Minister of Informatics and Communication	28 June 2002
Government Decree 79/2004 Korm. Concerning the provision and quality requirements of postal services	19 April 2004
Decree 17/2004 of the Minister of Informatics and Communications on the rules of separated accounting of the universal and licensed postal service providers and the rules of cost accounting	28 June 2004
Decree 2/2004 of the Minister of Informatics and Communications on the highest fix prices of domestic reserved postal services	3 March 2004
Decree 15/2004 of the Minister of Informatics and Communications on the amount of the supervisory charge and the connecting data provision and Authority tasks.	24 April 2004
Decree 16/2004 IHM of the Informatics and Communications Minister on the definition of the market, market analysis, identification of the service providers having dominant position and the applicable principles on the obligations of dominant service providers	24 April 2004

Source: ECORYS questionnaire (2005). A full list of relevant legislation is available at:

<http://en.ihm.gov.hu/regulations>

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50–100 gram	Yes	Will be liberalised on 1 January 2006
Domestic items of correspondence >100 gram	No	-
Inbound cross border	Yes	Only <100 gram, as above
Outbound cross border	Yes	Only <100 gram, as above
Direct mail addressed	Yes	Only <100 gram
Periodicals / Magazines	No	-
Un-addressed mail (direct mail, weeklies)	No	-

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been issued? (2005)
Individual licence	Services within the range of universal services outside the scope of reserved area	Technical and financial capacity, terms and conditions of the contract approved by the communications authority	0
Notification (general licence)	Postal services that are not universal services	Not relevant	96

Source: ECORYS questionnaire (2005), information provided by NRA

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No (incl. "last mile" delivery)
Upstream access	Access to street letter boxes	-

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram	354.0	38.5%
Domestic items of correspondence 50-100 gram	44.8	4.9%
Domestic items of correspondence >100 gram	19.2	2.1%
Inbound cross border mail	20.1	2.2%
Outbound cross border mail	18.2	2.0%
Direct mail addressed	210.2	22.9%
Periodicals / Magazines	35.6	3.9%
Newspapers	225	24.5%
Un-addressed mail (direct mail, weeklies)	1,281	
Total	2,200.8	100%

Source: calculations based on ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2003
B2B	90%
B2C	
C2B	10%
C2C	
Total	100%

Note: The given percentages differ from the estimations of the NCAH, who estimated the size of the streams as 20%, 30%, 30% and 20% respectively.

Source: Annual Report 2003 Magyar Posta

Table 1.7 Country information

Hungary	
Population (in million)	10.1 *
Size of the country (in 1000 of square km)	93 *
Population density (number of inhabitants per square km)	108.6
Degree of urbanisation	65.1 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	2,409,613 (14.2%) ***
Number of addressed mail items per inhabitant (excl newspapers)	69

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	Future
% Government share	100	The first step in the privatisation process of Magyar Posta is scheduled for 2005.

Source: ECORYS questionnaire (2005)

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2004 in millions of euros	% (2004)
Mail	295	64%
Express	4.5	1%
Logistics	4.3	1%
Other	159.5	34%
Total	463.3	100%

Source: Annual Report Magyar Posta, ECORYS questionnaire (2005)

Table 1.10 Overview of joint ventures (JV), alliances (A) and cooperation agreements (C)

Country	Mail	Express	Logistics
Austria	C: Österreichische Post		

Source: Annual report Österreichische Post AG 2003

Table 1.11 Postal network

Magyar Posta	2005
Number of postal service points	3,080
Number of P.O. Boxes	n.a.
Number of street letter boxes	n.a.
Number of delivery offices	2,514
Number of delivery points / addresses	n.a.

Source: Annual Report Magyar Posta 2003, NERA (2004), information provided by NRA

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	
International mail	0	
Addressed direct mail	0	
Periodicals / Magazines	-	
Newspapers	-	
Un-addressed mail	Several	Feibra, Dimar
Upstream mail services	Several	Promo Direkt

Source: ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
None					

Source: ECORYS questionnaire (2005), websites

Table 1.14 Market share of the incumbent operator

	2000	2004
Market share of USP (in terms of volume) in the delivery of letter mail	100%	100%
Market share of USP (in terms of volume) in the delivery of addressed advertising mail	100%	100%
Market share of USP (in terms of volume) in the delivery of un-addressed advertising mail	28%	25%

Note: market share in un-addressed mail is an estimate by the universal service provider.

Source: ECORYS questionnaire (2005)

Country information sheet: Ireland

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

The situation in Ireland with regard to the liberalisation of the postal market according to the current postal law and regulations is:

- Liberalisation of items of ordinary correspondence with a weight limit of > 100 gram and pricing of three times the public tariff in the first weight step of the fastest standard category;
- Liberalisation of outgoing cross border mail;
- Incoming cross border mail is liberalised above 100 gram for a single item; above 50 gram for a single item with effect from 1 January 2006;
- Addressed direct mail is liberalised above 100 gram for a single item; above 50 gram for a single item with effect from 1 January 2006;
- The delivery of addressed bulk mail is not liberalised except for items weighing more than 100 gram;
- The distribution of periodicals, magazines and newspapers is liberalised;
- Upstream postal activities are not prohibited for collection of postal items, pre-sorting of postal items and the transformation of electronic mail in physical mail (hybrid mail).

An Post is designated as the universal service provider and is obliged to collect and deliver postal items up to 2 kg, postal packages up to 20 kg and insured and registered items for at least five (working) days a week at a minimum quality level set. An Post has a target to deliver at least 94% of all first class letters the next working day. The second target is that 99.5% of all mail should be processed and delivered within three working days of posting.

Since January 2004, a postal service provider (other than the universal service provider) with an annual turnover of more than 500,000 euro needs to apply for an authorisation to provide postal services. In order to be eligible for an authorisation, a postal operator has to declare it will not infringe the reserved area and needs to draw up procedures to deal with incorrectly delivered mail and the security and confidentiality of the postal service provided. The authorisation applies for the distribution of the standard non-reserved postal products as well as for the provision of express and courier services.

In Irish legislation, no specific arrangements are made for mandatory regulated access to the facilities of the universal service provider. Negotiated access contracts between customers and competitor postal operators can be concluded if the universal service provider applies the principles of transparency and non-discrimination with regard to the tariffs and the conditions (Regulation 9(3) of S.I.616 of 2002, which transposed the fifth indent in Article 12 of the amended postal directive).

The Commission for Communications Regulation (ComReg) is responsible for postal sector regulation and was established at the end of 2002, succeeding the Office of the Director of Telecommunications Regulation responsible for postal regulation since September 2000. The objective of the Commission is to promote the development of the postal sector and in particular the availability of universal postal service at an affordable price for the benefit of all users. The focus of regulation is therefore the maintenance of the universal service obligation and to ensure that the prices of the universal service provider are geared to costs. ComReg has the task to ensure that postal operators comply with their obligations and grants and authorisations. The Department of Communications, Marine and Natural Resources is responsible for postal sector policy in Ireland.

Short description of relevant developments with regard to the regulatory framework

ComReg has dealt with disputes concerning:

- Unlawful distribution of mail by a competitor in the reserved area: the universal service provider made one complaint against another authorised operator for the distribution of postal services that are part of the reserved area. The matter concerns the distribution at a time when the USP was not providing the postal service because of a strike of its employees. According to An Post, infringements of the reserved area occur on a regular basis by authorised and non-authorised postal operators, but no complaints are made to ComReg;
- Denial of access: ComReg has regularly received informal complaints from bulk mail users over the past year concerning difficulties experienced in accessing An Post's network. ComReg has in its consultation paper 04/92, on network access by bulk mail customers to the facilities of the universal service provider, proposed that bulk mail customers are permitted to deposit pre-sorted items at a delivery office (see below). Complaints about unfavourable access conditions arise mainly from bulk mail customers and their agents;
- Initiation of proceedings by An Post against a government department who sought tenders for provision of a value added type courier service (initiated five days before the Postal Directive 1997/67 was transposed in September 2000, but not yet resolved).

The disputes that have arisen in the past do not seem to form a particular important barrier to entry for potential operators to provide postal services. A particular practical barrier to entry in the Irish postal market is the absence of a system of postcodes. In the past, a large consultation has been held on postcodes and access to the letterboxes at people's homes. The Irish government has decided in principle that a postcode system should be introduced and has established a National Postcode Project Management Board to oversee the work of the consultants appointed to develop the proposal.

Short description of the postal sector policy

In the Department of Communications, Marine and Natural Resources “Statement of Strategy 2003-2005” for the postal sector are “to develop an effective policy for the Irish postal sector based on open market principles and in conjunction with EU initiatives” and “to exercise effective corporate governance functions in relation to An Post”.⁴⁰

The main objective of postal sector policy is formulated as “To promote the development of the postal sector and in particular the availability of a universal postal service within, to and from the State at an affordable price for the benefit of all users.” For ComReg, the main vision on the future direction was formulated in a draft policy direction under s.13 of the Communications Regulation Act 2002. The postal sector policy is directed to maintaining the current universal service obligations and the transposition of the EC postal directives.

Liberalisation policy

There are no current plans to deviate from the time path as set by the European Commission in the postal directives. Directions by the Irish Government to the regulator on 21 February 2003 and 1 March 2004 made no explicit reference to the path of liberalisation. ComReg referred in the strategy statement for the period 2003 to 2005 to full market opening being scheduled for 1 January 2009. Under the postal directives as transposed into Irish law, the services reserved to the Irish USP will be restricted to the collection, sorting, transportation and delivery of items weighing less than 50 gram coming into effect per 1 January 2006.

ComReg has no evidence to suggest that the next step, full liberalisation per 1 January 2009 subject to confirmation at European level, needs to be deferred. Whether this needs to be accompanied by specific regulatory measures to ensure access to the facilities of the incumbent needs further analysis, and in particular an assessment of how the market reacts to the restriction in the reserved area to items weighing less than 50 gram, effective 1 January 2006. An Post’s position is that any significant step towards further liberalisation may necessitate the introduction of alternative pricing strategies for certain segments of the market including geographic (non universal) pricing.

Universal services

In ComReg’s view, the availability of competing postal services is the best way of ensuring that the universal service provided by An Post is fully geared at customer needs.⁴¹ In the spring of 2005, ComReg started a consultation on the scope of the universal service in which it seeks views on a working definition of what constitutes, under the postal directives, the universal postal service in terms of specific services. The outcome of the consultation is, at the beginning of July 2005, still pending.

Regulated access

ComReg has recently decided to issue directions requiring the universal service provider to provide access points at inward sorting centres and delivery offices – but these

⁴⁰ Source: Department of Communications, Marine and Natural Resources (2003), Statement of Strategy 2003-2005

⁴¹ Extract from ComReg Document 03/59 “Strategy Statement (2003-2005)” section 5.2.2.

directions have not formally been issued yet.⁴² An Post currently offers a “PreSort” discount, and also provides a direct mail service called “Postaim” which requires pre-sorting as a condition of access. In the past, there have been problems with the acceptance by An Post of the bulk mail of customers. ComReg has required that the USP in offering discounts cannot insist that the content is identical. If the minimum quantity of 2,000 items is met and the postal items bear the same “Postage Paid Account Indicia” or an impression from the same Franking Machine Meter, and if they are the same size and have the same rate of postage, the postal items must be accepted by An Post.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter’s forces governing competition

Government regulation

The current system of regulation of the postal sector does not hamper competition in the postal sector. The postal sector is, however, not liberalised for a large part of the market. The next step in postal liberalisation starting from 2006 will open up opportunities for competitor operators, as a relatively large part of the addressed postal market will be open, that is, addressed direct mail, bulk transactional and inbound cross border mail.

New entrants

Currently, 23 operators have been authorised to provide postal services in Ireland. Given the fact that only operators with an annual turnover of over 500,000 euro are required to obtain an authorisation, probably a larger number of smaller operators are active in postal services. Almost every authorised postal operator provides express and courier services and/or is engaged in the provision of value added services (time certain, track and trace, etc.). Entry of operators that provide a regular postal service for the distribution of items of correspondence and addressed direct mail has not taken place in the last few years.

Substitution

An Post experienced a small decline in the core mail volumes over the past few years. An Post expects the trend of a slow volume erosion to continue, but is of the opinion that some segments of the postal market, such as the distribution of addressed direct mail, will display reasonable growth over the next years. For 2005, An Post expects a decrease of total mail volumes of 1% for the Irish postal market, while direct mail will increase between 2 and 4.5%. An Post thinks it will distribute 3% more items of addressed direct mail and 1% more periodicals / magazines in the next three years. The distribution of items of correspondence, and in particular transaction mail, will decline between 1 and 3% for An Post. In a study of TNS Mrbi, commissioned by ComReg, respondents active in the segment of the largest mail users, the finance sector, claimed to send on average 1,600 letters a week, compared to 1,400 in 2003. Companies with a small number of employees (between 11 and 200) sent in 2004 approximately half the number of letters they did in 2003. It is concluded that, according to the survey, 56% of businesses in 2004 claim to send less than 100 letters per week compared to 59% in 2003.⁴³

⁴² See document ComReg 04/92, but also consultation paper ComReg 05/16 on the scope of the Universal Service.

⁴³ TNS Mrbi (2004), Postal services survey, business and residential.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The Irish postal market is relatively small compared to other West-European countries and the market for the distribution of addressed direct mail, in particular, is underdeveloped. On the other hand, the market for un-addressed mail is significant, while the market for cross border mail, especially from and to the United Kingdom, constitutes a large part of total volume. A further liberalisation of cross border mail will encourage entry and stimulate competition on this market. There is currently no real competition in the provision of domestic universal services. The nearest example is competition for outbound cross border mail posted in bulk by business customers. The absence of a system of postcodes, which will in principle be introduced, and the tough geographical circumstances, such as for instance the lack of presence of highways, will make it for this moment difficult for entrants to develop activities. Competition will probably occur in inbound cross border mail and in the local market of urbanised areas, which are very attractive to competitor postal operators. However, competition has to develop ways to boost volumes of addressed direct mail and periodicals and magazines.

1.1.3 The universal postal operator: fact, figures, strategy

The universal service provider has increased its performance in the past few years. The turnover in mail activities has increased from 420 million euro in 2000 to 474 million euros in 2003. The large losses incurred in the beginning of this decade have diminished in the past few years. An Post focuses on the domestic activities and has ceased its commercial parcel operations abroad.

Strategies of the universal service provider

As comparable to other universal service providers, An Post's core objective is to improve performance in the coming years in the domestic market. The main strategy is to cut cost and improve efficiency in operations. On the demand side, the company tries to become more customer oriented and tries to boost volume.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

In the Irish postal market, as said, few competitor postal operators are present. In the distribution of items of correspondence and addressed direct mail, no single competitor exists. In the distribution of periodicals, magazines and newspapers, the relatively poor quality of service of An Post has stopped the development of a market for subscription. Most press items are sold at retail outlets. In the delivery of press distribution, no competitor postal operator is active. In outbound cross border mail, the well-known consolidators are active. The main operators in the market are express and courier operators and operators offering value added services. In the distribution of express mail

and parcels all the major international players, i.e. DHL Global Mail, GLS (Royal Mail), Interlink (La Poste), TNT, FedEx and UPS, are present.

Effect of competition on market structure and market performance (result indicators), including on US provision

The impact of full liberalisation on addressed mail volumes of An post could in principle be somewhere between +100% and - 50%, according to ComReg. It really does depend on how the USP reacts and modifies its product offering and attitude to customers. ComReg expressed the view that competition will stimulate the market, and increase the share of postal services vis-à-vis other services, e.g. newspaper, TV and radio advertising, unaddressed leaflets, electronic communications, and that the USP will increase the absolute volume of its mail handling. In principle, average revenue per item will decline, so absolute revenue will not increase by the same extent. An even more important issue however is the impact on profit of An Post, as the response to competition should also result in reduced unit costs through investing in more efficient and cost effective provision of services. The impact of full liberalisation on the addressed advertising mail volumes of An Post could be in the range of +50% to -10% according to ComReg. The former figure envisages that competition will stimulate the market and that the USP will increase its volume to that typical of this mail stream in other European countries; the latter figure that An Post loses its entire market share to competitors.

In addition, it is unlikely that there will ever be direct competition for the current type of universal service provided by the USP, according to ComReg. Rather, there will be niche competition and the development of completely new products, e.g. day certain deliveries of industrialised mail but on specific days of the week only. According to ComReg, there is a need for analysis of the intentions of USP's and potential competitors. How these stakeholders play their cards, and how customers react, will determine the outcome of market liberalisation. The market opening in January 2006 will give much more information on how competition will develop.

The quality of service of An Post has increased in the last year but is still relatively poor. In the first quarter 2005, 76% of single piece mail items were delivered the next working day after posting. This result reflects an improvement over the performance in the first quarter of 2004 (this was only 70%). 98% of single piece priority mail is delivered on the third working day after posting. The performance stays yet behind the set targets.

Given the discussions on the negotiated access terms and conditions and the un-likelihood of full-fledged competition, regulated access is considered a potential option in Ireland. According to ComReg, there is a need for much greater analysis of the advantages and disadvantages of regulated access compared with the application of normal competition law. ComReg is a supporter of the competitive market place but recognises the need for a balanced approach, which may call for regulatory action if the market fails. An Post sees no rationale for granting access. ComReg states that the case for regulated access as distinct from the current obliged access needs detailed study in terms of the impact on the market, and the various stakeholders.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postal and Telecommunications Services Act	1983	2002
S.I. No. 616/2002: European Communities (Postal Services) Regulations 2002	2002	
Interception of Postal Packets and telecommunications messages (Regulation) Act	1993	
Post Office (Evasion of Postage) Act	1937	
In addition sections of the (British) Post Office Act, 1908 and the Post Offices (duties) Act of 1847 are still extant	In addition, Postal Services are also being subject to Common Law principles and Case Law.	

Source: ComReg website, ECORYS questionnaire (2005)

Table 1.2 Overview of postal regulations

Name of the regulations	Contents of the regulation
05/16	The Universal Postal Service - Formulating a working definition - Consultation
04/92	Universal Service Obligation - Bulk Mail Access - Draft Direction to An Post
04/56	Quality of Service Target 2004 - Single Piece Priority Mail
04/07	Communications Regulations Act 2002 (Section 30) Postal Levy Order 2003, S.I. No. 733 of 2003
03/139r	Decision Notice & Response to Consultation: Regulation Postal Services, Postal Authorisations, reserved area controls and levy procedures.
03/65R2	An Post's Proposals to increase the price of domestic services 2003
03/50	Postal Services - Universal Service Obligation, Tariff Principles and miscellaneous issues. Directions to An Post under the European Communities (Postal Services) Regulations 2002, S.I. No. 616 of 2002
03/40	Information Notice: Terminal Dues Agreements
02/111	Decision Notice & Response to Consultation - Application by An Post to increase the price of International Outbound reserved Postal Services
02/119	Quality of Service Standards for An Post
02/70	Application by An Post to increase the price of reserved Postal Services ODTR 02/15: Decision Notice and Further Response to Consultation ODTR 02/15
02/62	Notice as an Addendum to the "Response to Consultation - Application by An Post to increase the price of reserved Postal Services ODTR 02/32" - Information Notice
02/32	Application by An Post to increase the price of reserved Postal Services - Response to Consultation
02/15	Application by An Post to increase the price of reserved Postal Service - Consultation Paper
01/74	Regulation of Universal Postal Services - Accounting separation and costing methodology - Proposed Direction to An Post - Decision Notice D15/01
01/73	Regulation of Universal Postal Services - Quality of Service Standards to be achieved by An Post - Decision Notice D14/01 & Response to Consultation

Name of the regulations	Contents of the regulation
01/35	Regulation of Postal Services Approach to Monitoring Compliance with Universal Service Tariff Principles - Consultation Paper
01/09	Regulation of Postal Services- Procedures for seeking the views of interested parties- Information Notice

Source: ComReg website, ECORYS questionnaire (2005)

Table 1.3 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	Above 100 gram for a single item; above 50 gram for a single item with effect from 1 January 2006
Inbound cross border mail	Yes	
Outbound cross border mail	No	
Direct mail addressed	Yes	Above 100 gram for a single item; above 50 gram for a single item with effect from 1 January 2006
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.4 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Licence	Reserved services, Universal service	US requirements	1
Authorisation	Non-reserved services	Quality procedures	23

Source: ECORYS questionnaire (2005), Postal Act, website NRA

Table 1.5 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005), Postal Act

1.2.2 Market size of the postal sector and country information

Table 1.6 Size of the postal market in physical terms (million items)

	2003	% distribution addressed
Domestic items of correspondence <50 gram	421.3	54.5%
Domestic items of correspondence 50-100 gram	49.6	6.4%
Domestic items of correspondence >100 gram	24.8	3.2%
Inbound cross border mail	107.4	13.9%
Outbound cross border mail	82.6	10.7%
Direct mail addressed (incl. catalogues)	55.7	7.2%
Periodicals / Magazines	16.5	2.1%
Newspapers	14.7	1.9%
Un-addressed mail (direct mail, weeklies)	236	-
Total	1008.6	100%

Source: ECORYS questionnaire (2005), Fedma (2004), UPU (2005)

Table 1.7 Postal streams in the market for addressed mail

Postal stream	2000	2004
B2B	34%	30%
B2C	54%	58%
C2B	4%	4%
C2C	8%	8%
Total	100%	100%

Note: ComReg has for 2004 slightly different percentages based on various sources, namely B2B 30%, B2C 55%, C2B 8% and C2C 7%.

Source: ECORYS questionnaire (2005)

Table 1.8 Country information

Ireland	2004
Population (in million)	4.0 *
Size of the country (in 1000 of square km)	70.3 *
Population density (number of inhabitants per square km)	56.9
Degree of urbanisation	59.9 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	1,421,579 (35.5%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	190

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.9 Government share in incumbent postal operator

	2005	Status
% Government share	100%	Corporatised

Source: ECORYS questionnaire (2005), Annual Report An Post

Table 1.10 Division of turnover of the national postal operator per business area

Business area	2003 in millions of euros	% (2003)
Mail	474	63%
Express	55.1	7%
Logistics	-	-
Other	221.1	29%
Total	750.2	100%

Source: ECORYS questionnaire (2005), Annual Reports An Post

Table 1.11 Overview acquisitions, alliances and partnerships

Country	Mail	Express	Logistics
United Kingdom	Air Business Limited (2002), subsidiary	Waldermar Ltd (trading as Wings Couriers) JMC Van Trans Ltd Transport Ltd	-

Source: Annual Reports An Post

Table 1.12 Postal network

An Post	2004
Number of postal service points	1,614 (of which 159 retail outlets)
Number of P.O. Boxes	-
Number of street letter boxes	>6,000
Number of delivery points / addresses (millions)	1,765

Source: Annual Report An Post (2004), NERA (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.13 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	Excl. express and courier
International mail	5	DHL Global Mail, TNT Spring, Royal Mail, Hays / DX (all outbound)
Addressed direct mail	0	
Periodicals / Magazines	1	Lettershop
Newspapers	-	
Un-addressed mail	2 (large)	Leaflet Company, Door-to-door distributors, several local companies
Upstream mail services	Various	Many mailing houses

Source: ECORYS questionnaire (2005)

Table 1.14 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Lettershop	Magazines and newspapers, Catalogues, un-addressed mail				Dublin
The Leaflet Company	Un-addressed mail			Weekly	Nationwide

Source: ECORYS questionnaire (2005), websites

Table 1.15 Market share of the incumbent operator

	2004
Market share of USP (in terms of volume) in the delivery of addressed mail	100%
Market share of USP (in terms of volume) in the delivery of addressed direct mail	100%
Market share of USP (in terms of turnover) in the delivery of addressed mail (excl express and courier)	100%
Market share of USP in market for un-addressed advertising mail	50%

Source: ECORYS questionnaire (2005)

Country information sheet: Italy

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

The history of liberalisation in the postal sector has shown a pattern of backward and forward moving. Before the implementation of the first Postal Directive in 1999, *de jure* the Italian postal market was relatively open. Other operators than Poste Italiane, the universal service provider, could already perform the distribution of addressed direct mail and hybrid mail. In addition, local mail operators were active in the distribution of letter mail, as part of a subcontracting relationship with Poste Italiane. After implementation of the Postal Directive 1997/67, the transport and delivery of hybrid mail was put under the reserved area and the subcontracting relationships were disconnected. Outgoing and incoming international mail is still completely under the reserved area of Poste Italiane. Since 1 January 2003, the second postal directive is implemented in Italian legislation, limiting the reserved area to the weight limit of 100 gram for letter mail and three times the basic tariff of priority mail. In addition, upstream services and the conveyance of bulk mail is still under the reserved area.

Poste Italiane is the universal service provider in Italy and obliged to fulfil the universal service obligation according to the amended Postal Act and the regulations on the universal service. The universal service comprises the conveyance of items of correspondence and addressed printed matter weighing up to 2 kg and postal packages of up to 20 kg; as well as a service of registered items and service of insured items. Poste Italiane needs to deliver at least five days a week to every single address but in practice delivers six times a week. The relevant legislation provides no specific requirements on the minimum number of collection boxes and retail outlets.

Since 2004, the Ministry of Communications issues new licences to postal operators that specify postal products. Before 2004, one type of licence was available for all postal products that fall within the universal service obligation. In order to obtain a licence, postal operators need to fulfil a number of requirements:

- Operators need to provide references to their service level, their tariffs and the standard of quality;
- Separate accounts for universal and non-universal services;
- Legal documentation is requested, lack of a criminal record and minimum requirements for liquidity and solvency;
- Payment of an administrative and annual fee;

- Contribution to the universal service fund by competitor postal operators up to 3% of their annual turnover in the provision of universal services;⁴⁴
- Administrative burdens to fulfil complaint procedures.

Current licence conditions will be modified in new regulations. The rules on complaint procedures will be abolished and licensees need to provide business information on volumes and revenues for the respective postal product. The exact contents of the new licence conditions are still under review. For the provision of postal services outside the universal service, such as express and courier services and value added services, an authorisation is needed.

The Italian government implemented no legal provisions related to regulated access to the facilities of the universal service providers. So far, postal operators have not requested the regulatory authorities to investigate the desirability of these interventions. Of course, the relevant provision to be applied with respect to negotiated access on transparency and non-discrimination from the amended postal directive apply.

In Italy, the tasks of postal legislation and regulatory aspects are joined in the Ministry of Communications. The “Direzione Generale per la Regolamentazione del Settore Postale” is the part of the Ministry charged with all postal matters, from participating to the communitarian process of the adoption of directives and their transposition into Italian law to issuing licences, regulating tariffs and monitoring the universal service conditions and quality standards. The Ministry of Communications is also responsible for surveillance of the postal market but has so far not given a practical completion of this task. The Italian Competition Authority, “Autorità Garante della Concorrenza e del Mercato”, is responsible for competition issues in the postal sector, such as mergers, acquisitions, horizontal and vertical restraints, and is competent to start investigations after having received complaints about anti-competitive behaviour.

Short description of relevant developments with regard to the regulatory framework

Disputes

In 2000, the European Commission announced its intention to adopt measures against the Italian government. According to the Commission, Italy infringed articles 86(1) and 82 of the (revised) Treaty by extending the scope of the reserved area by including value added services, such as hybrid mail, express dispatch of administrative correspondence and local commercial correspondence. The Commission obliged Italy to eliminate the exclusive rights granted to Poste Italiane. After rebuttal about the relevant legal approach applied, Italy eventually removed the exclusive rights.

In 1998, the European Commission started an investigation on potential unlawful state aid by the Italian government in favour of Poste Italiane after a complaint lodged by a competitor operator. In 2002, the European Commission concluded in decision 2002/782/EC that the measures taken by the Italian government on financing the

⁴⁴ The current deposit in the universal service fund has a value of around 100.000 euro at the moment is around 100.000 euro. Given the fact that the annual losses of Poste Italiane are hundred of millions of euros, the fund does not really resolve the financial burden and therefore the Italian government needs to subsidise the universal service operator heavily each year.

universal service obligations did not constitute state aid within the meaning of article 87(1) of the Treaty, because there was no overcompensation of the extra cost of the postal service Poste Italiane offered.

In the national context, the Italian competition authority has dealt with a number of cases where Poste Italiane was accused of abusing its dominant position. In case A299 between International Mail Express Italy and Poste Italiane, the authority investigated the possible conduct of Poste Italiane to intercept cross-border mail by the competitor and suspend the further forwarding of mail and the imposition of higher charges on the intermediaries or Italian customers for the delivery to the addressee of correspondence. Eventually, Poste Italiane was fined in 2002 for its practices. In an older case A218 at the end of the last century on hybrid mail, Poste Italiane was accused of favouring its subsidiary Postel by demanding a lower tariff for the further conveyance of postal items compared to its competitors. Poste Italiane did not employ transparent and non-discriminatory access conditions to its clients.

Short description of postal sector policy

The Italian government does not have plans to further liberalise postal markets in the coming period. The liberalisation of postal markets will follow EU guidelines and future directives. The universal service in its current form is important to the main stakeholders in Italy. According to the Ministry of Communications, the universal service should also be provided in a fully liberalised postal market. A reduction of the current universal service requirements is not considered useful. In Italy, a universal service fund has been introduced to compensate for the burden of the universal service provision. The current contributions of licensed operators (3% of the annual turnover), however, compensate only for a very small part the universal service costs.

Currently, a study about the analysis of the Italian postal market is under preparation. The study will be based on a questionnaire that will apply to the universal service provider and to the competitors that have an individual licence or a general authorisation. The assessment of the market data will according to the Ministry of Communications allow gaining more insight in market developments. Currently, very little information is available on the Italian postal market.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

Government regulation

The postal market is *de jure* relatively open to competition since the delivery of direct mail is liberalised. Entry regulations are not severe either. The role of government policy and regulation seems to be very important for competitive entry. The level of independence of the regulator, the provision of stability in government policies for the postal sector and a tough combat against anti-competitive behaviour by dominant postal operators is important.

New entrants

Although the Italian postal market is large and market volumes are high, the direct mail market has not been targeted by many postal operators. An unknown number of city mail operators are active in the largest cities of Italy. The biggest competitors to Poste Italiane are, according to themselves, the companies of the European Mail Network of TNT, active in Milano and Roma (see below).

Substitution

Electronic substitution seems not to influence mail volumes as much as in other large West-European countries. Electronic services are not as widespread and the publishing industry relies on 'paper based' solutions, according to Poste Italiane. The direct mail market even has high potential and the growing volumes of Poste Italiane show that the market is not in decline. Poste Italiane expects a slight increase of around 1% growth of the Italian postal market, mainly the result of a strong growth in the distribution of addressed direct mail.

However, Italy does have a large number of local radio and TV channels that are very popular media for communication. Competition from un-addressed mail seems also to be very high, so it remains to be seen how much growth can be realised in addressed direct mail. Substitution of mail by electronic means of distribution is as much an opportunity as a threat in Italy. Although the penetration rate of (broadband) Internet access is not lagging behind compared to the European average, the exploitation of postal operators of this medium in order to generate additional mail streams can be improved especially in advertising mail. On the other hand, large business consumers will try to diminish the number of items sent by investing in electronic substitutes (bills, bank statements). E-mail will pose a more serious threat to traditional letter mail in case the performance of postal operators, in terms of delivery standards, will not get better. Poste Italiane expects the impact of electronic substitution on its volume of the postal products as follows.

Postal product	% decline in volume
Bank statements	4%
Bills of large customers	4%
Single items of correspondence	4%

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The total volume of letter mail in Italy is relatively small compared to North-European countries. According to Poste Italiane, the size of mail volumes is generally higher in knowledge-based societies than in a more industrial country like Italy. In addition, the financial sector, the most important client to postal operators, does convey fewer items in Italy than in other countries. According to Poste Italiane, in Italy, the number of customers that possesses a credit card is rather low and payment via cheques, like in France, is absent, leading to relatively lower volumes. This results in a relatively low number of addressed mail items per capita with an annual average around 150 items, according to Poste Italiane.

According to the relevant stakeholders, postal operators cannot guarantee timely delivery of periodicals and magazines, although these postal items are usually time sensitive. The relative size of subscriptions to newspapers and magazines in Italy is low in comparison to North-European countries. The same reasoning applies to addressed direct mail and catalogues according to Poste Italiane: Italians do not like to buy products without having been able to see and touch the product they are going to buy. There is a large reluctance to buying products via Internet, so that mail-order companies do not flourish in Italy. Direct mail is already liberalised but the size of the market is relatively small due to the abovementioned reasons.

The relatively underdeveloped market for direct mail and the potential growth in bulk mail deliveries under the reserved areas combined with the relatively poor quality performance of Poste Italiane offer opportunities for competitive operators to attack the attractive urbanised areas. Especially, if operators are able to push volumes in the Italian market direct mail will become attractive in the large of Italy. Attaining full geographical coverage in the Italian postal market seems very difficult.

1.1.3 The universal postal operator: facts, figures, strategy

Poste Italiane has in the last years seen a large increase in its turnover for mail. In 2000, Poste Italiane earned 3,390 million euro, while in 2004 it had increased to 4,087 million euro. Poste Italiane is only active in Italy itself and therefore earns no income abroad. The provision of financial services is an important part of the business of Poste Italiane. In total, Poste Italiane reached a turnover of over 9 billion euro in 2004. Profitability has risen in conjunction with the steep increase in turnover: in 2001 Poste Italiane reached a consolidated net result of -74 million euro, while in 2004 it amounted +236 million euros. A peculiar feature of Poste Italiane is that it is making losses on its activities in the reserved area.

Strategy of the universal service providers

Poste Italiane has not been privatised, but at the end of February 2005, the Italian Prime Minister announced that the government is considering a partial privatisation of Poste Italiane. However, according to the relevant stakeholders in the Italian postal market the government will retain a majority share in the postal operator in order to be able to control the public service of postal provision. Poste Italiane has been transformed from a government organisation to a corporatised entity in 1998 and the shares of the company are in the hands of the Ministry of Economy and Finance (65%) and a government financial entity, Cassa Depositi e Prestiti (35%).

Poste Italiane faces a number of problems in a more liberalised postal market in Italy. First, the level of quality in the provision of postal services has been low in the past and although quality levels are picking up, the potential for competitor postal operators to outperform the universal service provider is high, certainly in areas where it is relatively easy to distribute mail (i.e. in urban areas). Secondly, the postal organisation is more supply-oriented than demand-driven. On the contrary, Poste Italiane has the advantage of a unique distribution network with the presence of offices across the country.

The strategy of Poste Italiane is to continue with the plans to modernise their organisation in the coming years. Key elements will be adjusting the internal organisation towards a customer-centric operating model, further integrating and repositioning the organisational structure, strengthening via the integration of assets to obtain synergies, focusing on key innovation and service supply processes and the development of shared services to manage support processes. High investment ratios will be sustained to improve the quality of the consumer service and the operating efficiency of the postal offices network and to carry out infrastructural and technological improvements.

On the market side, Poste Italiane will try to expand provided services since the start of the incorporation. Since 1999, Poste Italiane has more or less successfully entered the market for un-addressed advertising mail and increased their presence in financial services and retail activities since 2000. A key element is to improve profitability and to reduce losses in the mail division by providing new postal products with a high mark-up. Especially pushing up direct mail volumes in the Italian market is important. Poste Italiane tries to push direct mail volumes for the last few years by convincing the communications agencies of the efficacy of direct mail. In addition, the potential of hybrid mail will be fully exploited in the next years. The importance of marketing will remain high by trying to segment clients and employ pricing policies aimed at absorbing value attached to postal services by clients. A further rebalancing of tariffs is expected to take place.

Contrary to the postal part of Poste Italiane, the provision of financial services is a rather profitable business. The company will try to enhance their position in financial services by offering low cost services for everyone, such as cheap current accounts, pre-paid credit cards and create a position in insurance. Poste Italiane tries to use its position as an omnipresent company in Italy to cross-sell postal, financial and other products that can be distributed via the channel of postal offices.

The ambition of Poste Italiane is predominantly focussed on the national, Italian market due to a lack of money to expand operations abroad and given the existing potential in the domestic market. Strategic alliances or perhaps joint ventures will be built to improve performance in international mail, parcels and express. The position as a courier and express operator has already been lost, according to Poste Italiane, due to a relatively backward position in logistics.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

According to Poste Italiane, TNT and DPWN will target large companies offering European-wide, one-stop-shopping services for direct mail, letter mail, express and logistics. Vertical integration seems more interesting than horizontal integration. TNT already bought printing machines for printing bills and statements for telecommunications operators and financial institutions. In addition, mailroom management and hybrid mail is interesting according to Poste Italiane.

In the largest cities, several competitors are active in the delivery of addressed direct mail and, to a much lesser extent, items of correspondence above 100 gram. Most postal operators are only active locally and will probably remain active on a small scale according to Poste Italiane. In the largest cities of Italy (Roma, Milano), several operators are active and some quite successfully. TNT is operating via its European Mail Network in Milano and Roma. The business model of integrating local small postal operators into a more extensive network and buying small operators by international postal operators does not seem to be a very attractive option. TNT did this but is coming back from this because of the business restrictions (integrating all different companies and legal status of black labour), according to Poste Italiane. Nevertheless, TNT currently seems to lift on the existing virtual network of tobacco shops and tries to co-operate with them.

In Italy, around ten national newspapers and hundreds of national magazines exist issued by an unknown, but large number of publishers. The distribution of newspapers and magazines is predominantly in the hands of the publishers. The large majority of newspapers and magazines are delivered to kiosks, tobacco shops and subsequent retail outlets instead of at the mailboxes at people's houses. At the local level distribution of press items to peoples' houses take place.

Finally, in the Italian postal market a large number of courier and express operators are authorised to provide value added services.

Effect of competition on market structure and market performance (result indicator), including on US provision

The competitive forces from actual competition will increase in the coming years. Publishers of newspapers and magazines have their own distribution channels that already partly distribute their own products. Foreign incumbent operators such as DPWN and TNT started businesses in the urban areas in Italy and have increased their span of control in express and logistics. Potential competition might arise from publishers starting to expand their own networks and local distributors of addressed mail that also will deliver postal services still protected under the reserved area.

According to Poste Italiane, the network of postal offices is very extensive and dense and even more widespread than in Germany, a larger country with more inhabitants. The branches are fully owned and staffed by Poste Italiane so that the universal service

provider does not have agencies that are shared with others. The presence of a large number of post branches is an asset and a liability at the same time.

Quality of service of the universal service provider has improved considerably in the last years, starting from a low base level five years ago at the start of the rationalisation of Poste Italiane. In 2003, 87.1% of priority mail volume was delivered a day after conveyance, compared to 84% in 2002. For inbound cross border mail, the figures are 89.7% and 88%, respectively. Nevertheless, priority mail takes only in around 12% of the total volume of letter mail. The remaining mail volume is almost completely ordinary mail with a performance of 92.2% (t+3) in 2003 and 92% in 2002. This quality offered by Poste Italiane opens up opportunities for competitors to outperform the universal service provider.

The respective number of mail items per capita therefore is relatively low compared to other countries with a value of around 150 items, according to Poste Italiane. Incidental mail streams, as for example election cards, therefore have a reasonable impact on annual volumes.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postal Act, approval of the sole text of legislative disposition in postal, bank postal and telecommunications	1997	-
Postal law	1 st amendment	1999
Postal law, amended legal decree 384/2003	2 nd amendment	2003
New tariffs of reserved postal services and new prices of universal postal services	23-12-2003	-
Quality standards for the time transit of ordinary mail, priority mail, registered mail and parcels	19-06-2003	-
Scope of the reserved area for maintenance of the universal service	18-12-2002	13-01-2004
Regulations concerning dispositions on general authorisations in the postal sector	04-02-2000	-
Regulations concerning dispositions for issuing individual licences in the postal sector	04-02-2000	-

Source: ECORYS questionnaire (2005)

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	Except for above 100 gram
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	
Outbound cross border mail	Yes	
Direct mail addressed (incl. catalogues)	No	
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been issued? (2005)
Licence	Postal service within the universal service	See text above	260
Authorisation	Postal service outside the universal service (express and courier)	"	

Source: WIK (2004), interview NRA

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: interview NRA, ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003	% distribution addressed
Domestic items of correspondence <50 gram	Confidential	
Domestic items of correspondence 50-100 gram	Confidential	
Domestic items of correspondence >100 gram	Confidential	
Inbound cross border mail	219	
Outbound cross border mail	108	
Direct mail addressed (incl. catalogues)	1,180	
Periodicals / Magazines	Confidential	
Newspapers	1,292	
Un-addressed mail (direct mail, weeklies)	3,750	
Total	Confidential	100%

Source: ECORYS questionnaire (2005), Annual reports Poste Italiane, Fedma (2003), UPU (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2004
B2B	n.a.
B2C	n.a.
C2B	n.a.
C2C	n.a.
Total	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Italy	2004
Population (in million)	57,482 *
Size of the country (in 1000 of square km)	301.3 *
Population density (number of inhabitants per square km) (2002)	189.7
Degree of urbanisation	67,4 ¹ **
Number of inhabitants 5 largest cities (1000)	6,612 (11.5%) ***
Number of domestic letter postal items per inhabitant	107

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	Status
% Government share	100	Partly privatisation under consideration

Note: 30% of the shares are the hands of a government bank CDP S.p.A.

Source: Annual Report Poste Italiane

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2003 in millions of euros	% (2003)
Mail	3,435	42%
Express	419	5%
Logistics	-	-
Other	4,296	53%
Total	8,150	100%

Source: ECORYS questionnaire (2005)

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
France	La Poste	La Poste	
International		FedEx	

Source: Annual Reports Poste Italiane

Table 1.11 Postal network

Poste Italiane	2003
Number of postal service points	13,728 (all post offices, no agencies)
Number of P.O. Boxes	30,000
Number of street letter boxes	67,200
Number of delivery offices	6,405
Number of delivery points / addresses	-

Source: Annual report Poste Italiane, WIK (2004), NERA (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	1	City mail (above 100 gram)
International mail	5	DHL Global Mail, TNT, Spring, Swiss Post International, FedEx, UPS, etc.
Direct mail	3 (larger)	Large number of very small operators, Rinaldi, Romana Recapiti, Mail express
Periodicals / Magazines	-	Publishers with local distributors, city mail operators
Newspapers	-	Publishers with local distributors
Un-addressed mail	Very large number	Small local operators
Upstream mail services	Various	Mailing houses

Source: Ministry of Communications, register of licensed operators (2005), ECORYS (2005)

Table 1.13 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	98-99%	Figures should be handled with caution, very little is known about the Italian postal market
Market share of USP (in terms of turnover) in addressed mail market	>99%	Idem

Note: Because hardly any information is available on the activities of licensed operators, an estimate of market shares is a tricky business. Poste Italiane estimates a market share in the delivery of addressed mail between 95-98%.

Source: ECORYS questionnaire (2005), information based on Poste Italiane

Country information sheet: Latvia

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The latest amendments to the Postal Law of 1994 in 2004 transpose the EU postal directives into the new legal and regulatory framework for the postal sector with as main monopoly rights for Latvia Post: to accept, transfer and deliver within the borders of the State both inland and international letter-post items weighing less than 100 gram. This limitation does not apply if the tariff is the same as or exceeds a three times the tariff of the lowest weight category specified for Latvia Post. This mostly complies with the specifications in the directives. In contrast to what is stipulated in the European postal directives, outbound cross border mail is not fully liberalised. Incoming cross border mail and addressed direct mail is liberalised above 100 gram for a single item.

A general authorisation is required from the Public Utilities Commission (the entity responsible for regulatory tasks in, amongst others, the postal sector) to provide additional postal services and postal services, which are not included in general postal services category. In 2003, the Commission issued 11 authorisations and renewed seven authorisations in the postal sector. At the time of writing 36 authorisations had been handed out, and one licence for the USP.

Short description of relevant developments with regard to the regulatory framework

Disputes between the NPO and competitor postal operators arose in the following areas:

- Definition of letter, addressed mail or printed matter;
- Definition of express letter versus letter correspondence in the Postal Law;
- Unlawful distribution of mail by a competitor in the reserved area.

Short description of the postal sector policy

The Committee of the Cabinet of Ministers has approved a new draft of the Latvian Postal Policy for the period 2005-2009. The approval of the Cabinet of Ministers is expected in 2005. This new draft provides for a further opening of the market in line with European directives, that is, as of January 1st 2006, the weight limit will decrease to 50 gram. It is unclear whether outbound mail will be liberalised at that stage. The policy maker and the regulator seem keen on fully liberalising the market in 2009. Regulated network access is high on the agenda.

The focus of the postal sector policy in Latvia is directed to:

- Gradual liberalisation of the postal market with the goal to open the market for full competition in 2009;
- To promote the availability of universal postal services of adequate quality at affordable prices in the whole territory of Latvia;
- To promote the development of postal services based on new technologies and market information in order to meet and protect consumer interests;
- To promote formation of cost based and affordable tariffs of postal services;
- To foresee the establishment of a compensation fund to redeem (possible) losses of the universal service provider.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

Government regulation

Government policy is somewhat restrictive at the moment as outbound mail has not been liberalised. It is contemplated, however, to fully liberalise the market in 2009.

New entrants

The main new entrants are active in the courier and express markets and in advertising mail. Most of the authorisations have been handed to these types of operators. No entrants are active in letter mail.

Substitution

Substitution is not yet an important factor due to the low level of Internet use in the country. However, significant substitution in financial mail (invoices, statements) is expected. Latvia Post expects a 10% decrease in banks statements and bills of large corporate customers due to the substitution of mail by other means of communication.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

Latvia has a low total mail volume and a low mail per capita. The market for advertising mail is still very small with a share of 15-20% of the total mail volume. This means there is probably room for growth in the market.

The level of competition is relatively low due to these low levels of mail volumes in the country. Competitors mainly target value added postal services such as courier and express services. In addition, some postal operators are active in the addressed direct mail market, which mainly focus on the city areas. With the possibilities for growth of the advertising market, it is likely that entry of a significant competitor for Latvian Post will take place in the advertising mail market segment.

For new entrants, Riga seems to be a good place to start, as 32% of the population resides there. Significant entry can thus be expected from firms employing a local strategy, at

least initially. Economics of scale and density can be reaped rather quickly. In addition, about 42% of the population lives in the five largest cities.

1.1.3 The national postal operator: facts, figures, strategy

Strategies of universal service provider

In 2003, the total revenue of Latvijas Pasts, the universal service provider was 24.4 million lats. Letter correspondence accounted for the largest portion (44%) of the revenue. A significant share of 14% of total revenue was also made up by press and advertisement delivery. It is expected that direct mail will develop in Latvia and that therefore total mail volumes will increase. Income from inbound cross border mail is very important for Latvia Post as it generates almost 14% of total income in 2003. Some traditional services like payments of pensions and benefits, which currently accounts for 8% of the total turnover, are on their way back. In addition, other mail volumes are expected to decline.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

Competitors are mainly active in:

- Courier and express services;
- Value added mail in higher weight categories;
- Un-addressed mail.

So far, 36 authorisations have been handed to these types of companies.

Effect of competition on market structure and market performance (result indicators), including on US provision

To date, no competitors have emerged in the addressed mail market in Latvia. In case of full liberalisation, Latvia Post expects a possible loss in volumes between 10 to 15% for addressed mail, 15 to 25% for addressed advertising mail and 5% in incoming cross border mail. When new players enter the market of postal services, the universal service might come under serious pressure due to the low population density and the small size of the mail market.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postal Law	12 May 1994	26 February 2004

Source: WIK 2004, ECORYS questionnaire (2005)

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Except for above 100 gram
Outbound cross border mail	Yes	Except for above 100 gram
Direct mail addressed (incl. catalogues)	Yes	Except for above 100 gram
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Licence	Sending of domestic and international postal express parcels or letters	Documents are checked in accordance with the law "On Regulators of Public Utilities" and the corresponding normative acts in the regulated sectors	37 (of which one for the USP)

Source: Latvian Postal Law and Public Utilities Commission website

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	Yes
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003	% distribution addressed
Domestic items of correspondence <50 gram	65.1	49.2%
Domestic items of correspondence 50-100 gram	3.0	2.3%
Domestic items of correspondence >100 gram	0.1	0.1%
Inbound cross border mail	6.4	4.8%
Outbound cross border mail	4.6	3.5%
Direct mail addressed (incl. catalogues)	4.6	3.5%
Periodicals / Magazines	3.7	2.8%
Newspapers	47.9	36.2%
Un-addressed mail (direct mail, weeklies)	31.7	
Total	164.1	100%

Source: ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2003
B2B	10%
B2C	75%
C2B	5%
C2C	10%
Total	100%

Note: USP only

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Latvia	2004
Population (in million)	2.3 *
Size of the country (in 1000 of square km)	64.6 *
Population density (number of inhabitants per square km)	35.6
Degree of urbanisation	66.2 ¹ **
Number of inhabitants 5 largest cities	1,055,275 (45.9%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	35

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Latvia Post is a corporatised state enterprise.

Table 1.8 Government share in incumbent postal operator

	2005
% Government share	100%

Source: Annual Report Latvian Post, ECORYS questionnaire (2005)

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2003 in millions of euros	% (2003)
Mail	23.1	60%
Express	0.6	2%
Logistics	-	-
Parcels	2.6	7%
Other	12.0	31%
Total	38.2	100%

Source: ECORYS questionnaire (2005), Annual Reports Latvian Post 2003

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
None			

Source: ECORYS

Table 1.11 Postal network

Latvian Post	2004
Number of postal service points	-
Number of P.O. Boxes	28,520
Number of street letter boxes	2,441
Number of delivery offices	954
Number of delivery points / addresses	908,985 ¹

¹ Number of postal boxes in the whole territory of Latvia, both legal and private

Source: NERA (2004), ECORYS (2005), information provided by NRA

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	Reklamas Pasts, Small local operators
International mail	0	
Addressed direct mail / catalogues	0	
Periodicals / Magazines	0	
Newspapers	0	
Un-addressed mail	<10	

Source: ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
None					

Source: ECORYS

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	100%	Excl. express and courier
Market share of USP (in terms of turnover) in the delivery of addressed mail	100%	Excl. express and courier

Source: ECORYS questionnaire (2005)

Country information sheet: Lithuania

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

On 13 April 2004, the parliament of Lithuania adopted the Postal Law of the Republic of Lithuania. Under this law the reserved services for a universal postal service provider are the clearance, distribution, transport, delivery and handing in of items of domestic correspondence, direct mail and incoming cross border items of correspondence under 100 gram. Outbound cross border mail is liberalised; bulk mail is not specified in the legislation. Access provision is by negotiation and is not regulated.

To provide postal services an authorisation of the Communications Regulatory Authority is required. For courier services no prior authorisation is required, just a notification to the Communications Regulatory Authority is needed. A large number of authorisations have been handed out, of which 11 to postal and/or courier providers and 60 to couriers. The USP has a licence to provide the universal service.

Short description of relevant developments with regard to the regulatory framework

The regulator has dealt with an increasing number of disputes, namely 24 in 2004. Most of these disputes dealt with unlawful distribution of mail in the reserved area. These disputes do not erect legal barriers to entry for new postal operators. However, they indicate the difficult distinction between postal services and courier and express services in the application of Lithuanian postal legislation.

Short description of the postal sector policy

The main goals of the Lithuanian postal sector are to increase the attractiveness of the Lithuanian postal market to users and investors, to liberalise Lithuanian postal services, to ensure the availability of universal postal services and ensure the competitiveness of the postal services.

Postal services shall be liberalised in accordance with the provisions of the postal directives. In the Postal Law, the next step in the liberalisation of the postal market has been provided for. As of 1 January 2006 the weight limit for the reserved area will be lowered to 50 gram.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

New entrants

Entry is apparently easy, considering the fact that the Communications Regulatory Authority received 60 notifications for courier services while giving authorisation for the provision of postal services to 11 organisations. Only two to three companies are active in the distribution of addressed mail.

Substitution

Lithuanian Post expected a 2% decline in the single items of correspondence.

Short analysis of contestability/attractiveness of market segments in the mail market (if different from general analysis), in relation to the market size of the postal sector and country information

With a low total mail volume, a low population density and the lowest volume of mail per capita in Europe, the Lithuanian postal market seems to be unattractive. Prospects are decent though with Lithuanian post expecting a growth of the letter mail volume of 5% in 2005.

Despite the seemingly unattractive mail market, there are still a number of operators authorised. However, they are mainly active in the market for courier services, and not in the conveyance of mail.

1.1.3 The universal postal operator: facts, figures, strategy

Strategies of universal service provider

The conversion of the state enterprise into a public limited company in December 2005 would allow for a faster and more efficient solving of issues related to the optimisation of the infrastructure, sale of long-term assets and reduction of postal staff and postal outlets.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

According to the data obtained on 1 January 2005, 71 postal and/or courier services providers operated in the postal and courier services market: out of this number, 60 providers have the right to provide courier services, ten postal and courier services and one has the right to provide only postal services. In addition, 28 companies are active in un-addressed direct mail.

Effect of competition on market structure and market performance (result indicators), including on US provision

After liberalisation, Lithuania Post expects to lose 20-25% of its market share. The NRA shares this opinion.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Point 42 of Resolution No 55 of the Government of the Republic of Lithuania of 21 January 2004 states that the universal postal service shall be liberalized in accordance with the provisions of the postal directives.	January 2004	-
Resolution No 69 of the Government of the Republic of Lithuania of 24 January 2005. Concerning the amendment of Resolution No 55 of the Government of the Republic of Lithuania of 21 January 2004 (on the approval of the strategy for the development of the postal sector in Lithuania in 2004–2008) schedules the conversion of the company status into a public limited company by 31 December 2005	January 2005	-

Source: WIK 2004, ECORYS questionnaire (2005)

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Liberalized > 100 gram
Outbound cross border mail	No	
Direct mail addressed (incl. catalogues)	Yes	Liberalized > 100 gram
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Notification	Courier services	-	70
Authorisation	Postal services	-	1
	Postal and courier services		10

Source: website NRA Lithuania

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram	40.7	41.6%
Domestic items of correspondence 50-100 gram		
Domestic items of correspondence >100 gram	1.1	1.1%
Inbound cross border mail	5.7	5.8%
Outbound cross border mail	5.2	5.3%
Direct mail addressed (incl. catalogues)	2.3	2.3%
Periodicals / Magazines	0.1	0.1%
Newspapers	42.8	43.7%
Un-addressed mail (direct mail, weeklies)	73.4	
Total	171.3	100%

Source: ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2000
B2B	29.1%
B2C	46.4%
C2B	6.1%
C2C	18.4%
Total	100%

Note: USP only

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Lithuania	2004
Population (in million)	3.4 *
Size of the country (in 1000 of square km)	65.3 *
Population density (number of inhabitants per square km)	52.1
Degree of urbanisation	66.7 ¹ **
Number of inhabitants 5 largest cities	1,357,344 (39.9%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	16

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Lithuanian Post is a state enterprise. As of December 31st 2005, it will be a corporatised state enterprise (public limited company).

Table 1.8 Government share in incumbent postal operator

	2005
% Government share	100%

Source: Annual Report Lithuanian Post

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2004 in millions of euros	% (2004)
Mail	31.0	62%
Express	1.6	3%
Logistics	-	
Other	17.4	35%
Total	50.0	100%

Note: figures in euro might differ because of large exchange rate differences.

Source: ECORYS questionnaire (2005), Annual Report Lithuanian Post

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
None			

Source: ECORYS questionnaire (2005), Annual Report Lithuanian Post

Table 1.11 Postal network

Lithuanian Post	2003
Number of postal service points	945
Number of P.O. Boxes	4,290
Number of street letter boxes	-
Number of delivery offices	944
Number of delivery points / addresses	-

Source: NERA (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	Excl. express and courier
International mail	4	TNT, DHL, Baltic logistic system
Addressed direct mail / catalogues	0	
Periodicals / Magazines	0	
Newspapers	-	Many small private operators distributing press
Un-addressed mail	28	Companies with activity in un-addressed mail not needing a licence/authorisation

Source: ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
None					

Source: ECORYS questionnaire (2005)

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	100%	Excl. express and courier
Market share of USP (in terms of turnover) in the delivery of addressed mail	100%	Excl. express and courier

Source: ECORYS questionnaire (2005)

Country information sheet: Luxembourg

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The Postal Act of 4 May 1877 that regulates the postal sector has been amended in December 2000 and December 2002 to comply with the European postal directives. The delivery of items of correspondence weighing more than 100 gram and a price of three times the public tariff in the first weight step of the fastest standard category is open to competition. The conveyance of addressed direct mail, inbound and outbound cross border mail is currently liberalised if their weight is over 100 gram for one single item. The revenues from cross border mail are essential for the universal service provider in Luxembourg. The conveyance of periodicals, magazines and newspapers is fully open to competition. The distribution of un-addressed mail items is not considered a postal service. In principle, upstream activities by other companies than the universal service provider are allowed.

The Entreprise des Postes et Télécommunications Luxembourg (EPT) is the universal service provider in Luxembourg and is obliged to fulfil the universal service obligations based on the (amended) Postal Act and the Règlement Grand-ducal of 10 March 2001. The universal service comprises the conveyance of items of correspondence, addressed direct mail, books, catalogues, newspapers and other periodicals weighing up to 2 kg and postal packages of up to 10 kg; as well as a service of registered items and service of insured items. The universal service provider has to collect and deliver five times a week at every working day at a uniform tariff. The Règlement Grand-ducal sets a standard for the minimum required quality of the conveyance time for the distribution: at least 95% (99%) of addressed domestic mail items needs to be delivered one (two) working day(s) after the item has been handed over to the universal service provider.

In order to provide postal services outside the reserved area, postal operators need to declare their operations at the Institut Luxembourgeois de Régulation (see below). The provision of postal services within the reserved area by law is restricted to the universal service provider that operates based on a contract with the state.

In the legislation, mandatory regulated access to the facilities of the universal service provider is not mentioned. However, postal operators are allowed to negotiate access to the postal infrastructure but merely on a non-discriminatory and commercial basis without regulatory guidance by the regulatory authority.

The Institut Luxembourgeois de Régulation (ILR) is the national regulatory authority in Luxembourg and responsible for postal sector regulations and monitoring. ILR supervises the provision of the universal service, is responsible for market surveillance and assures the protection of postal users.

Short description of relevant developments with regard to the regulatory framework

Potential legal barriers to entry form the current issues. EPT currently does not have to levy VAT on its universal postal services, while competitors do have to do. On the other hand, EPT cannot ask for VAT reimbursement on its inputs.

The ILR had to deal with a few disputes regarding postal sector activities regarding:

- Definition of letter, addressed mail or printed matter by competitor postal operators;
- Unlawful distribution of mail by a competitor in the reserved area.

Short description of the postal sector policy

Government policy is directed to maintaining the universal service obligations and the viability of the universal service provider. According to the universal service provider, the universal service should remain accessible throughout the whole territory of Luxembourg for all customers, keeping in mind both the needs of small senders and of larger enterprises. A balance should be ensured between universal service requirements and the availability of funds to finance the provision of the universal service. The maintenance of a reserved area to the USO provider might prove to be a necessary condition to ensure the provision of the USO. State funding may be an efficient and practical instrument, according to the universal service provider.

In the amended Postal Act, the decision to reduce the reserved area for addressed mail up to 50 gram as of 1 January 2006 has already been taken. No further policy actions are planned concerning the further liberalisation of the postal market. The ILR states that further liberalisation is expected to have a negative impact on the national postal operator, mainly because of the status of its employees as civil servants. Liberalisation of addressed mail above 50 gram and regulated access to the facilities of the incumbents is the preferred scenario of the postal regulator. The universal service provider does not oppose a further liberalisation of the postal sector, as long as it is guaranteed that the financial burden of the universal service is compensated for. Its preferred scenario is the liberalisation of addressed mail above 50 gram.

1.1.2 Forces governing competition (Porter's analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

Government regulation

The absence of a licensing system makes it relatively easy to enter the postal market in Luxembourg.

New entrants

Currently, competition is mainly in the provision of value added postal services in the higher weight categories and courier and express mail services. In the distribution of addressed mail, Dintec is one among other operators active.

Substitution

Addressed mail volumes in Luxembourg have shown a trend toward stabilisation over the last five years, as indicated in the next table which shows the volumes for EPT.

Development of mail volumes of EPT (in millions of items)

Postal products	2000	2001	2002	2003	2004
Addressed mail	180.6	180.8	178.1	177.8	176.8
Un-addressed mail	26.5	26.0	24.5	27.6	37.2
Newspapers	22.5	22.3	23.0	22.6	39.9
Periodicals	18.3	18.7	18.4	16.8	
Total	247.9	247.8	244.0	244.8	253.9

Source: Annual Reports P&T Luxembourg 2000 – 2004, information provided by NRA

Electronic substitution of mail is already at work but does not seem to erode mail volumes substantially. The high per capita incomes and high penetration of Internet access and Internet use have influenced the distribution of items of correspondence already. There still is potential for growth in the distribution of addressed direct mail.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The postal market in Luxembourg is attractive to competitor postal operators. In Luxembourg, GDP per capita is the highest in the European Union and therefore the number of postal items per capita is very high. In terms of geographical circumstances, Luxembourg is a small country that can be covered easily by competitors, has a more than average population density and degree of urbanisation. Moreover, the 50 largest clients are responsible for 55% of the volumes of addressed mail, while the 100 largest supply 71% of all addressed mail. Therefore, the importance of large clients is relatively large.

1.1.3 The universal postal operator: facts, figures, strategy

The Entreprise des Postes et Télécommunications Luxembourg (EPT) is the universal service provider in Luxembourg. EPT is a shareholder in Michel Greco SA, one of the several distributors of parcel services, and in TNT Luxembourg, one of the several providers for express services. EPT is active in postal services, financial services and telecommunications.

Financial performance EPTL (in millions of euro)

Revenues	2000	2001	2002	2003	2004
Mail	106.46	112.35	114.09	116.18	123.9
Financial services	4.52	24.61 ¹	22.64	21.15	22.3
Total	110.98	136.96	136.73	137.33	146.2

¹ In 2001 considerable legal changes concerning the financing of financial services have occurred.

Source: Annual Reports P&T Luxembourg 2000 - 2004

EPT earns its turnover in mail fully in the domestic market and is not active in international markets. The operating revenues in postal services have gradually increased in the last few years due to the introduction of higher tariffs in 2003 and the financial compensation by the state for providing a universal service for periodicals, magazines and newspapers.

Development of handled items in postal activities by EPT

Segments	2000 in millions of items	2004 in millions of items
Letter and advertising mail (addressed and un-addressed)	247.90	253.90
Parcel Mail	0.28	0.40
Express	0.003	0.002
Logistics	0	0
Total	248.183	254.232

Source: ECORYS questionnaire (2005)

The total volume of addressed and un-addressed mail items delivered has been rather stable for the past few years. The turnover on addressed direct mail is growing over the last few years while the turnover on items of correspondence stays behind.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

Competitors are mostly active in courier and express services and in logistics. The market for addressed mail is still largely reserved to the universal service provider as outgoing cross border mail is still reserved to EPT in respect of the weight and price limits. An overview of postal operators in Luxembourg, that have declared operations at ILR, is provided in the next table.

Postal operators in Luxembourg that have declared their operations at ILR

Number	Name of operator (in alphabetical order)
1	ABC Services S.à.r.l.
2	DHL International S.à.r.l.
3	Dintec S.A.
4	ECS Logistics S.à.r.l.
5	Entreprise des Postes et Télécommunications
6	Express Road S.A. succ. Luxembourg
7	Fast Courier & Service
8	La Poste SA
9	Lentz Express S.A. (UPS)
10	Michel Greco
11	Overnight Parcel Courier GmbH
12	Overseas Courier Service S.à.r.l.
13	Road runner S.à.r.l.
14	Securitas S.A.
15	Semes International Express S.à.r.l.
16	TaxiPost nv/sa / Belgian Post Solutions
17	TNT Express Luxembourg S.A.
18	G3 WORLDWIDE (Belgium) S.A. Spring
19	World Courier Belgium S.A.

Source: ILR website

Dintec is a postal operator, apart from express and courier operators, active in the conveyance of magazines, catalogues and items of correspondence and addressed direct mail outside the reserved area (> 100 gram). The company is also active in express operations and logistics. The company offers services to mainly mail order firms and large retailers. Dintec states that it has a market share of 1% on the market for addressed mail. Dintec expects a promising future with an expected growth of 50% in the coming three years in turnover, volumes delivered and employment. It expects to be active in the delivery of all types of addressed mail after liberalisation.⁴⁵

The postal market in Luxembourg is to our opinion potentially attractive when the market is further liberalised. The relatively large share of international mail in total mail volumes seems to make the market attractive as opportunities exist for international players to provide a one-stop-shop offer to the largest senders of mail. As shown in the table of the operators that declared their operations at ILR, all major international postal operators are already present.

Effect of competition on market structure and market performance (result indicators), including on US provision

In the Luxembourgian postal market, the universal service provider still possesses a dominant position. The performance of EPT is rather good. The quality of service in terms of the transit time of mail is rather good in international perspective. In 2003, EPTL

⁴⁵ Source: information provided by Dintec based on a questionnaire sent out.

delivered 97.3% of the items handled a (working) day after acceptance. This quality of service result has been, more or less, remained stable in the last five years.

However, a further liberalisation of postal markets will have a large impact on the position of the postal operators. EPT may lose a large share of the market after full liberalisation. The regulatory authority and universal service provider in Luxembourg indicate that full liberalisation will have a negative impact on the national postal service provider up to a loss of 15% to 25% market share in addressed mail. The expected loss of mail volumes in core markets is indicated below.

Postal product	% decline in volume of universal service provider due to electronic substitution	% decline in volume of universal service provider after full liberalisation
Bank statements	10%	18%
Bills of large customers	3%	15%
Single items of correspondence	5%	12%
Addressed advertising mail / direct mail	0%	15%
Magazines	0%	20%
Catalogues	3%	20%

Source: ECORYS questionnaire (2005)

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Loi sur les services postaux	4 May 1877	See below
Loi modifiée (A-No. 135 Recueil de la législation Services Postaux)	15 December 2000	Realign with first directive
A-No 161 Recueil de la législation Services Postaux	20 December 2002	Realign with second directive
Règlement Grand-ducal	10 March 2001	None Dealing with the transit time of the conveyance of the universal postal service

Source: ECORYS questionnaire (2005), Legal documentation

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Except for above 100 gram
Outbound cross border mail	Yes	Except for above 100 gram
Direct mail addressed (incl. catalogues)	Yes	Except for above 100 gram
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Mandated by law	Reserved area	Provision of universal service	1
Declaration	All postal services outside the reserved area	The operator has to inform the regulator, on a special form, that he wants to offer postal services and that he will respect the legal framework.	19 declared operators (EPT included)

Note: there is no system of licensing in Luxembourg

Source: ECORYS questionnaire (2005), Postal legislation

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram	36	16.0%
Domestic items of correspondence 50-100 gram	17	7.6%
Domestic items of correspondence >100 gram	16	7.1%
Inbound cross border mail	28 ¹	12.4%
Outbound cross border mail	45 ¹	20.0%
Direct mail addressed (incl. catalogues)	43	19.1%
Periodicals / Magazines	17 ¹	7.6%
Newspapers	23 ¹	10.2%
Un-addressed mail (direct mail, weeklies)	31 ¹	-
Total	256	100%

Note: the data on items of correspondence and addressed direct mail should be handled carefully as they are estimates by ECORYS. The total number of domestic addressed mail (the sum of items of correspondence and addressed direct mail is 112 million items.

¹ USP only

Source: ECORYS questionnaire (2005), UPU (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2000	2004
B2B	36%	34%
B2C	49%	51%
C2B	10%	11%
C2C	5%	4%
Total	100%	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Luxembourg	2004
Population	450,000 *
Size of the country (in 1000 of square km)	2.6 *
Population density (number of inhabitants per square km)	174.0
Degree of urbanisation	91.9 ¹ **
Number of inhabitants 5 largest cities	156,000 (34.7%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	449

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	Status
% Government share	100%	P&T Luxembourg is one of the few operators in the EU where telecommunications, posts and financial services are combined in one organisation. It is an incorporated state enterprise No change of status indicated

Source: ECORYS questionnaire (2005)

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000	2004	%
	in millions of euros	in millions of euros	(2004)
Mail	105.2	123.4	23%
Express	1.3	0.5	0%
Logistics	-	-	-
Other	326.6	412.7	77%
Total	433.1	536.6	100%

Source: ECORYS questionnaire (2005), Annual Reports EPT

Table 1.10 Overview acquisitions, alliances and partnerships

Country	Mail	Express	Logistics
Luxembourg	-	TNT	Michel Greco

Source: Annual Reports EPT

Table 1.11 Postal network

EPT	2004
Number of postal service points	108
Number of P.O. Boxes	6,659
Number of street letter boxes	1,159
Number of delivery offices	38
Number of delivery points / addresses	200,000

Source: NERA (2004), WIK (2004), information provided by NRA

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	1	Dintec (excl express and courier), DHL Global Mail
International mail	5	DHL Global Mail, TNT, FedEx, G3 Worldwide / Spring, La Poste, Dintec,
Addressed direct mail / catalogues	2	Dintec, New Fast Mail
Periodical / Magazines	2	Dintec, New Fast Mail
Newspapers	2	Imprimerie St Paul, Editpress
Un-addressed mail	1	Lux diffusion
Upstream mail services	Various	A.o. Editus, Michel Greco, Victor Buck services, Lettershop, APEMH, Dintec, Let-Lux

Source: ECORYS questionnaire (2005), information provided by ILR

Table 1.13 Competitors on the postal market

Postal operator	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Dintec	3-4 mln items of addressed mail / turnover 2 mln euro	-	Daily	Nationwide

Source: ECORYS questionnaire (2005), websites

Table 1.14 Market share of the incumbent operator

	2004
Market share of USP (in terms of volume) in the delivery of addressed mail	98-99% (excl. express and courier) 93% (incl. express and courier)
Market share of USP (in terms of volume) in the delivery of addressed direct mail	98-99% (excl. express and courier) 93% (incl. express and courier)
Market share of USP (in terms of volume) in the delivery of un-addressed mail	80%

Source: ECORYS questionnaire (2005), calculations by ECORYS based on volume data, information provided by ILR

Country information sheet: Malta

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

In deviation of the EU postal directives, Malta has not liberalised outbound cross border mail outside the general 100 gram limit but included it in the reserved area.⁴⁶ Addressed direct mail is liberalised for all mail over 100 gram per item. The conveyance of items of correspondence and addressed direct mail with a weight of less than 100 gram and less than three times the basic rate is therefore reserved to the universal service provider Malta Post plc (hereinafter referred to as Malta Post). Un-addressed mail is not seen as a postal service and is hence liberalised. The delivery of periodicals, magazines and newspapers to the houses of the inhabitants of Malta is also open to competition. Postal regulations in Malta do not define bulk mail products.

The postal sector policy, as specified in the relevant regulations, provides for a licensing regime, where a distinction is made between an individual licence (the licence for the universal service provider) and general authorisations for all postal operations outside the reserved area for private postal operators. The conditions for the general authorisation are not restrictive. Effectively, it amounts to registering the presence of operators on the postal market (widely defined).⁴⁷

Currently, Malta Post is the only licensed postal operator in Malta. In May 2004, the Malta Communications Authority (MCA, see below) designated Malta Post as the universal service provider with the obligation to provide all universal services required by or under the Postal Services Act. In December 2004, the Minister for Competitiveness and Communications issued Malta Post with a revised licence for the operation of universal postal services. The minister is to bring new postal service regulations into force in the near future, determining which additional operators may be issued with a licence or a general authorisation depending on the type of services offered.

In the postal legislation of Malta, there are no provisions on regulated access. The current regulations are directed at the obligation to negotiate access between postal undertakings regarding the handing over of mail items at the premises of the universal service provider.

⁴⁶ Malta makes use of the potential exemption that is included in article 7 of the Postal Directive.

⁴⁷ In the explanatory memorandum on draft postal services regulations information is provided on the conditions attached to the licences and general authorisations. http://www.mcma.gov.mt/pdfs/postal_services_memo.pdf

Moreover, the obligation to provide access is at the discretion of the Malta Communications Authority. Access is further delineated in the proposed postal service regulations to be brought in force in the near future.

The Postal Services Act identifies the Malta Communications Authority as the competent authority to regulate postal services. The MCA is the national agency responsible for the regulation of the postal and telecommunications sector. It was established on 1 January 2001.

Short description of relevant developments with regard to the regulatory framework

The Malta Communications Authority has undertaken a consultation procedure regarding the procedures for dispute resolution if disputes between postal undertakings occur.

Major issues in these procedures are:

- A time period of four months for the resolution of disputes, under the current regime no such timeframe is indicated;
- MCA must make its decision accessible to the public and communicate to all the parties of the disputes the reasons for its decision.

Mainly, the regulatory issues in the postal sector in Malta relate or are envisaged to relate to complaints about cross-subsidisation by the USP of the delivery of un-addressed postal items. In addition, a number of potential operators have expressed their concern with respect to the exemption of VAT by the incumbent universal service provider and the resulting playing field that is not level.

Short description of the postal sector policy

The Maltese postal sector liberalisation policy reflects the policy adopted by the EU. Recent policy changes are in line with EU postal directives in terms of the reserved area. The reduction of the reserved area to 50 gram in 2006 is already incorporated in the legislation. Postal policy is mainly shaped by Parliament via the enactment of primary legislation.

The licensing procedures and conditions are currently under consultation. The proposed regime is a three-tier system: (1) a USP licence, (2) a non-USP licence for alternative operators that operate in the universal service area, and (3) an authorisation for operators not operating in the universal services area, like providers of express services. The non-USP licence carries restrictions with respect to the provision of information, mail protection procedures, and accounting separation. Obligations for the general authorisation are minimal. A payment for licences and authorisations is required, the payment for authorisations being relatively low.

The regulator believes that access to the facilities of the incumbent is not likely to be an issue given the small size of the Maltese Islands, where a network could be possibly replicated. At the moment, it is not contemplated to establish a compensation fund as the universal service provider is currently deemed to be financially viable. A compensation fund may be considered in the future.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing

Government regulation

Government regulation is in line with amended postal directive 2002/39/EC, but there exist hesitations with regard to the last step in the liberalisation process for addressed mail under 50 gram, given considerations that it may be difficult to maintain universal service obligations. Outbound mail is not liberalised at the moment. Outbound mail forms a significant part of the total mail market.

New entrants

New entrants have come up in the courier and express markets and for un-addressed mail, but addressed mail is still almost completely provided by Malta Post.

Substitution

No large impact is expected as smaller companies generate most mail. So far, the impact of substitution by electronic media is limited and it continues to be so as expected by MCA. Malta Post expects the following impact of full liberalisation on its volumes, but the figures seem to rather opportunistic.

Impact on volumes of full liberalisation for Malta Post	
Addressed items of correspondence	- 15/25%
Addressed direct mail	> 25% down
Incoming cross border mail	> 25% down

Source: ECORYS questionnaire (2005)

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The size of the postal market is very small, with a mail volume per year of less than, for example, one-day mail volume in Germany. The interest of competitors in the postal market is limited at the moment. Competitors are mostly present in courier and express mail services. Population density on Malta is very high, which indicates that replication/erection of a network could be feasible.

The total volume of inbound and outbound cross border mail is rather important for Malta Post as almost one third of their revenues are generated by cross border mail, of which two-thirds by inbound cross border mail, which is in the reserved area.

1.1.3 The national postal operator: facts, figures, strategy

An overview of the turnover of Malta Post is indicated in the next table.

Financial performance Malta Post

	2000	2001	2002	2003	2004	2004
	MTL	MTL	MTL	MTL	MTL	In €
Turnover	6,487,596	6,765,354	6,813,345	7,337,696	7,073,737	16,364,100
Expenditures	6,028,949	7,045,981	6,940,662	7,097,554	6,958,243	16,096,921
Operating profit/loss	458,647	-480,627	-127,317	240,415	115,494	267,179
Net post-tax profit	333,773	-394,107	-63,326	275,422	149,728	346,375

Source: Annual Reports Malta post plc. 2001-2004

The main income is realised in postal services. Inbound cross border mail is important for Malta as this contributed to almost one-fifth of total turnover of the company. Parcel mail volumes almost remained the same over the period 2001 -2004. The sales of philately products make a significant contribution to Malta Post revenues, in which segment sales have increased more than twofold since 2000.

Malta Post revenues split out

	2000	2001	2002	2003	2004
	MTL	MTL	MTL	MTL	MTL
Stamps	4,272,089	4,401,469	4,330,839	4,895,983	4,396,269
Index	100	103	101	115	103
Philately	206,459	212,975	201,957	344,690	537,587
Index	100	103	98	167	260
Terminal dues receivable	1,012,045	1,157,690	1,160,559	1,061,270	1,148,564
Index	100	114	115	105	103
Courier	99,694	116,592	120,682	125,034	104,815
Index	100	117	121	125	105
Parcels	224,645	274,271	276,132	273,592	273,540
Index	100	124	125	123	123
Other income post	357,119	403,418	506,838	334,216	309,265
Other income non-post	60,386	198,939	216,338	303,184	303,692
Other income	6,487,596	6,765,354	6,812,345	7,337,969	7,073,737
Index	100	104	105	113	109

Source: Annual Reports Malta Post plc. 2001-2004

Strategies of universal service provider

Malta Post plc concluded a technical services and support agreement with Transend Worldwide Ltd, a subsidiary from New Zealand Post on 1 February 2002. Later that year a 5-year Business plan was developed and approved to make a turnaround from a state enterprise into a commercial oriented company. Currently, the Maltese government has a 65% stake in Malta Post.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

Competitors are mostly interested in value added mail such as courier and express mail and have relatively little interest in the small (addressed) mail market in Malta.

Main postal operators in Malta		
National	Malta Post plc	Universal Service provider
International	Branch offices of international integrators such as UPS, FedEx, DHL and TNT	International express mail and courier services
Local express operators	Miles Express Cargo Commercial Couriers Ltd. BAS Ltd. Security Service Malta Ltd.	Local express mail and courier services

Source: ECORYS questionnaire 2005, Annual Reports Malta Post 2000 -2003

Effect of competition on market structure and market performance (result indicators), including on US provision

In the conveyance of addressed domestic mail, competition is non-existent and the incumbent Malta Post has a market share of 100%. In the advertising mail markets, especially for the delivery of magazines and un-addressed mail, competitors have been able to gain a share of the market.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Chapter 254 – Postal Service Act	2004	-
L.N. 124 of 2003 Post Office Act 2002	2002	-
Postal Services (General) Regulations	(Pending publication of postal services regulations by Ministry)	

Source: ECORYS questionnaire (2005), information provided by NRA

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Except > 100 gram
Outbound cross border mail	Yes	
Direct mail addressed (incl. catalogues)	Yes	Except > 100 gram
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Licence	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Individual licence General Authorisation	Reserved services Non-reserved services	Able to maintain USO Conditions regarding quality of service, availability and performance. Obligations not to infringe the rights of the USO provider.	1 The Postal Services Regulations have not been brought into force by the Ministry

Source: Postal Service Act Malta, ECORYS questionnaire (2005)

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: Postal Services Act Malta, ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003	% distribution addressed
Domestic letter mail <50 gram	36.0	61.2%
Domestic letter mail 50-100 gram	3.9	6.6%
Domestic letter mail >100 gram	0.6	1.0%
Inbound cross border mail	8.1	13.8%
Outbound cross border mail	5.5	9.4%
Direct mail addressed (incl. catalogues)	3.2	5.4%
Periodicals / magazines	1.5	2.6%
Newspapers		
Un-addressed mail (direct mail, weeklies)	12.8	
Total	71.6	100%

Note: All figures are estimates, based on sampling

Source: ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2000	2003
B2B	3%	2%
B2C	72%	75%
C2B	10%	9%
C2C	15%	14%
Total	100%	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Malta	2004
Population (in million)	0.4 *
Size of the country (in 1000 of square km)	0.316 *
Population density (number of inhabitants per square km)	1,265.8
Degree of urbanisation	65.8 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	85,639 (21.4%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	147

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Malta Post is a public liability company.

Table 1.8 Government share in incumbent postal operator

	2005
Government share	65%
Transend Worldwide Ltd.	35%

Source: Annual Reports Malta Post plc. 2001 -2004

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000 / 2001	2003 / 2004	%
	in millions of euros	in millions of euros	(2003 / 2004)
Mail	13.4*	11.8	77%
Express	0.3*	0.2	1%
Logistics	-	-	
Other	?	3,3	21%
Total	13.7*	15.3	100%

Source: ECORYS questionnaire (2005), Annual Reports MCA Malta

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
New Zealand	Transend Worldwide Ltd.		

Source: ECORYS questionnaire (2005), Annual Report MCA Malta

Table 1.11 Postal network

Malta Post	2003
Number of postal service points	51 (31 by Malta Post / 20 by others / 1 mobile)
Number of P.O. Boxes	525
Number of street letter boxes	472
Number of delivery offices	9
Number of delivery points / addresses	128,990 (approximately)

Source: NERA (2004), National Statistics Office Malta, information provided by NRA

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	TNT, DHL Global Mail
International mail	2	
Addressed direct mail	0	
Periodicals / Magazines	-	
Newspapers	-	
Un-addressed mail	A few	

Note: information on the number of operators active in the distribution of press items is not currently available as only the USP is licensed.

Source: ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
None					

Source: ECORYS questionnaire (2005)

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	100%	Excl. express and courier
Market share of USP (in terms of volume) in the delivery of addressed direct mail	100%	Excl. express and courier
Market share of USP (in terms of volume) in market for un-addressed advertising mail	50%	Approximately, no specific information available on volumes of un-addressed mail

Source: ECORYS questionnaire (2005)

Country information sheet: The Netherlands

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The Dutch postal market is and has been relatively open to competition for a long time, starting with the transformation of the Dutch postal sector in 1989 when the delivery of letter mail above 500 gram was liberalised. During the last fifteen years, the size of the reserved area was lowered in compliance with the postal directives 97/67/EC and 2002/39/EC. Currently, the conveyance of domestic items of correspondence above 100 gram, outbound international mail and inbound international mail (above 100 gram) and addressed printed matter are liberalised under the amended Postal Law of 1 June 2000. The distribution of periodicals, magazines and newspapers has always been open to competition. In the Netherlands, addressed printed matter does not fully equate to the used terms addressed direct mail in this study. The exact boundary of the postal product addressed printed matter has been the subject of disputes. In practice, addressed printed matter more or less corresponds to addressed direct mail.

TNT, the universal service provider, is obliged, according to the Postal Act, the Postal Decree and the General Postal Guidelines Decree (BARP), to fulfil the universal service obligation. The universal service obligation involves the conveyance of domestic ordinary and registered letters and printed matter up to two kilogram and parcels up to 10 kilogram, and the dispatch and delivery of international letter up to two kilogram and parcels up to 20 kilogram. In order to fulfil this obligation, TNT has a legal monopoly on letters up to 100 gram at a rate of no more than three times the rate of a standard letter, as well as the exclusive right to place post-boxes on the public road and to issue postage stamps bearing the word 'Nederland' and the image of the queen. Letter mail items outside the reserved area (between 100 gram and 10 kilogram) and conveyed at single items rates fall under the universal service. TNT has to deliver the universal service six times a week at uniform tariffs.

Apart from the concession granted to TNT to provide universal services, postal operators do not need a licence or a registration to provide postal services. The Postal Act and secondary legislation do as such not erect legal barriers to entry for new postal operators.

Dutch postal legislation does not arrange regulation of access to the facilities of the incumbent operator. However, TNT, as a concession holder, is obliged to offer access to competitor postal operators for the delivery of mail at the P.O. Boxes located in the

premises of the universal service provider. Negotiated access applies to the delivery of bulk mail by large customers and competitors at the sorting centres of TNT. The access conditions need to be transparent, non-discriminatory and based on underlying costs avoided.

Opta, the national regulatory authority, is responsible for the supervision of the Postal Act and secondary legislation. Opta assesses based on the annual concession reports of TNT whether or not TNT has met its obligations with respect to the provision of the universal service, such as the quality of service, proper cost allocation and the postal rates applied. In addition, Opta settles disputes between TNT and other postal operators.

Short description of relevant developments with regard to the regulatory framework

Disputes

Opta has dealt with the following disputes in their history:

- Difference between a letter and printed matter / unlawful distribution of mail by a competitor in the reserved area: Dutch legislation deviates from the postal directives in the sense that the term printed matter is not the same. The court handled a dispute about the question if tax forms are printed matter or letters. A competitor of TNT had signed, after consultation, a contract with the Dutch tax administration to distribute their forms. The Court judged that tax forms are letters and therefore are inside the reserved area. In addition, a dispute about the distribution of election calls took place, with a comparable outcome;
- Access to P.O. Boxes: a dispute about unfavourable and discriminatory access conditions for a competitor to the facilities of TNT between the universal service provider and postal operator (such as the time competitors can access P.O. Boxes);
- Return mail: the distribution of return mail (mail that is wrongly addressed) first delivered by a competitor and inserted into the street letter collection boxes was charged to the clients of competitors at commercial prices (tariff for handling plus a fine). This caused a financial burden for the clients of the competitors and hindered switching of postal operators. TNT and the main competitors have concluded a contract about how to proceed in the future with return mail. They also agreed on a compensation mechanism;
- Access conditions: competitors complained about the conditions under which TNT allows them to hand over their mail in comparison with large customers. According to a competitor, their employees are forbidden to drive to the docking station at a sorting centre of TNT; instead, they had to walk.

Barriers to entry

Competition in the Netherlands is not limited by the existence of large legal barriers. Postal operators do not need a licence to provide postal services. The main reason for the absence of a licence regime is that the policy maker believes that general regulations for carrying out a business provide sufficient conditions to guarantee a minimum standard of quality. In addition, if postal operators do not perform well, the main clients provide considerable buying power to discipline postal operators. Competitors name two regulatory barriers to entry in the Netherlands: VAT and uncertainty about the near future on liberalisation. The advantage of the exemption of VAT of TNT on the provision of universal services gives them a competitive advantage that, according to the competitors,

needs to be resolved at a European level. The Ministry of Economic Affairs, however, states that the issue of VAT has already been solved and a level playing field has been created. Secondly, the uncertainty about the real date of full liberalisation still hinders competitors. The Dutch government has announced that it will liberalise the postal market fully in 2007 in accordance with full liberalisation in Germany and the United Kingdom. However, as still no legally binding decision has been taken, this leads to uncertainty for competitor postal operators and limits them in attracting (potential) clients for the distribution of items of correspondence after full liberalisation.

A practical barrier for new postal operators forms the current postal code system. TNT now manages and handles the database of postal codes. According to a competitor, the Postal Act should guarantee that the database of postal codes is managed well and is easily accessible to other operators. A reference was made to Sweden where Posten and CityMail have established a joint venture for the organisation and maintenance of the postal code system. The Ministry of Economic Affairs stresses the importance of an accessible database but argues that TNT has already responded appropriately to allow competitors to have access to the database in a timely fashion. In the preparation of the amendment of the Postal Act, the Ministry of Economic Affairs will assess whether a separate legislative article is necessary.

Short description of postal sector policy

The Ministry of Economic Affairs has issued a postal memorandum that sets the general framework for future postal sector policy and provides a vision for the future regulation of the Dutch postal market. Dutch parliament adopted and agreed upon the postal memorandum and its supplement at December 16th 2004.

In the framework of transposing the directive 2002/39/EC, the Dutch government already decided to reduce the reserved area to items of correspondence below 50 gram in 2006. In addition, the postal memorandum foresees full liberalisation of the postal market in the Netherlands in 2007, under the condition that the postal markets in Germany and the United Kingdom are fully liberalised at the same date. In case full liberalisation in these two countries is delayed, the Ministry of Economic Affairs is willing to include an 'emergency brake procedure' in order to be able to postpone full liberalisation.

Moreover, the universal service obligation will, for the first five years after full liberalisation, remain unchanged in the vision of the Ministry. Bulk mail letters up to 50 gram will remain part of the universal service for a transitional period after liberalisation. The Minister of Economic Affairs will assess whether it will be necessary to have bulk mail letters up to 50 gram fall under the universal service for a certain time period after full liberalisation. TNT will continue to provide the universal service. However, the scope of the universal service may change over time depending on the future demand for postal services. Currently, there is no clear reason to deviate from the existing conditions. According to TNT and a competitor, the requirements for the provision of the universal service should change and be realigned with consumer demand. The degree of substitution and the observation that the criterion of affordability is less and less relevant given the average annual expense of a consumer on mail of around 22 euros, asks for a change (supplemental postal memorandum, 2004). A change in the number of deliveries

per week from six to five times will be enough to still offer a qualitatively service. A survey by TNS-Nipo shows that almost 60% of the Dutch consumers think that the reduction of the number of deliveries a week from six to five is acceptable.⁴⁸ According to TNT, the scope of the universal service should be limited to single mail items for consumers and small business customers.

In the vision of the Dutch government, there is no need for regulated access to the facilities of TNT. The Ministry considers the collection of consumer mail via street letterboxes a natural monopoly. But, the prospected absence of competition in this particular service and the difficulty of splitting the mail streams of competitors and TNT impede the implementation of this type of access. Downstream access is, according to the Ministry of Economic Affairs, covered by negotiations based on the principles of transparency and non-discrimination. The Ministry argues that competitor postal operators have already established a nationwide delivery network. Opta prefers to establish regulated access to the delivery network. They argue that the process of delivery of mail within 24 hours has characteristics of a natural monopoly. Opta says that regulated access to the delivery network will be necessary in the period just after liberalisation in the transition to a competitive postal market. Sandd and Selekt Mail Nederland see no need for regulated downstream access. They have already established their own distribution network and think that regulated access leads to quality problems for TNT as well as for them. The dependence on TNT furthermore does not lead to an actual choice for customers since the distribution still relies on TNT. The main competitors would like to offer flexible solutions to their clients and the use of the facilities of the universal service provider limits their opportunities to do so.

As said, the Dutch government approves the vision about future postal regulation. Within the Ministry of Economic Affairs, a project group has started with drafting the postal memorandum into the amendment of the current Postal Act. Currently, modifications in the Postal Act are discussed with the stakeholders and will lead to a draft amendment to the Postal Act this autumn. In 2006, Parliament will discuss these amendments.

Currently, the Ministry of Economic Affairs is, supplementary to the postal memorandum, investigating what regulatory measures should be taken to protect the interests of users of postal services. In the memorandum it has already been foreseen that consumers will have no real alternative in the short run and probably also not in the coming five to ten years. Price regulation will thus persist. Uncertain to date is whether other segments of the postal market are a reason for concern. According to the Ministry of Economic Affairs, large mailers, such as banks, worry that bulk mail with a service level of delivery within 24 hours will not be open to competition, at least in the next two years. Possible solutions to overcome these problems are the continuation of a tariff regulation system for this particular kind of mail.

⁴⁸ TNS-Nipo (2004), *Betekenis en belang van postdienstverlening (Significance and importance of the provision of postal services)*, report for Ministry of Economic Affairs in the Netherlands

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

Government regulation

Dutch postal sector regulation has stimulated the development of competition in the Netherlands. Steps in the liberalisation process have been implemented well ahead of the directive 2002/39/EC time schedule leading to a large number of new entrants in the postal market in the Netherlands. Furthermore, as no licence or registration is required to offer postal services, legal entry barriers are minimal. The policy towards full liberalisation is based on market developments and market pressures in the Netherlands and fully in line with EC liberalisation policy of the postal sector.

New entrants

In most segments of the Dutch postal sector, competition has been growing in the past years. Various operators are active in the delivery of mail. Sandd and Selekt Mail Nederland are national operators providing the entire spectrum of liberalised postal services, that is, the delivery of letters (above 100 gram), inbound international mail, addressed direct mail and catalogues, and magazines. Royal Mail Nederland is active in inbound international mail and P.O. Box deliveries. The major publishers have their own distribution activities in the distribution of newspapers and magazines, apart from TNT. Several small postal operators such as Business Post and MailMerge are also active.

Substitution

Since 2000, mail volumes show a decline in the Netherlands due to two main sources: the development of competition and substitution of mail. The volume decline of 0.4% in 2000 has increased to a decline of 3% in 2002. These figures are based on TNT data and show an increased decline than the total market. Over a four-year period, competitor postal operators have been capable of securing 140 million items, so that the Dutch market for addressed mail has declined slightly in volume. TNT applies scenarios that show a volume decline of addressed mail in the Netherlands handled by TNT between 3% and 4% per year in the period up to 2010. The major part of this decline will be the result of competition. Electronic substitution will have the largest impact on the delivery of items of correspondence. According to a survey by TNS-Nipo, 67% of the consumers claim to have sent less mail since they use e-mail. For SMS this percentage is 30%, while 26% of the consumers state that they send more mail since they use the Internet.

Buyers

The competitive force of buyers of postal services (the suppliers of mail) is large in most segments of the postal sector. Large customers such as banks, utilities and publishers possess buying power and demand value for money. Moreover, the increasing outsourcing by businesses of mail activities and the need for value-added services is an important factor at work. Top 100 accounts have a considerable impact on total revenues. In the Netherlands, financial institutions and utilities are the largest mailers of items of correspondence. In addressed direct mail, retailers and publishers are the major senders. Financial institutions and utilities have already switched to alternative operators in the liberalised market of addressed mail, while retailers and publishers are aware of the opportunities competitors offer. As such, the disciplinary forces of large clients are high.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The Dutch postal market is one of the most interesting in the European Union. Total mail volumes and per capita mail volumes are relatively high in comparison with surrounding countries. The market for direct mail is already well developed, and the market for distribution of periodicals and magazines subscriptions is mature. Moreover, the geographical circumstances in the Netherlands are almost ideal due to the absence of mountains and remote areas. In addition, the Netherlands has a high population density compared to other countries. The absence of any natural barriers to entry is ideal for attracting entrants in the postal market as is apparent from the number of active operators.

1.1.3 The universal postal operator: facts, figures, strategy

TNT is a global integrator in mail, express and logistics. The business area mail comprises 31% of the total turnover of TNT in 2004. Around one third of the total revenues in mail are generated internationally. In the beginning of 2005, TNT has become the new brand new for all postal, express and courier operations (comparable to the change to DHL global mail).

Strategies of universal service provider

In the Netherlands, TNT is confronted with declining mail volumes because of electronic substitution and competitors gaining market share. For TNT it is important to try to sustain the competitive position in the domestic market by keeping up quality standards and cutting costs in order to retain their customers. The advantage of TNT is that it is able to offer a one-stop shop for clients for all postal services. In the last few years, TNT has strengthened its position by taking over Media Expresse, a delivery organisation of magazines, from Sanoma, and has expanded into the market for hybrid mail and electronic mail via Privver.

The liberalisation of the EU postal markets in line with directive 2002/39/EC will lead to the following development of the degree of openness of the postal markets according to TNT.

Prospects about the openness of the Dutch market for addressed mail

Directive 2002/39/EC	Currently	2006	2007
Reserved mail volumes	83%	53%	0%
Liberalised mail volumes	17%	47%	100%

Source: TNT (2004)

TNT tries to compensate for the declining postal market in the Netherlands by expanding abroad in interesting markets. In addressed international mail, TNT is active via its own express distribution network and its global alliance Spring. The expansion of domestic mail activities in other European countries is done in a structured multi-phased approach through its subsidiary European Mail Networks supplemented with joint ventures and alliances in some countries. The phases in this approach are:

- Phase 1: Establish a bridgehead through acquisitions, looking for candidates for further expansion and start with relatively small customers. An example of the activities in this phase is the establishment of upstream activities in Member States.
- Phase 2: Regional coverage and organic growth, looking for joint ventures, new start-ups and pilots. TNT tries to acquire the largest alternative delivery organisation in other countries, and has particularly been successful in acquiring the largest delivery organisations in un-addressed mail in several countries;
- Phase 3: Combined commercial formula, coordinated customer approach, national coverage, branding and re-branding; the expansion of activities abroad and the introduction of the 'global name' are examples;
- Phase 4: International player: robust customer base, organic growth and an integrated approach providing integration throughout the value chain.

Currently, TNT is active in Austria, Belgium, the Czech Republic, Germany, Italy, Slovakia and United Kingdom in the distribution of addressed and un-addressed mail.

A trend to consolidation of mail markets in Europe can be noticed. This trend has started with increasing private sector participation in postal companies (privatisation in the Netherlands, Germany) and main postal operators in the EU offering a stake in the postal operators to other service operators now or in the near future (Denmark, Belgium, Austria, Italy, Greece). Recently, however, TNT, but also Deutsche Post, has withdrawn from bidding on a stake in De Post / La Poste. Earlier, in the spring of 2005, the stake in Post Danmark has been awarded to an English venture capitalist. This will, in the vision of TNT, lead to a process of concentration in the EU Mail Industry with a limited number of leading Pan-European postal operators, supplemented with a larger number of mainly domestic postal operators.

TNT has a global strategy in the express and logistics business areas and is building up a leading market position as a pan-European operator in mail markets based on:

- Continued decline of mail volumes in the Netherlands leading to the need to expand the market base in response to customer demands in cross border mail;
- Liberalisation of the EU postal sector provides growth opportunities in postal markets in other countries.

To succeed on the larger European market, a further rationalisation and standardisation is important to lower costs of overhead, of marketing and IT. The recent change of name to TNT is an example of this harmonisation.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

In the Netherlands, competitors have targeted the B2B and B2C parts of the postal market by delivering addressed direct mail and catalogues, magazines and inbound international mail. Sandd and Selekt Mail Nederland are mainly targeting the B2B and B2C markets.

Sandd focuses on addressed direct mail, periodicals and sponsored magazines, on regional and national mailings, and on delivery to P.O. Boxes. Selekt Mail Nederland focuses on addressed direct mail, periodicals and sponsored magazines, and on bulk mail (> 5,000 items). MailMerge focuses on delivery to P.O. Boxes while BusinessPost is active in the delivery of addressed mail to P.O. Boxes and street addresses.

Competitor postal operators have a different business model than TNT. Sandd and Selekt Mail Nederland are both active in distribution of domestic letter mail (>100 gram), inbound cross border mail, addressed direct mail, addressed catalogues and magazines. The largest share of their business is in the distribution of addressed direct mail and catalogues. Sandd and Selekt Mail Nederland have a delivery frequency of two times per week, mainly use manual sorting on addresses, making use of a flexible labour force, and pre-sorted supply by its customers. Both postal operators have a nearly nationwide delivery network.

Selekt Mail Nederland is joint venture of Deutsche Post World Net (51%) and Wegener (49%), a Dutch publisher, and is active since November 2002. Selekt Mail Nederland distributes addressed mail with a minimum volume of 5,000 items, but has started with a pilot at the end of 2004 to also distribute mail sendings with at least 2,500 items. The company distributes mail in two delivery rounds a week, to almost every address in the Netherlands. Selekt Mail Nederland possesses around 125 depots, employs 75 employees, and between 5,000 and 6,000 freelance delivers. The transit time of its mail lies between three and six days depending on the day of supply by its clients. The company cooperates with Deutsche Post for its international mail and with Interlanden (part of Wegener) in un-addressed mail delivery. For the delivery of addressed mail to P.O. Boxes, Selekt Mail Nederland cooperates with MailMerge. In 2004, it distributed around 100 million items of addressed mail. Selekt Mail Nederland claims to be 20% cheaper than TNT.⁴⁹ The company hopes to be profitable in 2005 or 2006.

Sandd is a postal operator comparable to Selekt Mail Nederland because of a similar business model and the distribution of the same postal products. Sandd is an independent postal operator active in B2X mail since 2001. The company has, at the end of 2004, 95 distribution depots, 650 employees and 6,500 delivers, and expects the number of deliverers to increase to 8,000 in 2005. Delivery takes place twice a week on Tuesday and Friday and network coverage is nearly 100%. Sandd serves around 600 clients, according to the latest information available. In 2004, the postal operator delivered 130 million items reaching a turnover of 32 million and was profitable. Since February 2005, Sandd is also active in the delivery of addressed mail to P.O. Boxes (de Volkskrant, 2005).

⁴⁹ It is unclear if the price is 20% lower pre-tax or post-tax. The postal operators are not clear about this.

Key figures Sandd

	2001	2002	2003	2004
Turnover (in millions of euros)	4	9	15	32
Volumes (in millions of addressed mail)	15	40	72	130
# of clients	25	100	269	400
# of employees (excl. delivers)	60	120	180	650
# of distribution points	45	80	90	95
Coverage	45%	80%	95%	100%

Source: Sandd interview and website

The main clients of Sandd and Selekt Mail Nederland are the largest mailers in the Netherlands in the area of advertising mail (banks and insurance companies, telecommunications operators, utilities, retailers, mail order companies, publishers and charity organisations).

Royal Mail Nederland is mainly active in incoming international mail originating from the United Kingdom, but also offers other liberalised services for its clients in the B2B segment. The company positions itself as a full service provider but does not possess an extensive own delivery network. Only the urbanised area in the west of the Netherlands is served by Royal Mail Nederland. Most mail is handed over to TNT for delivery; P.O. Box delivery is executed by Royal Mail Nederland itself. Royal Mail Nederland cooperates with Businesspost (see next) to deliver five times a week to 65% of all the P.O. Boxes (300 locations) and two or three times a week to 95% of the P.O. Boxes (780 locations).

Businesspost is active in the distribution of addressed and un-addressed mail to street addresses and P.O. Boxes. The company started its activities in September 2002 and offers a nationwide delivery. Businesspost offers two types of services, a priority service with delivery to P.O. Boxes and addresses within 48 hours, and a budget service with delivery to P.O. Boxes within 48 hours and to addresses within 72 to 96 hours. Businesspost uses TNT and Royal Mail Nederland for all their deliveries. Delivery takes place five times a week to 65% of all P.O. Box locations (300) and two or three times a week to 95% of these locations (780). For international mail, Swiss Post International is used. Businesspost also claims to be 20% cheaper than TNT.

MailMerge is a postal operator active in P.O. Box delivery since 2000. It distributes addressed printed matter, magazines but also un-addressed mail for the B2B segment of the Dutch postal market. MailMerge delivers twice a week to around 750 locations, equivalent to 92% of all P.O. Boxes. The transit time is normally within 48 hours, but MailMerge offers flexibility so that 24 hours is also possible. MailMerge claims to have 350 clients and cooperates with Selekt Mail Nederland. They deliver between 300,000 and 900,000 postal items a week.

Apart from these postal operators, several publishers are active in the distribution of newspapers and magazines to addresses. Media Expresse, part of TNT, is leader in the distribution of magazines. It is a franchise organisation with local franchisees responsible for a region. The majority of the volumes comprise of magazines of Sanoma. Audax distributes magazines as well. PCM distribution, DistriQ and Wegener distribute their

newspapers and have established a combined delivery organisation, GBB de Nieuwsbrengrers, a few years ago. Un-addressed mail is also delivered by VSP, part of TNT, and Interlanden Spreigroep, a joint venture of Wegener and Deutsche Post. At a local level, city mail operators are also active.

Sandd and Selekt Mail Nederland have large ambitions for the Dutch postal market and are very eager to offer the postal services currently under the reserved area. Both operators are very much in favour of full liberalisation as quickly as possible. Both also express the confidence that they are able to capture 20% of the Dutch market for addressed mail within five years time.

Effect of competition on market structure and market performance (result indicators), including on US provision

Sandd and Selekt Mail Nederland, a subsidiary of DPWN, are considered the main challengers of TNT with, at the end of 2004, a combined market share of around 4% in the market for addressed mail. Competitor postal operators delivered in 2004 around 240 million items in total. Sandd and Selekt Mail Nederland are aiming to have an 8% market share each at the start of full liberalisation and at increasing the market share each to over 20% in 2008, resulting in a market share of TNT of less than 60%. Our impression is that these forecasts on the development of market shares are somewhat exaggerated as the competitors do not take into account the entrance of new competitors, nor consider a change in the business model of TNT (see below).

In the case of full liberalisation, competition will in any case increase further. Uncertainty exists about the number of active operators after full liberalisation. Sandd and Selekt Mail Nederland are of the opinion that given the current market situation, a further liberalisation does not lead to the entrance of a new national postal operator. The lack of network stepping stones and the use of launching customers prohibit new operators from obtaining sufficient scale. Businesspost on the other hand thinks that after full liberalisation, when a large part of mail volume that is reserved nowadays is open to competition, will lead to the rise of a competitive arena where everything can happen. To our opinion, probably the first mover advantages of Sandd and Selekt Mail Nederland will persist.

Interesting will be what the major Dutch publishers will do after full liberalisation. Will they expand their distribution activities or outsource it to the existing postal operators? Our impression is that publishers of magazines will stick to their core business and gradually outsource magazine distribution. Sanoma already withdrew from magazine distribution by selling Media Expresse to TNT. Audax / Betapress already tested the distribution of a number of their magazines by Sandd in 2004 and will outsource their distribution operations more frequently to Sandd in the coming years. The largest publishers of national newspapers Wegener, PCM and de Telegraaf have their own delivery organisations, Wegener distributie, PCM distributie and DistriQ. DistriQ is also active in the delivery of un-addressed mail items and magazines and has ambitions in the distribution of direct mail. In 2004, it took over the distribution of Aldipress and part of the delivery operations of PCM. Moreover, the publishers have created a new company, GBB de Nieuwsbrengrers (50% Wegener, 50% PCM), to bundle deliveries in some parts

of the Netherlands. This organisation has been created because the separate delivery organisations faced difficulties in attracting deliverers for their newspapers. TNT, Royal Mail Nederland, and Sandd and Selekt Mail Nederland to some extent, expect that the introduction of more competition in the Netherlands will lead to changes in the composition of mail and mail standards. Due to electronic substitution and competition, a distinction between priority and non-priority mail, currently not existing in the Netherlands will come about. In addition, the distribution of bulk mail (letters as well direct mail) will, because of competition and declining prices, shift completely to delivery within 48 hours. TNT already claims that the share of bulk mail with a service level of delivery within 48 hours in total bulk mail volume is rising, to the detriment of a service level of 24 hours.

Of prime importance to the further development of competition in the Netherlands will be the competitive response by TNT and its ability to change its business operation. The conveyance and, especially, the delivery of bulk mail is not part of the universal service provision, nor are the prices for bulk mail regulated. The opportunities to cross-subsidise activities in the more competitive parts of the liberalised postal market with the less competitive parts seems to be difficult with the preservation of a system of separate accounts. This does not preclude TNT to offer a competitive postal service for bulk mail based on incremental costs. A more realistic approach for TNT would be to separate their business operations into a model for first-class delivery and a model for second-class delivery. Competition will, in the near future, be restricted to the provision of second-class mail and TNT could respond by setting-up a separate organisation for the delivery of this type of mail. The question is whether TNT will be allowed, under the revised postal act, to set up such an organisation. Given the fact that the distribution of bulk items of correspondence, bulk addressed direct mail and magazines already tends to be centralised to two or three moments in the week, TNT will be capable of setting-up a separate organisation for delivery of second-class two or three times a week without non-complying with the current quality of service standards. The re-branding of the existing distribution organisation of un-addressed items might provide an indication that TNT is likely to follow this path for the future. TNT seems to follow the strategy of upgrading the delivery networks of un-addressed mail of acquired companies abroad, and can apply this strategy in the Netherlands as well.

Tariffs of postal services seem to have declined in the provision of B2X services in the last few years, mainly as the result of the entrance of Sandd and Selekt Mail Nederland. The provision of postal services by TNT is still regulated by the existing tariff control system for universal services. The tariffs for mail distribution have been frozen two years ago, after the evaluation of the former tariff control system. The tariff control system regulates the maximum tariffs of postal items, but experience in other sectors (such as the electronic communications sector), however show that a market characterised by competition gradually needs to be regulated based on minimum tariffs. The experience in the Netherlands, but also in other countries, shows that anti-competitive behaviour to shed markets of competition is important, given the possibilities of offering discounts.

The quality of service of the postal service of TNT has remained rather stable in the last few years. The new postal operators had some difficulties in with securing quality levels at the beginning of their operations, but according to the opinion of large clients of Sandd

and Selekt Mail Nederland current quality levels are satisfactory, keeping in mind the longer transit times that these operators provide. Sandd even has an external audit of their delivery quality, which shows that quality is above standards.

The switching behaviour of large consumers of the mail service is high. Given the fact that Sandd and Selekt Mail Nederland only exist for a few years, they have nevertheless contracted, combined, around 700 clients in the past years. If quality levels are secured, the new competitors are able to provide a very competitive offer. The advantage of the incumbent still lies in the possibility to offer a one-stop shop, a brand image and delivery a day ahead and high quality levels. Experience from the United Kingdom shows that consumer inertia is rather large, potential clients are not always well informed, so that switching will not always occur. Our impression is that this experience from the United Kingdom is less applicable to the Netherlands for large and medium sized suppliers of mail.

The impact of competition on the provision of the universal service is not clear. Previous experience in Sweden and New Zealand show that the universal service provider is able to offer a competitive service without incurring losses. In the Netherlands, the profitability of mail division of TNT in the Netherlands is (still) high so that in the near future no major problems are foreseen. When, however, competitors are able to gain 40% in the market for addressed mail, even TNT may experience problems to stay profitable with the continuation of the current USO provision. It remains to be seen whether TNT will be allowed to respond to competition by reshaping their business into first-class and second-class operations.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Post Wet (Postal Act)	01-06-2000	New Postal Law is under preparation following approval of Notitie Post of Ministry of Economic Affairs in Parliament in December 2004
Barp (General Postal Guidelines Decree)	28-04-2000	Obligations for the USP concerning quality of service, tariffs, financial accounts, general terms and conditions and provision of information
Postbesluit (Postal Decree)		Scope of the universal service and liability of the USP

Source: ECORYS questionnaire (2005), legal documents, information provided by NRA

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	In 2006 liberalized above 50 gram, in 2007 full liberalisation
Domestic items of correspondence 50-100 gram	Yes	In 2006 liberalized above 50 gram, in 2007 full liberalisation
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Except for above 100 gram In 2006 liberalized above 50 gram, in 2007 full liberalisation
Outbound cross border mail	No	
Direct mail addressed (incl. catalogues)	No	
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
None			

Source: TNT and OPTA interviews, OPTA Annual Reports

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	Yes Decision taken on access to P.O. Boxes by Opta in 2001
	Access to sorting centres	No Dealt with in negotiated contracts between customers, competitors and postal operator
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: Postal Act, TNT and OPTA interviews

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003 / 2004	% distribution addressed
Domestic items of correspondence <50 gram		
Domestic items of correspondence 50-100 gram	3,000	40.5%
Domestic items of correspondence >100 gram	300	4.1%
Inbound cross border mail	200	2.7%
Outbound cross border mail	300	4.1%
Direct mail addressed (incl. catalogues)	1,500	20.3%
Periodicals / Magazines	900	12.2%
Newspapers	1,200	16.2%
Un-addressed mail (direct mail, weeklies)	10,274	
Total	17,674	100%

Source: ECORYS questionnaire (2005), SEO (2003), IG&H (2003)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2003
B2B	34%
B2C	58%
C2B	4%
C2C	4%
Total	100%

Source: ECORYS questionnaire OPTA (2005), SEO (2003)

Table 1.7 Country information

The Netherlands	2004
Population (in million)	16.3 *
Size of the country (in 1000 of square km)	33.9 *
Population density (number of inhabitants per square km)	480.8
Degree of urbanisation	61.9 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	233,791 (14.1%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	380

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

- Corporatised as part of holding KPN 1989;
- Partly privatised company as part of holding KPN since 1994;
- Separation of TPG as privatised company from holding KPN as from 1998.

Table 1.8 Government share in incumbent postal operator

	2005	Status
% Government share	19%	No further decrease in shareholding of Dutch state announced

Upon liberalisation of postal market, further limitation of Government share is widely expected.

Source: Annual Reports TNT, Press clippings TNT

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000 in millions of euros	2004 in millions of euros	% (2004)
Mail	3,620	3,865	31%
Express	4,027	4,638	37%
Logistics	2,163	4,058	32%
Other*	126	74	1%
Total*	9,936	12,635	100%

Notes: * Includes non-allocated, excludes inter-company revenues

From the total mail revenues in 2004 €2,660 million was generated by mail volumes in the Netherlands, €551 million through cross border mail and €475 million through European Mail Networks, with the other income €214 million generated by Data and Document management. This implies that in 2004 one third of the mail revenues are generated in international mail markets.

Source: ECORYS questionnaire (2005), Annual Reports TNT

Table 1.10 Overview of joint ventures (JV), alliances (A) and cooperation agreements (C)

Country	Mail	Express	Logistics
Austria	JV: Redmail (2001) European Mail Networks		
Belgium	Belgische Distributiedienst European Mail Networks		
Cyprus			
Czech Republic	A: Dimar Group (2002 and 2004 (full)) European Mail Networks		
Denmark			JV DFDS Transport Logistics (2002)
Estonia			
Finland			JV DFDS Transport Logistics (2002)
France		A: Jet Services SA (1999)	A: Transports Nicolas (2002) JV: Albateam, C.A.T (2001) A: Barlatier (2000) A: Mendy (2000)
Germany	A: Werbeagentur Fischer (2003) JV: EP Europost (2001) JV: Heinz Hofinger (2001)		A: Schrader Group (2000)

Country	Mail	Express	Logistics
	and 2004 (full) European Mail Networks		
Greece Hungary Ireland Italy	A: Full Service (2003) A: Cerilly (Steic/PMS – ELS (2002) European Mail Networks	SA: Poste Italiane (2001)	JV: TNT Logistics and Arvil (Logint) as sole operator for Fiat Auto (2003) A: Advanced Logistics Services (ALS) (2001) A: Tecnologistica (1999)
Latvia Lithuania Luxembourg Malta Netherlands	A: Docvision (2003), A: MDS (2001) A: Omnidata (1999)	JV: P&T Luxembourg (2000) A: Bleckmann Group (2001)	
Poland Portugal		SA: CTT Correios/Partnership (2002)	
Slovak Rep.	Dimar Group (2002 and 2004 (full)) European Mail Networks		
Slovenia Spain Sweden		SA: Posta Slovenije (2002)	A: Wilson Logistics Group (2004) JV DFDS Transport Logistics (2002) JV: Albateam, C.A.T (2001) A: Logistics Taylor Barnard (2000)
UK	SA: Royal Mail (2004) SA: Express Dairies (2004) Lason UK Group/CENDRIS (2001) CD Marketing Services Group Ltd (2001) European Mail Networks		
General	Spring 51% Joint Venture for global cross border mail with Royal Mail Group plc. and Singapore Post Pte Ltd.		

Source: Annual Reports TNT

Table 1.11 Postal network

TNT	2003
Number of postal service points, incl. business desks	2,907
Number of P.O. Boxes	187,000
Number of street letter boxes	19,633
Number of delivery offices	523
Number of delivery points / addresses*	7,500,000

Source: Annual Reports TNT, TPG Concession Report 2003, NERA (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	3	Sandd (>100 gram), Selekt Mail Nederland (>100 gram), Mailmerge, City mail services
International mail	>10	Royal Mail Nederland (inbound), Spring, TNT, DHL Global Mail, Swiss Post International, De Post, and others (outbound)
Addressed direct mail / catalogues	5	Sandd, Selekt Mail Nederland, MailMerge, BusinessPost, Royal Mail Nederland, City mail services
Periodical / Magazines		Media Expresse (TNT), Sandd, Selekt Mail Nederland, DistriQ, Audax / Betapress, MailMerge, City mail services
Newspapers		Wegener, PCM distributie, DistriQ, GBB de Nieuwsbrengers
Un-addressed mail		Netwerk VSP, Interlanden Spreigroep (joint venture Deutsche Post and Wegerer), DistriQ
Upstream mail services	Various	Mailing houses such as Mailland, Euromail

Source: Annual Reports TNT and presentations, OPTA Annual Reports, SEO (2004), IG&H Management consultants (2003)

Table 1.13 Competitors on the postal market

Postal operator	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Sandd	130 millions addressed items 32 million euro turnover	650 employees 6,500 deliverers	2 times a week, transit time 48-72 hours, 95 depots	Nationwide
Selekt Mail Nederland (Deutsche Post / Wegener)	100 million items	75 employees 5,000-6,000 delivers	2 times a week, transit time 48-72 hours, 125 depots	Nationwide
Royal Mail Nederland	-	-	5 times a week 65% to P.O. Boxes / 2 or 3 times a week 95% Addresses 2 or 3 times a week	P.O. Boxes, nationwide Addresses 30-40% of NL
City Mail services	- (Very small)	Mostly 1-3 employees	2 times a week	Very local
MailMerge	- (Rough estimation 20 million items)	-	2 times a week to 92% of all P.O. Boxes	P.O. Boxes, nationwide
Businesspost	-	-	5 times a week 65% to P.O. Boxes / 2 or 3 times a week 95%	P.O. Boxes, nationwide
Media Express (TNT)	300-400 million items (estimate)	-	185 franchisees	Nationwide
DistriQ	400-500 million items (estimate)	31,000 deliverers	7 days a week	Nationwide
PCM Distributie	400-500 million items (estimate)	?	6 days a week	Nationwide
Netwerk VSP (TNT)	Around 3,000-4,000 million (estimate)	21,000 deliverers	3 days a week 13 depots	Nationwide
Interlanden Spreigroep (Deutsche Post and Wegener)	Around 4,000 million (estimate)	25,000 deliverers	3 days a week	Nationwide

Source: ECORYS

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail (excl. newspapers)	95.8%	Challengers Sandd and Selekt Mail Nederland taking 4% of total volumes at the end of 2004
Market share of USP (in terms of turnover) in addressed mail	96-98%	-

Source: ECORYS questionnaire (2005), Annual reports TPG, Selekt Mail Nederland, Sandd, calculations based on volume data.

Country information sheet: Poland

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The Postal Act 2003 regulates the postal market in Poland. The implementation of this law is further specified in the Ordinances of the Minister of Infrastructure (see Table 1.1). During its accession negotiations, Poland has committed itself to fully implement the EU *acquis* by the end of 2002. The two directives, 97/67/EC and 2002/39/EC, were implemented. However, there is a transition period for the weight limit in the reserved area, which is 350 gram until 31 December 2005, limiting the development of competition in the postal market in Poland.

The Postal Act regulates the reserved area, set out in Article 47. The most important items in this area include:

- Items of ordinary correspondence below 350 gram;
- Addressed direct mail below 350 gram;
- Magazines and periodicals below 350 gram;
- Inbound and outbound cross border postal items below 350 gram.

The reserved area does not include document exchange. The delivery of newspapers and un-addressed mail is not considered a postal service and is open to competition.

The postal regulator URTiP has the responsibility to grant licences and/or authorisations for postal sector operators. In recent years, the number of licences and authorisations has gone up to 100 in June 2005. The latter operators are mainly active in courier and express activities. Licences are based on the definition in the Postal Act; express mail providers do not consider themselves to be in the category “postal operators”, however, as they perform very little (less than 5% of their total turnover) activity in the universal service category. Licence conditions, which are displayed in Table 1.2, are similar to those in other countries.

URTiP has several functions. The major functions include:

- Regulatory function – granting of licences;
- Control function – monitoring of the quality of postal services;
- Mediation function – settling disputes between operators,⁵⁰
- Inspiration function – submitting legislative projects.

⁵⁰ A role as mediator is less powerful than a role as “judge”.

In order to implement the provisions of the laws, the relevant Minister is authorised to enact ordinances.

Short description of relevant developments with regard to the regulatory framework

The development of competition is currently hindered, apart from the large reserved area, by several other regulatory and practical barriers to entry.

Closed letter boxes

(Competitor) Postal service providers not only need to acquire, from the owner/concierge of a particular building, the keys giving access to the hallway, where the letterboxes are located, but also need a special key to open the letterboxes and deliver the mail. Currently, only Poczta Polska is able to use these special keys.

Limited regulatory powers

The postal regulator has very limited regulatory powers in terms of:

- A legal basis to collect market data. Only data related to the universal service area may be collected;
- Instruments for price control through the submission of “suggestions” to the Council of Ministers. The policy maker may well take into account other (more political) considerations than the regulator (which is likely to take into account the effects on the development of competition);
- Law enforcement beyond registration.

Advantages of position as Post is state owned (and “state run”)

Some recent issues have come up regarding the position of the state owned Poczta Polska:

- Poczta Polska has some special privileges that may be a disguised form of state aid. Poczta Polska is a public utility enterprise, founded on a legal basis - this special legal status gives it a privileged position over potential competitors. Entities created by force of law are not subject to bankruptcy legislation - put simply, the Polish Post cannot go bankrupt. If it wants to obtain credit from a bank, such credit would be guaranteed by the state;
- The government has given the state postal service Poczta Polska a monopoly on collecting and controlling the payments for public TV licences. The National Broadcasting Council (KRRiT) decided that Poczta will receive 6% of the gathered funds. The provision amounted to ZL 56 million last year, approximately 1% of total revenue.

Other issues

Several issues are specific to Poland, and may serve as severe barriers to entry in the Polish postal market.

- Several observers point out that Poland is the slowest European Member State in terms of the liberalisation of the postal market. Some also point out that they have doubts about the implementation of some of the provisions in the EU directives. The policy maker, Parliament and the USP are all in favour of very gradual liberalisation (small steps) and protection of the USO (by, e.g., a reserved area);

- The regulator only has an advisory role to control the prices. The policy maker makes final decisions in this context. Consequently, the policy maker can essentially control the reserved area. The policy maker appears to have employment considerations high on the agenda, as Parliament is quite conservative in this respect;
- Provisions on cross-subsidies for the Polish Post are vague and non-transparent. These provisions may result in negative consequences for the competitors of the incumbent national postal operator;
- According to the regulator, only the employees (employment contract) of an enterprise can perform the postal delivery activities. Some argue, however, that the provisions of the postal law do not include anything about the freedom of construction of an enterprise and the way that business develops;
- The necessity to prepare detailed contingency plans for all operators. The main issue is the amendment on contingency planning (activities in cases of extraordinary threats). More specifically, some operators request for the time limits to prepare such plans to be prolonged to 18 months as the costs incurred by smaller operators are very high and the time they need to prepare such a document is longer than for the larger operators;
- Express services are considered to be subject to the mail regime, while only a very small proportion of revenues of express operators are from mail services under the Postal Act.

Short description of the postal sector policy

As of 2006, the weight limit for the reserved area will drop to 50 gram. URTiP, the postal sector regulator in Poland, estimates that over 80% of mail volumes in Poland is below 50 gram.

The view of the Polish policy makers and the regulator is that the market should be liberalised gradually, with attention paid to the universal services and the compensation for their provision. The market of addressed mail should be liberalised above 50 gram and there should exist regulations as regards access to the facilities of the incumbent. The 50-gram limit for the reserved area may need to be maintained until 2015 according to the Ministry. Other main elements of the currently discussed postal sector policy include provisions on network access for competitors, settlement of accounts between the operators, and alternative methods for financing of the USO apart from a compensation fund.

It must be stressed that there may be a clear conflict of interest as the Ministry of Infrastructure exercises the supervision over Poczta Polska and also is the policy maker for the sector. In most other countries, the Ministry of Finance (or a related entity/ministry) is the sole shareholder. This will change, as soon as the privatisation-track of Poczta Polska is started. The Ministry of the Treasury will take over as an exclusive shareholder then.

Liberalisation/future scenarios:

- The restructuring of the Polish Post is a politically sensitive subject;
- The development of competition is largely dependent on the political situation and the upcoming elections; therefore, no radical steps can be taken. The sector policy is

based on continuation of some reserved services for an indefinite period, pending further EU directives;

- The view of the Regulator is that there should be competition without monopoly. The problem is the profitability of operating in certain areas (rural) and the introduction of 'smaller'/regional licences. It could be that the definition of universal services may be narrowed in the future to cope with this situation;

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

Government regulation

The government postal sector policy follows in principle the EU postal directives. However, a transitional regime was agreed upon after accession to the EU. The government has not taken position yet on further liberalisation of the postal market, but indicates that timing is important. The national postal operator Poczta Polska is preparing for full liberalisation in 2009 with a major reform programme and preparation to go to the stock exchange to attract investors. Currently, most observers do not expect full liberalisation before 2015.

New entrants

The Polish market, one of the biggest in the EU in terms of population and by far the biggest among the new Member States, is attractive for competitors. Currently, there are several competitors present – German, Dutch, Swedish, French and British Posts, mainly in the express and logistic sectors. The strongest competition, according to Polish Post, is expected from the German and Dutch incumbents as they have an extensive logistic infrastructure and capital, as well as highly qualified management staff.

However, despite this presence there are still barriers for new entrants to provide services. For example, although the un-addressed mail segment is liberalised, the Polish Post holds the monopoly over mailboxes until 2007. Moreover, certain requirements for postal operators, imposed by the Postal Act, such as contingency planning, are applied irrespectively of the size and scope of activity of the operator and proved to have been hard to fulfil for smaller operators (at local or regional level).

Substitution

The group of Internet users in Poland is systematically increasing, having reached 33% in 2004.⁵¹ However, this group is still limited to the well-educated, middle and high-income users who live in cities. In addition, most of the services that are used are e-mail and browsing (74% and 85% respectively) with E-banking at 18% and Internet shopping at 10%. Therefore, it is not expected that these services will exert substantial influence on the postal and courier markets in the short term. In the longer term, e-substitution may become important, especially, if competition does not take off quickly.

⁵¹ IPSOS, *Internet services users in Poland*, October 2004, available at: www.ipsos.pl.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

Polish Post dominates the C2C, C2B and B2C segments due to the density of its network, whereas express and logistic service operators concentrate on the B2B segment. It is not expected that competition will take place in the field of universal services in the near future; however, the policy makers do not exclude such a possibility. Moreover, full liberalisation of the universal service provision could result in the loss of a large part of market share in big cities. The competing postal operators are the strongest in the big cities: 80% of the revenues of the Polish Post originate from 15 cities.

There is still great potential for the development of the direct mail market (currently at 40 items per head) which is closely related to the increase of telephone and mobile phone users, expanding housing market, banking, etc.

1.1.3 The national postal operator: facts, figures, strategy

Since 1997, the incumbent postal operator, Poczta Polska, holds the status of a state-owned public utility. Currently, there are preparations under way to commercialise the Polish Post in order to create a public limited company (PLC) with one shareholder (the Ministry of the Treasury). The ultimate goal of the Polish Post is to become a joint stock company.

Polish Post is going to be commercialised in the very near future (plans are under way, a decision is expected before 2006). By that the Poczta Polska will cease to be subjected to the Ministry of Infrastructure and will pass on to the hands of the Ministry of the Treasury, as stipulated in the law on commercialisation and privatisation of public enterprises. Polish Post wants to be prepared for the increasing competition and the possibly fully liberalised market in 2009. Currently it is investing as much as possible in new infrastructure and in automation. It is also undertaking internal reorganisations by introducing business units and supporting divisions. By commercialising, Poczta Polska aims at attracting investment and better management/advising staff. It also aims at more transparency, better reporting and monitoring procedures to be able to enter Warsaw Stock Exchange before 2009. This scenario, however, may be substantially slowed down due to the unsure political situation before the next Parliamentary elections (September 2005) and the large political strength of the trade unions within the Polish Post (100,000 employees and 11 trade unions). Especially since Poczta Polska is planning to (or forced to) reduce its employment with approximately 30%.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

At the end of December 2003, 59 companies were present in the register of postal operators at URTiP, comprising of:

- 53 operators based on an authorisation granted under the provision of the Communications Act;
- 6 operators based on a notification of postal activity.

In June 2005, already 100 postal operators were registered with URTIP, which shows the interest in the market for postal services. In total, the postal activity of private operators is performed in 445 outlets in the country.

Because over 80% of addressed mail is below 50 gram and the current reserved category is still until 350 gram, competitors have not been able to undertake significant activities in the addressed mail market. The competitors in the Polish market have obtained a market share in express and courier operations.

Competitors do not seem to have long-term and clear strategies yet as regards the future development of the market as the postal market segment in addressed mail > 350 gram is negligible. Foreign incumbents, however, may very well be interested in being active on the Polish market, for instance, due to the sheer size of the market. More demand for the logistic and transport services after the EU accession is expected, which is an opportunity for express and courier operators.

The development of direct marketing activities faces many difficulties. Evidently, the most serious factor that hinders development of the industry is the still rather conservative attitude of managers in Polish companies. Companies still prefer traditional campaigns. Within advertising budgets, expenditures on direct marketing are much lower than in other countries, making up only a fraction of the budgets (about 12%).

However, the development of the direct mail market could mean a real boom for Poczta Polska. In recent years, the attitude towards this market has changed, but still a lot of development needs to be done to establish a mature direct mail market in Poland.

Effect of competition on market structure and market performance (result indicators), including on US provision

The effects of competition are the most visible in the parcel and express market where Poczta Polska lost its dominance to the competition.

Poczta Polska predicts that it may lose even 30% market share in the total mail market; however, its ambition is to limit the loss to only 10%.

Although the policy maker does envisage the possibility of having more than one operator who would provide universal service, they are sure that Poczta Polska will retain a dominant market position mainly due to the extensive infrastructure and customer behaviour (based on loyalty and habit formation).

A potential future scenario can be that Poczta Polska will continue to provide services for individual users and the competitors will focus on the high quality and value-added services. It is also possible to cooperate with Poczta Polska in such fields as outsourcing for the provision of certain services.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulations

Postal law and regulation	Date of introduction	Date of latest amendment
Postal Act (OJ No130, 24.07.2003, p.1188)	12 June 2003	2 and 16 July 2004
Telecommunications Act (OJ No 171, 3.08.2004, p.1800)	16 July 2004	25 November 2004
Ordinance of the Minister of Infrastructure on the conditions for the provision of universal postal services	9 January 2004	
Ordinance of the Minister of Infrastructure on letter boxes	16 April 2004	
Ordinance of the Minister of Infrastructure on mail boxes	25 September 2003	
Ordinance of the Minister of Infrastructure on complaints concerning the universal postal service in relation to a recorded item and a postal money order	13 October 2003	
Ordinance of the Minister of Infrastructure on the method for cost allocation of the operator providing universal postal services	24 December 2004	

Source: ECORYS questionnaire (2005)

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50– 100 gram	Yes	
Domestic items of correspondence >100 gram	Yes	Up to 350 g until 31 December 2005, as of then, 50 gram
Inbound cross border	Yes	Up to 350 g until 31 December 2005, above 50 gram will be liberalised after 1 January 2006
Outbound cross border	Yes	Up to 350 g until 31 December 2005
Direct mail addressed (incl. catalogues)	Yes	Liberalised above 350 gram for a single item unit until 31 December 2005, liberalised above 50 gram from 1 January 2006
Periodicals / Magazines	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (as of June 2005)
Authorisation	Postal items containing items of correspondence up to 2,000 gram and items for the blind or partially sighted persons (Article 6.1 of the Postal Act)	Article 9 and 10 of the Postal Act (Confidentiality of correspondence, data protection, technical and operational competence, non-infringement of the reserved area)	84
Notification	All other types of activities that do not require authorisation	Article 15	16

Source: Annual Report. President of the Office of Telecommunications and Post Regulation 2003, information obtained by URTiP

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes Access to sorting centres Access to delivery points	No No, negotiated access for customers No, negotiated access for customers
Upstream access	Access to street letter boxes	No, monopoly of the Polish Post until 2007

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram	1221.0	60.5%
Domestic items of correspondence 50-100 gram	52.2	2.6%
Domestic items of correspondence >100 gram	54.4	2.7%
Inbound cross border mail	50.6	2.5%
Outbound cross border mail	62.2	3.1%
Direct mail addressed (incl. catalogues)	93.3	4.6%
Periodicals / Magazines	447.0	22.1%
Newspapers	39.0	1.9%
Un-addressed mail (direct mail, weeklies)	1213.3	
Total	3233.0	100%

Note: The following are estimates, based on tentative figures provided by various sources.⁵²

Source: ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2004
B2B	18.5%
B2C	65.6%
C2B	3.6%
C2C	12.3%
Total	100%

Note: these figures refer to the letter mail market (ordinary domestic letters, excludes outbound letters, parcels, express, and registered mail items).

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Poland	2004
Population (in million)	38.2 *
Size of the country (in 1000 of square km)	312.7 *
Population density (number of inhabitants per square km)	122
Degree of urbanisation	61.5 ¹ **
Number of inhabitants 5 largest cities	4,438,046 (11.6%) ***
Number of addressed mail items per inhabitant (excl newspapers)	52

¹ 2003

Source: * Polish Statistical Office / ** UN (2003) / *** World Gazetteer

⁵² It must be noted that the data about volume, market shares, etc. are not available. We have continuously requested to be informed based on annual reports of Poczta Polska, but these reports could not be provided.

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	2005 - 2006
% Government share	100%	Announced establishment of a public limited liability company and prepared listing at Warsaw Stock Exchange

Source: Annual Report URTIP 2003, ECORYS questionnaire (2005)

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000 in millions of euros	2004 in millions of euros	(%) 2004
Mail	591.36*	851.99**	58%
Express	11.93	13.61	1%
Parcel / Logistics	18.94	9.48	1%
Other		587.9	40%
Total		1,463	100%

1 euro = 4.1250 PLN (2004)

* Turnover from the provision of letter mail and postal parcel (up to 20 kg) together with additional services.

**Turnover from the provision of mail and postal parcels (up to 10 kg for domestic services and up to 20 kg cross border services) only for economic services (economic letter mail and parcels) additional services are kept on separate accounts.

Source: ECORYS questionnaire (2005), Annual Report Polish Post

Table 1.10 Overview of joint ventures (JV), alliances (A) and cooperation agreements (C)

Country	Mail	Express	Logistics
None			

Source: Annual Reports Polish Post

Table 1.11 Postal network

Polish Post	2003
Number of postal service points	8,304 *
Number of P.O. Boxes	56,906
Number of street letter boxes	56,906
Number of delivery offices	4,775
Number of delivery points / addresses	

Note: * 5,958 operated by Polish Post and 2,346 operated by others.

Source: NERA (2004), WIK (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	Consolidators FedEx, UPS, DHL Global Mail, TNT, Spring Perhaps, small local operators
International mail	5	
Direct mail	0	
Periodicals / Magazines	0	
Newspapers	Various	Small local operators in largest cities
Un-addressed mail		
Area of activity		Number
International		1
International and Domestic		30
Domestic		33
Regional (Province)		24
Local (Warsaw)		2

Source: Annual Report URTIP 2003, ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
None					

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	100%	Excl. express and courier
Market share of USP (in terms of turnover) in addressed mail	100%	Excl. express and courier

Source: ECORYS questionnaire (2005)

Country information sheet: Portugal

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The Portuguese postal market is currently regulated by the Basic Law for Postal Services amended for the last time in 2003. The conveyance of items of correspondence is open to competition for items weighing more than 100 gram for a single item, as well as for mailings with a price of more than three times the public tariff of a sending in the first weight class of the fastest standard category. The provision of incoming and outgoing cross border mail and addressed direct mail and catalogues is being reserved accordingly. Upstream activities in the postal value chain, such as pre-sorting, are open to competition, as well as the provision of hybrid mail. The distribution of periodicals, magazines and newspapers is fully open to competition. The distribution of un-addressed mail is according to the relevant legislation not a postal service and therefore not regulated. The Portuguese legislation follows the European postal directives in setting the maximum reserved area for the universal service provider.

CTT – Correios de Portugal (CTT) is the universal service provider in Portugal and obliged to fulfil the universal service obligation. This is based on the Universal Postal Service Contract (Decree-Law 448/99), which specifies the rights and obligations of the USP for the provision of the universal service, the Universal Postal Service Quality Convention and the Universal Postal Service Price Convention that defines the rules on the establishment of prices. The universal service comprises the sending of correspondence, books, catalogues, newspapers and other periodicals weighing up to 2 kg and postal packages of up to 20 kg; as well as a service of registered items and service of insured items. The Universal Postal Service Quality Convention sets, amongst others, standards for the minimum required quality on the conveyance time for the distribution of domestic and cross border priority and non-priority mail and the distribution of newspapers and periodical distributions. In the latest quality convention, negotiated in the beginning of 2004 and published on 18 March 2004, the following targets, amongst others, have been set for the years 2004 and 2005: 96% of non-priority mail, newspapers and periodical distributions should be delivered within three days and 94% of priority mail within one day.

Postal operators that offer postal services within the scope of the universal service (and outside the reserved area) require an individual licence based on Decree-Law no. 150/2001. In order to provide postal services outside the scope of the universal service,

operators are subject to a system of general authorisations. The licence conditions consist of guaranteeing the presence of technical, financial and human resources to carry out postal services properly.⁵³ CTT has been granted a concession to operate postal services in the reserved area besides the obligation to fulfil the universal service. CTT Expresso, part of CTT, has been awarded a licence and an authorisation for the provision of non-reserved postal services.

In Portuguese legislation, no specific arrangements are included about mandatory regulated access of competitors to the facilities of the universal service provider CTT. However, CTT is obliged to make available to the companies qualified to undertake postal operations, negotiated access to the public postal network (in accordance with clause 9, nr 1 of the Contract of Granting). The prices applied by the universal service provider shall (see Base XXIV of Decree-Law 448/99, of 4th November, with the modifications that were introduced to it by art. 3 of Decree-Law 116/2003, of 12th June) comply with the principles of cost orientation and the principles of transparency and non-discrimination. Moreover, the universal service provider needs to take into account the costs avoided concerning the standard service, which involves all operations related to collection, sorting, transport and distribution of the postal sending. In practice, CTT has not concluded access agreements with competitor postal operators.

The Autoridade Nacional de Comunicações (ANACOM) is the postal regulator in Portugal. ANACOM is assigned to grant rights for the exercise of postal activity, to ensure the application and supervision of compliance with laws and regulations, to ensure the existence and availability of the universal postal service and has the authority to produce regulations, to initiate and pursue infringement procedures and to arbitrate and resolve disputes. The Ministry of Public Works, Transport and Communications is responsible for policymaking in the postal sector.

Short description of relevant developments with regard to the regulatory framework

Disputes

A potential source of disputes is the denial of access and unfavourable access conditions of competitors compared to customers. As said, the law (art. 18 of Decree-Law n. 150/2001, 7th May) established ANACOM's competence to solve disputes between the universal service provider and others providers of postal services related to access to the public postal network. As mentioned above, licensed or authorised postal services providers have the right of access to the public postal network under transparent and non-discriminatory conditions, which must be agreed with the universal service provider. Disputes have however not arisen from the denial of access or disagreement in the establishment of access conditions in the past. ANACOM has never been asked by competitor postal operators to solve a dispute in this respect.

The unlawful distribution of mail by a competitor in the reserved area is another source for disputes. CTT has complained to ANACOM about illegal operations by a competitor

⁵³ In this respect, the conditions are designed to the extent necessary in order to guarantee compliance with the essential requirements (such as confidentiality, security and protection of data) (Decree-Law 150/2001, and as amended Decree-Law 116/2003)

postal operator within the reserved area, more specifically the collection of outbound international mail. In this case, ANACOM has been asked to verify if the competitor operators provide reserved services and if operators provide postal services according to their licence / authorisation.

Another issue that needs attention is the harmonisation of VAT applicable to postal services, in particular in the areas where the market is open to competition.

Short description of the postal sector policy

The Portuguese legislation already defined its further liberalisation policy, starting on 1 January 2006 with liberalising the delivery of addressed items of correspondence and addressed direct mail with weight ≥ 50 gram or with pricing ≥ 2.5 times the public tariff of one sending of correspondence in the first weight step of the fastest standard category. The national regulatory authority states that the position on the future liberalisation of the market will depend from technical analyses to be made, in Portugal and at European level. ANACOM, in this matter, foresees to carry out a study to assess competition in the postal market in its Plan of Activities 2005–2007.

Without prejudice of the position of the government, ANACOM stresses the necessity to assure the existence and availability of the universal service. The universal service is understood as a permanent offer of postal services with specified quality, provided in all points of the national territory, at prices affordable to all users, aiming to satisfy the communication needs of the population and of economic and social activities. No change is yet foreseen in the definition of the universal service in case of full liberalisation.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

Government regulation

The main factor is the postal sector policy of the government towards further liberalisation of the postal sector. According to the NRA, the position about the future liberalisation of the postal market will depend on the technical analyses and studies to be carried out in Portugal and at European level.

New entrants

ANACOM does not have information on the number of (active) entrants allowing making a credible estimate. ANACOM has foreseen, in its Plan of Activities 2005–2007, to make a study for the assessment of competition in the postal market. However, currently 16 licences and authorisations have been issued the last years. Excluding double counting and apart from CTT, three licensed and 11 authorised operators have been registered.

Substitution

In the Portuguese postal market, a decrease is expected in the market volume of addressed mail. According to the universal service provider, the expected economic growth will not lead to a comparable rise in mail volumes. The impact of electronic substitution will be

highest for business items of correspondence, while the number of items of addressed direct mail will grow. CTT expects a decline in its volume due to electronic substitution in the next three years of 2% in the distribution of bank statements and business correspondence. In 2010, the volume of addressed mail is anticipated to be 10% lower than today.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

As competition has hardly developed in Portugal because of the large reserved area, it will take some time before a competitor postal operator can challenge the universal service provider. On the other hand, the fifty largest clients of CTT are responsible for slightly more than half of the total volume of addressed mail. This factor, in combination with the potential for direct mail to develop, might open up opportunities for competitors to target B2X mail segments in the urbanised areas.

1.1.3 The universal postal operator facts, figures, strategy

CTT is the national postal operator and universal service provider in Portugal. CTT operates under its own names but also is active in express and courier services via CTT Expresso, formerly known as Postlog and Post Expresso. CTT is since recently active in Spain but still earns practically all its income on the Portuguese domestic market.

Main developments

Main indicators CTT – Correios de Portugal				
	2001	2002	2003	2004
Business segments				
Mail volumes (in million items)	1,372	1,324	1,290	1,314
Postal financial services (in million transactions)	17,443	19,035	19,625	22,270
Philately (in 1000 items)	7,966	9,652	9,114	11,282
Revenues (in million Euro)	629	641	644	647

Source: Annual Reports CTT – Correios de Portugal

The table above shows the developments in the main indicators of the performance of CTT. The total number of mail items shows a decline of volume since 2001, but in the year 2004 CTT managed to increase its volume handled. CTT has been able to increase its revenues despite the decline in volume (until 2003) through an increase in operating income from other services.

Strategies of the universal service provider

CTT tries to respond to the development of competition and the threat of electronic substitution by launching new services in the area of electronic communication, namely a service of mail presentment and payment.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

In the Portuguese postal market are, apart from CTT, three competitor postal operators licensed and 11 operators authorised. Competition in the distribution of addressed mail currently should come from the three licensed operators.

Overview licensed postal operators

Licensed operators (apart from CTT)	Active in:
S.D.I.M: Sociedade de Distribuição de Imprensa da Madeira	Periodicals, magazines and newspapers
Notícias Direct	Books, catalogues, periodicals, magazines and newspapers
Meest Portugal, Unipessoal	-
Authorised operators (apart from CTT)	
DHL	Courier and express
TNT Expresse worldwide	Courier and express
Federal Express	Courier and express
UPS	Courier and express
Chronopost Portugal	Courier and express
Rangel Expresso	Courier and express
GL Transportes, Unipessoal	Courier and express
Guizpuzcoana Transportes Coimbra, Unipessoal	Courier and express
Guizpuzcoane Transportes Porto, Unipessoal	Courier and express
Ibercourier	Courier and express
Logista	Courier and express

S.D.I.M. is a postal operator that is mainly engaged in the distribution of press products (periodicals, magazines and newspapers) on the island of Madeira. Its operations are rather small. Notícias Direct is active in the distribution of books, catalogues, periodicals, magazines and newspapers. Meest Portugal has only recently acquired its licence and is, to our knowledge, not yet active. The scale of operations of these licensed operators is (still) modest. In the distribution of addressed direct mail, no single postal operator is active.

Effect of competition on market structure and market performance (result indicators), including on US provision

As most mail is still in the reserved category, competitors have not been able to gain much market share. CTT has a nearly 100% market share in terms of volume in the delivery of items of correspondence. In addition, in addressed direct mail, the market share is 100%. In the distribution of periodicals, magazines and newspapers also not much competition has developed so far in Portugal, the main alternative operator is Notícias Direct.

In the latest study on competition in the Portuguese postal market at the end of 2004, ANACOM published volume developments and market shares of CTT in postal services open to competition.⁵⁴ In 2004, the distribution of around 252 million postal items (excluding express and courier) is open to competition. The CTT group had a market share of 97% in terms of volume in the provision of postal services that are open to competition (express and courier services excluded). This implies that competitors in the licensed area delivered only around 8 million items in 2004. CTT has regained market share on its competitors in the last few years. In the first quarter of 2003, for instance CTT had a market share of 94.9% in the segment open to competition. In terms of revenues, the market share of CTT was higher at a level of 97.9%. Given the fact that the liberalised market at that time still was a small part of the postal sector, CTT in the beginning of 2002 was the dominant operator.

The prices of postal services have declined in the last ten years, not as the result of emerged competition from alternative postal operators and express and courier service providers, but due to the existing price regulation. In its latest study on price development, which is already a bit outdated, ANACOM concluded the following: the price baskets for priority and non-priority mail fell 5.9% in real terms in the period between 1993 and 2003, 4.2% for non-priority mail, and 25.2% for priority mail.⁵⁵

The quality of service of postal provision of CTT is at an acceptable level and has improved slightly in the past years. In 2004, CTT reached a 95.1% delivery in D+1 on priority mail with origin and destination in the mainland.⁵⁶ Given the size of the country and the geographical conditions, there is room for improvement.

Full competition may have considerable impact on the market structure in Portugal, but will take time to emerge, as currently most postal services are still reserved to CTT. Both the policy maker and the postal regulator have so far not carried out any impact assessment of the development of competition.

At the moment, it is envisaged that the scope of the universal service will remain the same after full liberalisation. According to CTT, the universal service obligations should be adapted to the specific conditions of the Portuguese postal market that is faced with the evolution of customer's needs and the development of competition. CTT states that the USO should mainly protect those customer segments, which do not have access to alternatives, such as private customers and small and medium sized enterprises, and include the provision of affordable and good quality services that are generally deemed indispensable. The current universal service obligations could be adapted by diminishing the number of deliveries a week, by introducing the provision of universal e-mail services and by changing the obligation of maintaining the current network of post offices. The uniform tariff should also be abolished for the universal service provider in order to provide the universal service provider with enough flexibility to respond to competition that will target the most profitable segments of the postal market.

⁵⁴ ANACOM (2005), Postal services operated competition, fourth quarter 2004.

⁵⁵ ANACOM (2003), Evolution of prices and international comparisons: priority and non-priority mail

⁵⁶ In the delivery of priority mail with origin or destination in the autonomous regions of Madeira and Azores a score of 92,1% in D+2 was reached.

CTT is against the introduction of regulated access in the Portuguese postal market. The current provision of non-discriminatory access provides sufficient conditions for access to the network of the universal service provider. According to the universal service provider, the introduction of access regulation hinders the dynamic evolution of a competitive market and creates conditions for the market to rely upon regulatory control instead of market forces. ANACOM considers that the current legal provisions on access contribute to promote competition without prejudice to guarantee the provision of the universal service.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Contents of the regulation
Law no. 102/99, of 26 of July	Basic law for postal services
Decree-Law no. 188/81, of 2 of July	Regulation of the Public Postal Service
Decree-Law no. 176/88, of 18 of May	
Decree-Law no. 150/2001, of 7 of May	
Decree-Law no. 116/2003, of 12 of June	Regime for exercise of the activity of provision of postal services in a competitive market
Decree-Law no. 448/99, of 4 of November	Transposes to the internal legal system the directive 2002/39/CE of the European Parliament and of the Council of 10 June 2002, amends the Law no. 102/99 of 26 July, the Decree-Law no. 448/99 of 4 of November, and the Decree-Law no. 150/200 of 7 May
Universal Postal Service Quality Convention	Basis for the Universal Postal Service Concession
Universal Postal Service Price Convention	The Convention fixes and publishes the parameters and the quality of service minimum levels associated with the provision of the universal postal service provided by the USP
Regulatory Decree no. 8/90, of 6 of April, subject to subsequent changes	This Convention governs and defines the rules that will have to be considered, when establishing the prices of the services pertaining to the universal postal service provided by the USP
Regulatory Decree no. 21/98, of 4 of September	Regulation of the Post Office Box Service

Note: only most important regulations included, for all postal legislation, see the website of ANACOM

Source: Autoridade Nacional de Comunicações (ANACOM), website

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	After January 2006 < 50 gram reserved
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Except for above 100 gram After January 2006 < 50 gram reserved
Outbound cross border mail	Yes	Except for above 100 gram After January 2006 < 50 gram reserved
Direct mail addressed (incl. catalogues)	Yes	Except for above 100 gram, After January 2006 < 50 gram reserved
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Licence	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Concession	Universal service, monopoly on reserved area for USP	Provide the universal service at the required service level	1
Licence	Non reserved universal service	Normal business requirements w.r.t. financial, technical and human resources	4 (including CTT)
Authorisation	Non universal service (express and courier)	Idem	12 (including CTT)

Source: ECORYS, information provided by NRA

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Note: negotiated access on the basis of requirements as set in postal legislation

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram	840	61.4%
Domestic items of correspondence 50-100 gram	16	1.2%
Domestic items of correspondence >100 gram	23	1.7%
Inbound cross border mail	46	3.4%
Outbound cross border mail	55	4.0%
Direct mail addressed (incl. catalogues)	206	15.0%
Periodicals / Magazines	99 ¹	5.3%
Newspapers	85 ¹	4.6%
Un-addressed mail (direct mail, weeklies)	491 ¹	
Total	1,860	100%

¹ USP only

Note: ANACOM provided confidential data that deviate from the data presented.

Source: ECORYS questionnaire (2005), Annual Reports Correios de Portugal, UPU (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2000	2003
B2B	27%	28%
B2C	60%	61%
C2B	6%	5%
C2C	7%	6%
Total	100%	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Portugal	2004
Population (in million)	10.5 *
Size of the country (in 1000 of square km)	91.9 *
Population density (number of inhabitants per square km)	114.3
Degree of urbanisation	57.4 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	1,184,786 (11.3%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	122

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	Status
% Government share	100%	Public corporation

Source: website, Annual Report Correios de Portugal

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000 in millions of euros	2004 in millions of euros	% (2004)
Mail	485.8	554.3	74%
Express	50.9	65.2	9%
Logistics	-	-	
Other	92.3	125.0	17%
Total	629	744.5	100%

Source: ECORYS questionnaire (2005), Annual Reports CTT – Correios de Portugal, WIK (2004)

Table 1.10 Overview acquisitions, alliances and partnerships

Country	Mail	Express	Logistics
None	-	-	-

Source: Annual Reports CTT – Correios de Portugal

Table 1.11 Postal network

CTT - Correios de Portugal	2004
Number of postal service points	3,037 (1,005 Post Offices + 2,032 Agencies)
Number of P.O. Boxes	155,653
Number of street letter boxes	19,563
Number of delivery offices	408
Number of delivery points / addresses	5.02 million

Source: Annual Report CTT – Correios de Portugal, SA, information provided by ANACOM

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	Courier and express operators are active
International mail	7	DHL Global Mail, TNT, UPS, Rangel/FedEx, GL, Guipuzcoana Coimbra and Guizpuzcoana Porto (only courier and express operators)
Addressed direct mail / catalogues	0	
Periodical / Magazines	2	S.D.I.M., Notícias Direct
Newspapers	2	S.D.I.M., Notícias Direct
Un-addressed mail	6 (large)	Around 200 small local delivery organisations according to CTT
Upstream mail services	Various	A.o. BM Apoio

Source: ECORYS questionnaire (2005), information provided by ANACOM

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
S.D.I.M.	Periodicals, magazines, newspapers	-	-	-	Island of Madeira only
Notícias Direct	Catalogues, books, periodicals, magazines, newspapers	-	-	-	Portugal

Note: confidential information about scale operations provided by ANACOM

Source: ECORYS questionnaire (2005), websites

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	99.4%	Excl. express and courier
Market share of USP (in terms of volume) in the delivery of addressed direct mail	100%	Excl. express and courier
Market share of USP (in terms of turnover) in addressed mail	>99.5%	Excl. express and courier
Market share of USP (in terms of volume) in the delivery of un-addressed advertising mail	45% ¹	

Note: estimate by CTT – Correios de Portugal

Source: ANACOM (2005), ECORYS questionnaire (2005)

Country information sheet: Slovakia

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

Act 507/2001 on postal services was updated in December 2003 for the transposition of the EU postal directive 2002/39/EC. In this update, the reserved area was reduced from 350 gram to 100 gram, effective as of 1 May 2004. Outbound cross border mail is not liberalised below 100 gram, while inbound cross border mail has been liberalised. Direct mail is liberalised in line with regular addressed letter mail (it is liberalised for items above 100 gram). Addressed direct mail is included in the reserved postal services.

New entrants can operate based on a general authorisation for postal services outside the scope of the reserved postal services. Only the universal service provider (USP) has a licence. In total, 16 operators have a general authorisation; including the USP. The conditions of the authorisations are non-restrictive, that is, it is mostly a registration.

The Ministry of Transport, Posts and Telecommunications of the Slovak Republic (MDPT SR) is responsible for postal sector policy. As of January 2002, the Postal Regulatory Office is the regulator for the postal services sector in Slovakia. The authority hands out licences and authorisations.

Short description of relevant developments with regard to the regulatory framework

The postal regulator has dealt with disputes regarding:

- Definition of letters, addressed mail or printed matter: there has been a dispute concerning the definition of direct mail. The universal service provider and the regulatory authority had a different opinion on what is a letter and what is direct mail. The misconception about terminology was solved by publishing a uniform definition of direct mail in the Bulletin of the Slovak Post and in the Postal Terms and Conditions;
- Unlawful distribution of mail by a competitor in the reserved area: controls of the regulatory authority revealed four cases of unlawful distribution of mail by competitor operators (i.e. express and courier operators). Two operators had to cease operations and the other two needed to procure a trade licence for providing postal services and to apply for registration at the regulatory office.

Short description of the postal sector policy

In the update of Act 507/2001 in December 2003, a further liberalisation of the postal market is planned with the reduction of the reserved service area to 50 gram on 1 January 2006. It is not clear whether outbound mail will be liberalised on 1 January 2006 as well.

The current postal sector policy is focused on the liberalisation of addressed mail above 50 gram per 1 January 2006. The ministry is aiming at liberalisation in line with the future EU postal directives, but at the same time the Government decided to look for ways to accelerate the process of liberalisation. For this purpose, a study was conducted on the feasibility of further liberalisation and proposals to accelerate the liberalisation of the postal market. On 10 May 2005, the Slovak government approved the study. It was decided that the liberalisation process of the postal market will be speeded up and that the current weight and price limits of the reserved area will be cancelled as of 1 January 2007.

The postal sector policy by the Ministry of Transport, Posts and Telecommunications of the Slovak Republic (MDPT SR) is directed to:

- Developing the state postal policy for the year 2007 and thereafter;
- If necessary, redefining the concept of the USO (although at the moment the Ministry prefers to maintain the present scope of the USO);
- Transposing the EU postal directives into Slovak Republic postal legislation.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

Government regulation

Currently, Slovakia complies with the postal directives in terms of liberalisation. It considers further liberalisation steps after January 2006. The existing legal conditions to start postal operations are not restrictive to entry.

New entrants

Competitor postal operators have become active in courier and express markets and in un-addressed advertising mail, mostly at the local level, such as in the larger cities of Slovakia. A small number of competitors are active in domestic letter mail as well, but mostly on a regional or urban scale.

Substitution

Substitution has for the moment some minor negative effects on mail volumes and may be offset by growth of addressed advertising mail, which still offers new opportunities. Slovak Post estimates that substitution of mail by alternative media will lead to a decline of volume of 2 to 7%.

Short analysis of contestability/attractiveness of market segments in the mail market (if different from general analysis), in relation to the market size of the postal sector and country information

The size of the Slovak mail market is still well below the European average. With addressed direct mail consisting of over 40% of the total mail market, there appears to be room for further development of this segment. The low degree of urbanisation of the Slovak Republic might be a less attractive element for future entrants.

The competition in postal markets in the Slovak Republic is limited. The current competition is focused on already liberalised markets of un-addressed advertising mail and express mail. After deregulation in 2004 and 2006, postal operators will have more opportunities to compete in addressed letter mail.

1.1.3 The universal postal operator: facts, figures, strategy

Slovenska Posta, A/S (Slovak Post, j.s.c) is the national postal operator in the Slovak Republic. The mail volumes of Slovak Post show an increase for the year 2003. The long-term development shows a decline in ordinary letter mail since 1996, a relatively stable parcel mail volume and a steady increase in value added services, such as courier and express mail. Cross border volumes show a declining trend over the period 1998-2003, with rather stable volumes in express mail services.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

Given the limitations in the current postal laws with reserved letter mail and direct mail up to 350 gram until recently, competitors have so far had few options to develop new services in addressed mail markets. In addition, the volume of mail in the country is still limited. For these reasons the number of competitors is still limited. The competitors that have entered the mail market mainly focus on courier and express services and un-addressed mail in city areas.

According to the register of authorisations, 16 postal operators have obtained an authorisation. 14 of the 16 postal operators are active, and mainly in courier and express or in parcel delivery. Besides the international consolidators UPS, TNT, DHL Global Mail, also national express and courier operators obtained an authorisation, such as TEN Expres, Inspekta, ReMax courier and In time. Other authorised operators are Železničná spol., NDŽ, MG Spedition, MG Expres Sped., DPD and ČSAD Invest. Österreichische Post established the subsidiary "Slovak Parcel Services s.r.o." and "In Time s.r.o." to obtain a market position in courier, express and parcel delivery.

In the delivery of un-addressed mail, three larger operators are active: Surema, Studentsky servis and Shiculka & Macach. Important to note is that TNT at the end of

2004 acquired the largest competitor operator in the delivery of un-addressed mail Shiculka & Macatch, s.r.o.

Effect of competition on market structure and market performance (result indicators), including on US provision

In case of full liberalisation, Slovak Post expects a decline of its market share of 5 to 10% for addressed advertising mail en cross border mail and a decline of 0 to 5% on its market share for addressed letter mail. The regulator is less optimistic about the market share of the USP.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postal Act No. 222/1946	1950	December 2003
Law No 507/2001 on Postal Services (first amendment)	December 2001	(Act No 15/2004 Coll.)
General authorisation for providing postal services	15 May 2002	5 March 2004
Postal licence	27 December 2002	

Source: Annual Report MDPT 2003

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	
Domestic items of correspondence 50-100 gram	Yes	
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	No	
Outbound cross border mail	Yes	Except for above 100 gram
Direct mail addressed (incl. catalogues)	Yes	Except for above 100 gram
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been issued?
Licence Art. 16 (1) of the Act No. 507/2001 Coll. on Postal Services as amended	Universal service including reserved area Art. 18 (2) (3) (4) of the Act No. 507/2001 Coll. on Postal Services as amended	1) To be the postal company in the meaning of Art. 5 of the Act No. 507/2001 Coll. on Postal Services as amended 2) To comply with the requirements stipulated by Art. 16 and Art. 17 of the Act No. 507/2001 Coll. on Postal Services as amended	1
General Authorisation Art. 14 (1) of the Act No. 507/2001 Coll. on Postal Services as amended	Postal services outside reserved postal services but it is allowed if they are in the framework of the universal service Art. 14 (3) of the Act No. 507/2001 Coll. on Postal Services as amended	1) To be the postal company in the meaning of Art. 5 of the Act No. 507/2001 Coll. on Postal Services as amended 2) To comply with the requirements stipulated by Art. 15 of the Act No. 507/2001 Coll. on Postal Services as amended	16 Based on the General Authorisation there were registered 16 postal operators (including the USP).

Source: Website NRA Slovak Republic, ECORYS questionnaire (2005)

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram	198.8	62.3%
Domestic items of correspondence 50-100 gram	25.5	8.0%
Domestic items of correspondence >100 gram	10.2	3.2%
Inbound cross border mail	25.5	8.0%
Outbound cross border mail	10.2	3.2%
Direct mail addressed (incl. catalogues)	51.0	16.0%
Periodicals / Magazines	20.4	6.4%
Newspapers ¹	7.9	2.5%
Un-addressed mail (direct mail, weeklies)	168.2	
Total	527.7	100%

Source: ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2004
B2B	37%
B2C	42%
C2B	9%
C2C	12%
Total	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Slovakia	2004
Population (in million)	5.4 *
Size of the country (in 1000 of square km)	49.0 *
Population density (number of inhabitants per square km)	110.2
Degree of urbanisation	50.8 ^{1**}
Number of inhabitants 5 largest cities	927,300 (17.2%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	65

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

As of 2004, the company is a corporatised state enterprise.

Table 1.8 Government share in incumbent postal operator

	2005
% Government share	100%

Source: Annual Report Slovak Post, ECORYS questionnaire (2005)

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2004 in millions of euros	% (2004)
Mail	104.0	64%
Express	1.2	1%
Logistics	-	-
Other	57.7	35%
Total	162.9	100%

Source: ECORYS questionnaire (2005), Annual Reports Slovak Post

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
None	-	-	-

Source: Annual Report Slovak Post

Table 1.11 Postal network

Slovak Post	2003
Number of postal service points	1,589
Number of P.O. Boxes (2002)	18,049
Number of street letter boxes (2000)	7,110
Number of delivery offices (2002)	1,429
Number of delivery points / addresses	1,900,000

Source: NERA (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	Express and couriers active
International mail	12	UPS, DHL Global Mail, TNT, TEN Express, many smaller ones
Addressed direct mail	0	
Periodicals / Magazines	0	
Newspapers	0	
Un-addressed mail	3 (large), various smaller	Shiculka & Macatch, Surema, Studentsky servis
Upstream mail services	-	

Source: ECORYS questionnaire (2005), information provided by NRA

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Shiculka & Macatch (TNT)	Un-addressed mail	- (Consolidated in TNT figures)	-	Max. 2	75%
Studentsky servis	Un-addressed mail	-	15,000 delivers	Flexible	10 largest cities

Source: ECORYS questionnaire (2005), website

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	100%	Only courier and express operators active besides Slovak Post
Market share of USP (in terms of turnover) in addressed mail	100%	-

Source: ECORYS questionnaire (2005)

Country information sheet: Slovenia

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

The Postal Services Act of 30 May 2002, as amended 1 May 2004, defines the postal sector regulations for the Republic of Slovenia. The following regulations apply for specific market segments:

- Items of correspondence with a weight limit of > 100 gram and pricing of three times the basic tariff in the first weight step of the fastest standard category are liberalised;
- Outbound cross border mail is fully liberalised;
- Addressed direct mail is fully liberalised. This concerns both addressed and un-addressed direct mail;
- Incoming cross border mail is liberalised above 100 gram for a single item.

The universal postal service includes the following postal services:

- Routing of postal items weighing up to 2 kg;
- Routing of postal parcels weighing up to 20 kg;
- Services for registered items and insured items;
- Routing of postal items for the blind and partially sighted persons.

The universal service includes both national and (inbound) cross border services. The universal service provider is obliged to collect and deliver the mail at least five days a week. The rural areas have less frequency of deliveries, but not less than 5 days a week. In fact, 70.5% of mail is delivered six times a week, 29.5% five times a week.

Competitor postal operators wishing to offer services for routing of postal items up to 2 kg, routing of postal parcels up to 20 kg, services of registered and insured items, and routing of postal items for blind and partially sighted people, outside the reserved area, have to obtain a declaratory order (general authorisation) to perform postal operations. One individual licence is issued to Slovenia Post determining the right to provide the universal service.

In Slovenian legislation, the following provisions are included about access to the facilities of the universal service provider. Under Article 26 of Postal Services Act, the universal service provider is obliged to conclude a contract with other postal operators on the latter's request. If no agreement can be reached, the regulatory authority shall take a decision on the request for access to the public postal network.

The Slovenian policy maker is the Electronic Communications Directorate of the Ministry of Economy. The Ministry complies with EU directives and will in the future act within EU legislation. The Post and Electronic Communications Agency of the Republic of Slovenia (APEK) is responsible for postal sector regulations.

Short description of relevant developments with regard to the regulatory framework

APEK has resolved disputes regarding the definition of letter, addressed mail or printed matter and unlawful distribution of mail by a competitor postal operator in the reserved area.

Short description of the postal sector policy

The current development of postal sector policy in Slovenia is focused on:

- Reducing the weight limit to 50 gram for items of correspondence and pricing of 2.5 times the basic tariff in the first weight step of the fastest standard category. This is already implemented in the Postal Services Act (according to Article 37 of transitional provision this provision will come in to force from January 2006);
- Implementation of EN standards (with emphasis on EN 13850). This issue is currently in the phase of implementation in Slovenian Post with cooperation of APEK.

The postal sector policy towards a further liberalisation of the postal sector is not evident from any formal or informal policy document, but is reflected in the Postal Services Act and other relevant legislation as indicated in Table 1.1.

The main future steps in the liberalisation process in Slovenia are:

- First step (2006): full liberalisation of addressed mail above 50 gram and *regulated* access to the facilities of the incumbents;
- Second step (2009): considering full liberalisation of the addressed mail and *regulated* access.

However, the date for full liberalisation has not been fixed yet.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition

Government regulation

There is a focus on maintaining the universal service obligations. Slovenia is assumed to need a universal service due to the specific geographical character of the country. No changes are currently considered in the USO definitions. Further liberalisation of the postal sector in line with EU directives is planned.

New entrants

Up to now, 18 declaratory orders have been issued to postal operators to operate in non-reserved postal market segments. Competitors are mainly active in logistics, express, and parcel services.

Substitution

The postal market in Slovenia is still developing. Over the period 2000 to 2004, mail volumes have increased, but the most significant change can be observed in the un-addressed direct mail segment.

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

Due to the small amount of citizens, the total mail volume in Slovenia is low, despite moderately high figures for mail per capita. The degree of urbanisation and the population density are a bit lower compared to other European countries. Direct mail seems to be rather well developed with a share of 58% of the total mail volume. Over the last decade, Slovenia has seen a steady increase in mail volumes per capita. Competitors have already established themselves in value added services such as courier and express mail and logistics services.

With the gradual reduction of the weight category for reserved postal services from 100 gram to 50 gram in 2006 postal operators may show increased interest in advertising mail in the more densely populated areas and cities. Local operators have managed to obtain market share in the delivery of magazines and periodicals while the incumbent has lost 10% market share in advertising mail to competitors. This is likely to increase with the further opening of the postal markets.

1.1.3 The universal postal operator: facts, figures, strategy

The main products of Slovenia Post are letters, parcels and express mail. It is a small operator, with major revenues from traditional services and negligible revenues from logistics and express.

In the core markets, letter volumes have increased from 393 million in 1996 to 812 million in 2002. Parcel volumes increased from 1.1 million to 5.3 million in the same period. Un-addressed mail represents 6.5% of total mail revenues in 2004. Still a large but decreasing part of revenues is derived from retail or post office services (transactions). Direct mail has been liberalised in Slovenia as of 2004 (Slovene Postal Services Act of 1 May 2004). To date the market share of the national postal operator in this market segment is remained very high.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

The initial focus of new entrants has been on liberalised markets such as courier and express and un-addressed mail. Most competitors of Slovenian Post are courier companies offering door-to-door services, mainly in business areas and city areas. Österreichische Post is active through her daughter company “Yellogistics d.o.o.”, that

offers express and logistic services. Increasingly new postal operators target addressed mail markets.

Effect of competition on market structure and market performance (result indicators), including on US provision

The liberalisation of the postal market has already resulted in a decline of the market share of the national postal operator Slovenia Post. APEK expects in case of further liberalisation that the market share of Slovenia Post will decline with 0 to 5% for incoming cross border mail and addressed mail, and with 5 to 10% for addressed advertising mail. For magazines and catalogues, a further decline of 15% and 10%, respectively, is expected.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postal Services Act (ZPSto-1-UPB1)	30 May 2002	1 May 2004
Rules on the quality and method of providing of Universal Postal Services	29 August 2003	19 November 2004
Rules on the content of the general terms and conditions for the provision of postal services	26 September 2003	
Rules on issuing the postal stationery	12 October 2002	
Rules on the content of a licence application form and conditions for obtaining a licence for the provision of universal service	27 September 2003	
Rules on the method of calculation and payment of the charges for provision of postal services	14 January 2004	
General Act on nomenclature of postal services	21 June 2003	
General Act on label for prohibition on insertion (of unaddressed advertising mail) in post boxes	11 October 2003	31 August 2004
General Act on value of point for determining annual payment of postal services providers	10 June 2004	6 April 2005
General Act on determining affordable price of universal service	31 August 2004	
General Act keeping and verifying of accounting system of universal service provider	31 August 2004	
General terms and conditions for provision of universal service	5 June 2004	

Source: ECORYS questionnaire (2005), information provided by NRA

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	Up to 100 gram till January 2006
Domestic items of correspondence 50-100 gram	Yes	Up to 100 gram till January 2006
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Up to 100 gram till January 2006
Outbound cross border mail	No	
Direct mail addressed (incl. catalogues)	No	
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been issued? (2005)
Individual licence	Universal postal service	<ol style="list-style-type: none"> 1. Registration for the provision of postal services; 2. Competent workers to provide postal services; 3. Available financial resources or prove of ability to obtain these in order to provide this service; 4. In last five years prior to issuing the individual licence the later was not repealed ex officio and 5. Submitting the evidence of the provision of safe and reliable routing of postal items. 	1
Declaratory order / general authorisation	<ol style="list-style-type: none"> 1. Routing of postal items up to 2 kg 2. Routing of postal parcels up to 20 kg 3. Services of registered and insured items and 4. Routing of postal items for blind and partially sighted people. 	<ol style="list-style-type: none"> 1. Written notification to the Agency of provision of postal services in last cell (except reserved area – postal items of correspondence up to 100 g and price equal or less then three times the public tariff for an item of correspondence in the first weight step of the fastest category) 2. Registration for providing postal services (NACE classification 64.120) 3. Protection of the privacy of the postal items. 	18

Source: ECORYS questionnaire (2005), legal documentation

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Note: access to the postal network is regulated according to Article 26 of Postal Services Act.

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram		
Domestic items of correspondence 50-100 gram	320.1	76.7%
Domestic items of correspondence >100 gram	8.7	2.1%
Inbound cross border mail	9.0	2.1%
Outbound cross border mail	6.5 ¹	1.6%
Direct mail addressed (incl. catalogues)	63.9	15.3%
Periodicals / Magazines	9.3 ¹	2.2%
Newspapers	-	-
Un-addressed mail (direct mail, weeklies)	394.5 ¹	-
Total	812.0	100%

Note: figures have to be approached carefully

¹ USP only

Source: ECORYS questionnaire (2005)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2003
B2B	n.a.
B2C	n.a.
C2B	n.a.
C2C	n.a.
Total	100%

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

Slovenia	2004
Population (in million)	1.996 *
Size of the country (in 1000 of square km)	20.3 *
Population density (number of inhabitants per square km)	96.8
Degree of urbanisation	76.5 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	414,521 (20.8%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	209

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	Status
% Government share	100%	On July 26, 2002 the Government adopted the Act on the transformation of Slovenian Post into a limited liability company. No plans indicated for change of status

Source: ECORYS questionnaire (2005)

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000 in millions of euros	2004 in millions of euros	% (2004)
Letter and advertising mail	77.82	118.16	89%
Parcel Mail	7.52	12.58	10%
Express	0.40	1.09	1%
Logistics	-	-	
Total	85.74	131.83	100%

Note: year 2000 1 € = 211.5 SIT; year 2004 1 € = 240.00 SIT

Source: ECORYS questionnaire (2005)

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
None			

Source: Annual Reports Posta Slovenia

Table 1.11 Postal network

Posta Slovenia	2004
Number of postal service points	555
Number of P.O. Boxes	16,220
Number of street letter boxes	2,920
Number of delivery offices	4,914
Number of delivery points / addresses	693,752

Source: ECORYS questionnaire (2005), information provided by NRA

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	0	DHL Global Mail, TNT, UPS, FedEx, Yellogistics (Österreichische Post)
International mail	4	
Addressed direct mail	0	
Periodicals / Magazines	0	
Newspapers	-	
Un-addressed mail	Several	Mainly local operators

Source: ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
None	-	-	-	-	-

Source: ECORYS (2005)

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	100%	Excl. express and courier
Market share of USP (in terms of volume) in the delivery of addressed direct mail	100%	
Market share of USP (in terms of volume) in the delivery of un-addressed mail	90%	

Note: un-addressed mail market share is estimate by Posta Slovenije, the estimates for addressed mail provided by the NRA based on estimates by Posta Slovenije are 95% respectively 90%. ECORYS however detected no competitors.

Source: ECORYS questionnaire (2005)

Country information sheet: Spain

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal policy

Short description of regulatory framework, liberalisation and entry regulation

The regulatory framework in Spain diverges in several ways from the European framework. Domestic intra-city postal items are not part of the reserved area and the delivery of direct mail has been liberalised. Cross-border mail is liberalised above 100 gram for a single item. The delivery of items of correspondence with a weight level of less than 100 gram and less than three times the basic tariff is still reserved for intercity mail and cross border mail. The delivery of value-added services and document exchange is liberalised in line with the postal directives.

The current postal law (Ley 24/1998) was last modified at the end of 2002 to conform to European standards as stipulated in the most recent postal directive. A specific or a general authorisation is required to perform postal activities. The conditions for the specific authorisations are strictest, as these refer to activities that are carried out within the universal service area. General authorisations are essentially not more than mere registrations and apply to the provision of postal services outside the universal service. In addition to the general and specific authorisations, Correos y Telégrafos is designated by law as the provider of the universal service. The Spanish government approves the details of the conditions to provide the universal service. The Postal Act and regulation 81/1999 require postal operators to register in the Registro General de Empresas Prestadoras de Servicios Postales. In table 2, the most important conditions to acquire a licence are mentioned. At the end of 2004, 444 specific and 2,682 general authorisations had been approved.

In Spanish legislation, specific arrangements on bulk mail are not present, but in practice large customers may qualify for special commercial agreements if the number of items handed over to Correos y Telégrafos. There are no specific access regulations in Spain, but commercial negotiations to use the network of Correos y Telégrafos are possible under the condition that the access conditions are non-discriminatory and transparent.

The provision of the universal service is in line with the conditions the postal directives lists, that is, the provision of ordinary and insured domestic and cross border letter mail and addressed direct mail, books, catalogues, periodicals and magazines up to 2 kg and parcels up to 10 kg. The universal service obligation of Correos y Telégrafos stipulates

that 90% of the letter post items needs to be delivered within three days and 98% within five days after posting.

The Ministerio de Fomento (Ministry of Development), Servicios Postales Subdirección General Regulación Servicios Postales is responsible for the regulation of the Spanish postal market. Its tasks are to supervise the accurate provision of the universal service by Correos y Telégrafos, to register postal operators, to handle complaints by postal users and take decisions on disputes, and to maintain and arrange a universal service fund. In Spain, there exists no separate regulatory authority, but the regulatory tasks and the legislative tasks are separated in the government organisation. The legislative tasks of postal sector policy are in the hands of the Ministry of Finance and the Ministry of Development.

Short description of relevant developments with regard to the regulatory framework

Various parties have stated a number of issues that may be a barrier to entry for the development of competition in Spain.

The restrictions on the franking fees provided to private providers

Following the implementation of the first EU postal directive into Spanish legislation in 1998, Correos y Telégrafos granted smaller postal service operators a substantial franking allowance for inter-city mail delivered at the Spanish post offices. In early 2000, new conditions were set. Now private companies need to provide Correos y Telégrafos with at least 10% of their intra-city mail volume in order to remain eligible for receiving franking allowance. In two cases, the Spanish competition authority has ruled in favour of competitor postal operators claiming unfair competition and discriminatory practices on the part of Correos y Telégrafos. No indications were however given how to resolve the situation. The new terms and conditions are still subject to negotiation. For more than two years, Unipost and other private operators have been confronted with lengthy discussions to reach new agreements.⁵⁷

Potential anti-competitive pricing

In addition, complaints about the practices of Correos y Telégrafos in the area of urban mail have been dealt with. Correos y Telégrafos made, in response to the increased competition in the local mail market, a more competitive offer to the largest clients of the competitors. The question under investigation is whether Correos y Telégrafos engaged in a strategy of limit pricing allowed under the current Postal Act.

Alleged abuse of dominant position by Correos y Telégrafos

In 2002, the rates presented to the Spanish newspaper publishers by Correos were double the rates presented in 2001. According to the newspaper publishers, such a price rise in the space of a year was simply not feasible and it was not a transparent price increase. Long negotiations had to take place to secure a longer time-period to introduce these price rises.

⁵⁷ Source: F. Díez Estella (2005), Abusive practices in the postal services?, unpublished manuscript.

The application of VAT

According to the Spanish tax authorities, tax should also be levied on the postage stamp price for postal services open to competition. Private sector providers however believe that in accordance with the EU directive VAT should only be levied on handling cost (franking) and not on the price of the stamp that is fixed and does not represent any value added on the part of the holder. Under current conditions, private providers are faced with a disadvantageous situation because of resulting price differences. This problem appears in many Member States of the European Union.

Short description of the postal sector policy

No changes are currently underway in the postal sector policy regarding future liberalisation of the postal markets other than already laid down in the EU postal directives with a possible full liberalisation of the postal market in 2009. Both the regulatory authority and the universal service provider are rather hesitant about further liberalisation, claiming that the Spanish postal market is already quite liberalised in comparison to other EU Member States. Full liberalisation of addressed advertising mail/direct mail and liberalisation of letter mail above 50 gram is seen as the best option for the near future in the European Union.

Both actors have their doubts about the sustainability of the USO in a fully liberalised postal market. A study is being conducted at the moment to determine the costs and extent of the USO. A number of options are kept open to be able to guarantee a basic USO in the near future. That means the regulatory authority is keeping open the options of a decline in the number of deliveries per week in remote areas and the abolition of the uniform tariff.

The regulation of downstream access does not appear to be high on the agenda for the national regulatory authority. The national regulatory authority does however support the rationale for possible upstream access regulation. For the moment, it is not clear whether this would amount to overseeing negotiated access, or ex ante regulation of the access conditions. The main issue is to counteract the potential for the universal service provider to exclude competitors from using the network of Correos y Telégrafos.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

Government regulation

Government policy complies with the EU postal directives but is reluctant on further liberalisation because of uncertainty with respect to the maintenance of the USO. New entrants have established themselves in the provision of non-reserved postal services, as the delivery of direct mail and intra-city mail, as well as the delivery of periodicals, magazines and newspapers is liberalised. Uncertainty with respect to the future USO, possible compensation to the USP for maintaining the USO, and the timing of further

liberalisation after the next phase of liberalisation in 2006 do not create an atmosphere that is conducive to large-scale investment enabling effective competition with the USP.

New entrants

A large number of authorisations have been granted to competitors. These competitors are mainly active in parcels, logistics and express. Unipost is the only serious competitor postal operator to Correos y Telégrafos in the delivery of addressed mail. The other postal operators are very small and only active locally. In express and courier services, more competition exists with Seur, MRW, DHL, Nacex and Chronoexpres (part of Correos y Telégrafos) as the most important competitors. Unipost is actively striving to reach nation-wide coverage. Unipost is currently able to serve 70% of the population. Unipost combines the networks of several, mostly local, operators.

Substitution

In recent years, volume growth has slowed down. Stagnation is foreseen in the short-term and a slight decline of volumes in the mid-term. Correos y Telégrafos expects the following developments in three years from now.

Substitution of mail in the coming three years

Postal product	% decline in volume of universal service provider
Bills of large customers	+ 2.0%
Single items of correspondence	- 4.5%
Addressed direct mail / catalogues	+ 4.0%
Periodicals – Magazines	- 3.0%

Source: ECORYS questionnaire (2005)

Expected impact of full liberalisation by Correos	
Addressed advertising mail	- 5 / 10%
Incoming cross border mail	- 5 / 10%

Source: ECORYS questionnaire (2005)

In a study on the postal sector, the Ministry of Development concludes that in the period 1995-2005 the effect of substitution on items of correspondence has been the largest for business-to-business mail

Substitution of items of correspondence

Items of correspondence	B2B	B2C	C2B	C2C
% Decline in the use of the postal service (1995-2005)	11.9%	4.1%	3.9%	1.6%

Source: Ministerio de Fomento, Estudio del Sector Postal (2004)

Short analysis of contestability/attractiveness of market segments in the mail market (if different from general analysis), in relation to the market size of the postal sector and country information

The Spanish postal market has a value of 4.8 billion euros in 2003 and around 124,000 persons are employed in the sector. The postal market can be subdivided between the traditional postal service with a turnover of 1.9 billion euro (39.8%) and the courier and express service with a turnover of 2.9 billion euro (60.2%) in 2003. The courier and express service consists of a local service (20%), a national service (61%) and an international service (19%). The Spanish postal market including courier and express service is flourishing as the turnover has nearly doubled in seven years time, from 2.5 billion euro in 1997 to 4.8 billion euro in 2003. The traditional postal market shows a relatively low growth rate with an annual increase in turnover of 9.4% in the period 1995-2003. Nevertheless, the doubling of turnover from 925 million euro in 1995 to 1.9 billion euro 2003 is promising. In 2003, in the traditional postal market around 67,000 people were employed; 63,476 by Correos y Telégrafos in 2003, the rest by competitor postal operators.

Correos y Telégrafos and the Ministerio de Fomento expect a decrease in volumes, certainly in the medium run. This trend is expected to be mostly prevalent for single item mail and magazines; an increase is expected for catalogues and bills. Although Correos y Telégrafos and the Ministerio de Fomento expect a large impact of electronic substitution on postal volumes in the Spanish market, our impression is that the market may still experience growth the coming years, in particular if postal operators can improve their quality of service. In the delivery of periodicals, magazines and newspapers no growth is expected. The time sensitivity of these products withholds publishers from using postal operators to distribute press items. In Spain the large majority of press items are sold via retail outlets in supermarkets, kiosks and petrol stations. Correos y Telégrafos is the sole nationwide provider of periodicals and magazines but the low figure of 11 million items delivered annually shows that distribution via the mail is apparently not an attractive option.

The Spanish market is attractive for competitors, as it is large, with some major cities generating a large share of volumes. According to Deloitte (2005), 44% of the revenues of business letter mail originate from the cities Barcelona and Madrid. Certainly, the delivery of addressed mail in urban regions is attractive. In the past few years, the volume of addressed mail delivered has increased. The delivery of local mail within cities has already been liberalised. While competitor postal operators are now mainly focused on the non-reserved mail markets, it is to be expected that they will be eager to expand their operations to liberalised postal services in the future. As such, the Spanish market is attractive given its size and the potential for development (in terms of volumes for B2C and in terms of quality, which is currently rather low).

1.1.3 The national postal operator: facts, figures, strategy

Correos y Telégrafos is the national postal operator and universal service provider in Spain. In 2004, the company delivered 5,490 million letter post items and has delivered

on average 3% more items in the period 1995 to 2004. The increase in volume is mainly the result of the increase in intercity and national mail, as the number of local items delivered has roughly remained the same the last ten years.

Apart from the activities in mail, Correos y Telégrafos gradually expanded in other adjacent markets such as the express and couriers sector. Correos y Telégrafos acquired Chronoexpres S.A., one of the largest express and courier operators in 2003. In the area of express, courier and logistics, the company already incorporated Servipack a few years earlier. Correos y Telégrafos has also expanded in other sectors, such the electronic communications sector with Correos Telecom, and into the provision of hybrid mail with Correos Híbrido S.A.

Strategies of universal service provider

In the Strategic Business Plan of Correos y Telégrafos for the next years the mission of the company is stated as: “to ensure the profitable provision of quality postal and other related services with an added value to customers and to society, based on excellence in service, efficiency in the use of resources and the professional development of staff, all of this within the context of the liberalisation of the sector.” This mission was converted into a policy aimed at transforming the traditional business model into a new one in which the trend towards innovation, optimisation of networks and operations, and the development of new forms of communication would take the fore. To achieve these objectives, the company is currently implementing two measures: (1) diversification of company business by strengthening the express parcel activity and by increasing the services offered both online and in the branches and, (2) the automation of the handling processes.⁵⁸

Correos y Telégrafos has been subsidised heavily in the past. The Spanish government has reimbursed for instance in 1996 around 33% of the turnover from the provision of postal services. In 2003, the subsidies have nearly disappeared and have a value of less than 3 million euros. This shows that the rationalisation in business operations that started after the incorporation of Correos y Telégrafos begins to show results in financial terms. Also, the improvements in the quality of service are an example of the ongoing business changes.

Correos y Telégrafos is of the opinion to stick to the timetable of gradual liberalisation until 2009, with the exception of outbound mail. In the meantime, relevant studies should assess the impact of further liberalisation of the Spanish market on the provision of the universal service. Correos y Telégrafos wishes to remain the universal service provider within the terms as stated by current regulations that respect the balance between burden of provision and compensation. Alternative funding mechanisms should be assessed in order to maintain the standard of universal service provision.

⁵⁸ Source: Annual Report 2003 of Correos y Telégrafos.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

In the traditional postal market of Spain, Correos y Telégrafos is the dominant postal operator in the delivery of items of correspondence, addressed direct mail and periodicals and magazines. Apart from the universal service provider, a large number of local private postal operators exist, profiting from the opportunities to provide local mail services that are completely liberalised. According to Deloitte (2005), the private competitor postal operators have a combined turnover of 135 million euro in 2003, reaching a market share of 7.1% in terms of turnover in the traditional postal market. In the courier and express market, competition is strong with several operators active, such as Seur, MRW, DHL, TNT, Nacex and Chronopost. The largest courier is Seur with a market share of around 16% according to Deloitte.

Approximately more than 150 small and medium sized postal operators are active in the delivery of business mail, according to Deloitte (2005). These operators are especially active in urban regions and focus on local mail. The financial sector is one of the most important customers of these local operators. Most operators are mainly active on the local market, but some also provide a regional or sometimes national service by collaborating with other postal operators, of which Unipost is the main example, or by handing over the mail to Correos y Telégrafos for further delivery nationwide. The competitor postal operators reached a total turnover of 135 million euros in 2003, somewhat less than the 157 million euro turnover reached in 1999. According to Deloitte (2005), Correos y Telégrafos has responded to competition by giving the largest clients of the competitors a more attractive offer in the last five years.

The main competitor of Correos y Telégrafos is the postal service group Unipost. Unipost is based in Barcelona and comprises of a network of 12 of the main private postal operators in Spain. The shareholders are Deutsche Post, Meypack, the Raventós y Clarasó family and Hermanos Verdejo Martinez. It started operations in 1992. The current situation is not entirely clear, but some postal operators seem to have merged into Unipost, some other operators work under their own name but are part of Unipost and others (around 140 operators) are not part of Unipost but act as a franchise. The most important operators that are part of Unipost are Suresa CIT, Urbandisa y Hermanos Verdejo, Mailway and Star Mail. Suresa is the largest operator with a turnover of around 34 million euros (Deloitte, 2005).

Unipost provides the following data on development of its network and client base:⁵⁹

- Focusing on addressed mail > 100 gram, advertising mail and intra-city mail;
- Serving almost 15,000 companies and other clients;
- Currently handling over 500 million letter mail items per year.⁶⁰

⁵⁹ Source: www.unipost.es

⁶⁰ According to Unipost, this figure refers to addressed mail items (personal correspondence).

The quality of service offered is indicated in the next table:

Quality of Service	24	48	72	96
Intra-city	95%	100%		
Inter-city	70%	90%	97%	100%

Source: Unipost 2005

According to the Unipost website, Unipost operates three logistic platforms, 46 production sites and 200 service outlets across Spain where 2,000 own staff and another 2,000 employees of independent partner companies process more than two million consignments a day, which are delivered to more than 1,100 municipalities and/or business areas within cities. Unipost thus covers about 70% of the Spanish population.⁶¹ The aim is to increase the coverage of the delivery network to 80% in 2005 and to 100% of the Spanish population in 2009. Revenues are approaching € 100 million per year after € 73 million in 2002 and € 87 million in 2003. The ambition of the group is to become the second largest provider in Spain.

In September 2004, DPWN has expanded in the Spanish mail market, through the acquisition of a 38% stake in Unipost. With this acquisition, DPWN continues its strategy of entering national mail markets abroad. Unipost also collaborates with Spring, ABC and Logimail, according to the overview by the competition authority. It remains to be seen if Unipost will still cooperate with these companies since DPWN has acquired a stake.

Effect on competition on market structure and market performance (result indicators), including on US provision

The Spanish postal market has always been relatively liberalised. Currently, around 40% of the market, in terms of volume as measured by us, is open to competition. The delivery of local mail has never been part of the reserved area. Nevertheless, Correos y Telégrafos is still the dominant operator in the market with a share of 93.9%, in terms of turnover, in the market for delivery of letter post. In terms of volume, the market share of Correos y Telégrafos in the delivery of addressed (excluding newspapers) is 89.4% in 2003/2004. The market share of Correos y Telégrafos is now higher than it has been in earlier years. According to Deloitte (2005), competitor postal operators jointly captured more than 10% of the Spanish postal market at the end of the last century. Their market shares have declined as the result of the efforts of Correos y Telégrafos to win back the large clients they have lost to competitors.

The profitability of postal operations is relatively low in Spain. Correos y Telégrafos has incurred large losses on their normal business operations and would have realised substantial losses without government subsidies. Currently, the return on sales of Correos y Telégrafos is around 6-8%. This has been the result of the large investments in the

⁶¹ This figure contradicts somewhat with the information provided by the Spanish competition authority in its decision to allow DPWN to take shares in Unipost. According to the competition authority, Unipost was active in 245 Spanish municipalities, covering 11 million Spanish inhabitants, corresponding with coverage of 27.5%. In addition, Unipost collaborates with 135 other postal operators reaching coverage of around 40%.

infrastructure of the network of Correos y Telégrafos and a further automation of the logistic process. Competitor postal operators already realised profits in the 1990s. In the overview of Deloitte (2005), competitor postal operators (taken together) face losses since 2001, although their situation is not very bad with a return of sales of -2%.

Quality of service of postal operations in Spain is rather low. According to Deloitte (2005) 40.5% of the letters handled by Correos y Telégrafos in 2002 was delivered overnight and after three days only 83% of the letters were delivered. On the other hand, the prices of postal services are the lowest, at least in the 15 old Member States. The conveyance of a single postal item of the lowest weight category costs 0.27 euro. Correos y Telégrafos improved performance shows that when effort is put into improving operations, the quality of service can improve. On the other hand, the express and courier service is relatively important in Spain, to our opinion mainly the result of the poor quality of service levels of the postal operators.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Ley 24/1998, del Servicio Postal Universal y de Liberalización de los Servicios Postales	13 July 1998	30 December 2002
Decree 81/1999, Authorisation and licensing	22 January 1999	
Decree 1338/1999, Tariff regulation	31 July 1999	
Decree 1829/1999, Reglamento de Prestación de los Servicios Postales, postal services regulation	3 December 1999	
Order on the designation of the body responsible for the universal service fund	20 December 1999	
Decree 444/2001, Creation of regulatory organisation within the Ministry	27 April 2001	
Decree 1232/2003, Modification of the composition of Consejo Asesor Postal (Postal advisory council)	26 September 2003	
Decree 2004/1476, revised organisation of the regulatory authority	18 June 2004	

Source: ECORYS questionnaire (2005)

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	Except for local, intra/city mail
Domestic items of correspondence 50-100 gram	Yes	Except for local intra/city mail
Domestic items of correspondence >100 gram	No	
Inbound cross border mail	Yes	Except for above 100 gram
Outbound cross border mail	Yes	Except for above 100 gram
Direct mail addressed (incl. catalogues)	No	
Periodicals / Magazines	No	
Newspapers	No	
Un-addressed mail (direct mail, weeklies)	No	

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Licence	For what service? Which services can a postal operator provide?	What are the conditions?	How many have approved? (2005)
Specific Authorisation	Services included in the US area	Respect the reserved area Registration in the Post Operator's Register Tax payment at time of registration, but no annual renovations (Quantity depends on the service authorisation. Maximum 3903.32 €) Respect the privacy of the correspondence and personal data Information duties - very limited in practice:- (price communication, service offer complaint procedures, information requirements of NRA)	444 (31 December 2004)
General Authorisation	Services not included in the UPS area	Respect the reserved area Registration in the Post Operator's Register Respect the privacy of the correspondence and the personal data	2,682 (31 December 2004)

Source: ECORYS questionnaire (2005)

Table 1.4 Network access

Access*	Form of access	Regulated?
Downstream access	Access to P.O. Boxes	No
	Access to sorting centres	No
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003	% distribution addressed
Domestic items of correspondence <50 gram		
Domestic items of correspondence 50-100 gram	3,989 ¹	72.3%
Domestic items of correspondence >100 gram		
Inbound cross border mail	151	2.7%
Outbound cross border mail	230	4.2%
Direct mail addressed (incl. catalogues)	1,136	20.6%
Periodicals / Magazines	11	0.2%
Newspapers	n.a.	%
Un-addressed mail (direct mail, weeklies)	64 ¹	
Total	5,582²	100%

¹ USP only

² Not the entire market covered

Addressed mail	2003	% distribution addressed
Urban / Local	1,325	22.7%
Interurban / National	4,279	73.3%
Inbound cross border	230	3.9%
Total	5,834	100%

Source: Deloitte (2005), ECORYS questionnaire (2005), UPU, Annual Report Correos y Telégrafos, FIPP (2003), WIK (2004)

Table 1.6 Postal streams in the market for addressed mail

Postal stream by sender	2003
Individuals and small and medium sized enterprises	28.3%
Larger businesses, of which	71.7%
Financial sector	25.4%
Institutional	20.5%
Periodicals / magazines	11.3%
Other enterprises	6.9%
Distance selling	3.2%
"Public Directa"	3.1%
Editorial / books	1.2%
Total	100%

Source: Deloitte (2005), Memoria del Sector Postal Español 2003

Table 1.7 Country information

Spain	2004
Population (in million)	42.2 *
Size of the country (in 1000 of square km)	504.8 *
Population density (number of inhabitants per square km)	83.6
Degree of urbanisation	83.4 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	6,765,075 (16%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	127

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005	Status
% Government share	100%	Incorporated government owned enterprise (since 2001)

Source: ECORYS questionnaire (2005)

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2000	2003	% (2003)
	in millions of euros	in millions of euros	
Mail	1,010	1,298	74%
Express	309	451	26%
Logistics	0	0	0%
Other	0	0	0%
Total	1,319	1,749	100%

Source: ECORYS questionnaire (2005), Annual Reports Correos y Telégrafos

Table 1.10 Overview alliances and partnerships

Country	Mail	Express	Logistics
General		FedEx alliance (2002)	

Source: Annual Reports Correos y Telégrafos

Table 1.11 Postal network

Correos y Telégrafos	2004
Number of P.O. Boxes	470,500
Number of street letter boxes	37,812
Number of delivery offices / retail outlets	10,102
Number of post offices	1,905
Number of delivery points / addresses	~14.4 million houses and ~2.9 million businesses

Source: ECORYS questionnaire (2005), Correos y Telégrafos website, Annual Report Correos y Telégrafos 2003, NERA (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence	1 large, around 150 smaller	Unipost
International mail	4	DHL Global Mail, TNT, FedEx, UPS
Addressed direct mail	1 large, around 150 smaller	Unipost
Periodicals / Magazines	0	
Newspapers	0	
Un-addressed mail	Several	Local operators
Upstream mail services	Various	Example is Correos Hibrido

Source: ECORYS questionnaire (2005)

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
Unipost	Items of correspondence above 100 gram, addressed direct mail, intra-city items of correspondence	500 million letter mail items, 100 million euro (2005) ¹ 379 million items, 120 million euro (2003) ²	4,000 ¹	2-3 times a week (?)	70% (beginning 2005), ambition to reach 80% in 2005 and 100% in 2009
Small postal operators	Items of correspondence above 100 gram, addressed direct mail, intra-city items of correspondence	181 million items (total in 2003)	3,524 (incl. Unipost) ²	From once a week to three times a week	Local coverage

¹ source Unipost

² source Deloitte

Source: Website Unipost (<http://www.unipost.es/>), Deloitte (2005)

Table 1.14 Market share of the incumbent operator

	2004
Market share of USP (in terms of volume) in the delivery of addressed mail (excl. newspapers)	89.4%
Market share of USP (in terms of turnover) in addressed mail (excl. newspapers)	92.9%

Source: calculation based on ECORYS questionnaire (2005), Deloitte (2005)

Country information sheet: Sweden

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Regulatory framework, liberalisation and entry regulation

Sweden decided to repeal its postal monopoly in 1992 rather than to suppress CityMail, a new entrant providing twice-weekly delivery of computer-generated mail. Exclusive rights to Postverket, the national postal operators were not covered in legislation, but rather listed in the description of tasks. The Swedish Parliament approved a motion, effective 1 January 1993, to abolish the monopoly on postal services. The incumbent Posten supported the elimination of the monopoly because it realised that without de-monopolisation it would not obtain the commercial flexibility it needed to compete effectively in the longer term. After the liberalisation of the Swedish postal market at 1 January 1993, there was no legislation regulating postal operations. The parliament enacted the Postal Services Act that came into force at 1 March 1994. Posten was at the same time converted into a state-owned limited liability company.

Postal operations are in the act defined as regular delivery of letters for a charge. Letters mean addressed mail that is enclosed in an envelope or other wrapping weighing at most 2 kg. This implies that, in addition to items of correspondence and addressed direct mail, also periodicals, magazines, newspapers, catalogues and books are included.

The Swedish postal law was amended in 1997 to enhance the regulator's ability to guarantee universal service, and to implement the 1997 EU Postal Directive. Via the amendment the Swedish government guarantees that postal services are available throughout the country, implying that everyone should be able to receive and send items of mail. Single items of mail need to be delivered at uniform prices.

In order to deliver postal items, competitor postal operators require a licence since January 1997. The licensing is aimed at providing consumer protection. Postal operations need to be carried out under conditions that accommodate reasonable requirements of reliability and guarantee the protection of the sender's and recipient's personal integrity. The authorisation also needs to ensure that a competitor postal operator is able to pursue a reliable business. In addition, licences entitle postal operators to get access to the P.O. Boxes by competitors. Under the present formulation of the Postal Services Act, a company that wishes to carry out a postal service may be bound to provide a universal postal service. In the preparatory work of the Postal Services Act, however, it is stated that Posten will be the universal service provider in the foreseeable future.

In the Swedish postal market regulated access is arranged for delivery of mail items of competitor's postal operators to the P.O. Boxes of other operators. Access to the facilities of the postal operators is not regulated apart from this. The Postal Services Act allows, in line with the EC directives, negotiated access of competitors to the facilities of the universal service providers along the principles of non-discrimination and transparency. Posten and its main competitor CityMail have set up a separate company to deal with changes in addresses. Also, redirection of mail and the system of postal codes are dealt with in the act via negotiated access.

The National Postal and Telecom Agency (PTS), the national regulatory authority, was established as a regulator for postal matters by the Postal Services Act. PTS grants licences to companies that wish to undertake postal operations and conducts compliance work to ensure that these activities are performed in a reliable matter. Furthermore, the NRA monitors that the provided counter services satisfy the needs of the Swedish population and are accessible for everyone. PTS is not allowed to solve disputes between postal operators but acts as a mediator in matters regarding agreements on access to the facilities of postal operations.

Prices on individual items of mail are regulated according to a price cap system. Under the Postal Services Ordinance (1993:1709) the universal postal service providers may not raise prices for inland delivery of individual items of mail delivered overnight and weighting at most 500 gram by more than the change in the consumer price index (CPI) between July of the previous year and July the year before that. The ordinance also states that 85% of the mail should be delivered the next day and 97% within three days.

Short description of relevant developments with regard to the regulatory framework

Since the introduction of full liberalisation in 1993 effective competition in the Swedish postal market was hindered by legal barriers to entry. The Postal Services Act was not directed at creating competition but primarily aimed to guarantee quality and maintain universal postal service.

The Swedish competition authority has dealt with numerous disputes in the postal sector in the last ten years that show the regulatory loopholes in the Postal Service Act and Ordinance. Posten has tried to eliminate competition in markets where it was faced with tough competitors with the main recipe of lower tariffs. Posten has introduced halfway the nineties fidelity rebates to customers that buy all their mail delivery needs from Posten. Customers that used alternative operators were punished and discriminated (for instance the Privpak case). Another example is the case with CityMail where Posten substantially raised its prices for customers when they started to use CityMail. Again, Posten abused its dominant position since customers did not have a choice for nationwide delivery. Posten also engaged in predatory pricing when it lowered the price for magazine distribution in the three urban areas where CityMail is active. In addition, Posten has often used pricing policies that were introduced to hinder competition. Example are the discount policies and geographically different prices (zonal pricing); in the end, it always

comes down to the question if Posten has not cross-subsidised or dumped its postal products, and if prices are geared towards cost.⁶²

A second source of disputes in the early years is the topic of access to the infrastructure. The Postal Service Act initially did not define the postal infrastructure, provide details about access to this infrastructure, and did not organise dispute settlement. CityMail and Posten have had disputes about unfavourable access conditions. CityMail did not receive the same offers as compared to large customers of Posten.

These examples of anti-competitive behaviour show that effective competition can be hindered for a long time if no appropriate provisions are included in legislation. Moreover, it shows what kind of opportunities universal service providers have to shed off and protect market segments where they have a dominant position.

Short description of the postal sector policy

In 2004 the Swedish government commissioned a study to the Postal Market Committee to carry out an analysis on the Swedish postal market. This study aims to analyse the political objectives for the postal sector and to evaluate regulation and the responsibility of authorities in the postal market. In addition, the Committee should propose, if necessary, amendments to the existing postal legislation, the political objectives for the postal sector and the responsibilities of authorities.

The Committee has made proposals to adapt the regulatory framework. The most important proposals are:

- The existing Postal Services Act is only focused at universal postal service but should include all postal services in order to ensure that postal services meet society's demands. An essential ingredient in the new act should be the creation of the necessary preconditions for effective competition between the several actors in the postal sector without distortions and unwarranted restrictions;
- The Committee states that there is no need to change the scope of the universal postal services. The current requirements for overnight delivery as part of the universal service shall continue to apply;
- The universal postal service providers must be obliged to apply clear and unequivocal as well as non-discriminatory pricing of services. This requirement of non-discrimination also applies to individual agreements concerning universal postal service;
- The principle of non-discrimination shall be applied equally, both in comparison between customers or other licence holders;
- The Committee states that the current licence conditions potentially oblige licensed postal operators to provide universal postal services to an extent that it might be reasonably onerous. In order to promote effective competition in the Swedish postal market, the Committee proposes to tender the universal postal service in case it is a burden to provide these. The Committee proposes that the universal service shall be procured if it is specially required bearing in mind the costs of providing the

⁶² For an overview of early disputes in the Swedish postal market, see Konkurrensverket, Competition on deregulated markets (1998) and Deregulated markets in Sweden (1998).

universal service. However, it judges that there is no need at present to procure a universal postal service;

- The Committee proposes that the licensing authority must be given the possibility of revoking a licence if the holder has not carried out postal operations for at least six months;
- The most far-reaching proposal of the Committee is the abolition of the price ceiling on single items of mail weighing at most 500 gram. According to the Committee the price ceiling hinders competition, especially locally, is based on the wrong inflation indices and forms a rather regulatory instrument given the fact that consumers and small business only spend a small part of their disposable income on postal services. The abolition of a price ceiling for single items of mail weighing at most 500 in combination with the requirement of non discriminatory special conditions will increase the scope for new competitors in the market;
- The activities of PTS as a national regulatory authority need to be expanded. The Committee considers that the postal regulator can issue general advice concerning the delivery service of universal postal services. Current guidelines on the delivery in remote areas as part of the universal service obligation are not officially regulated. In addition, PTS should according to the Committee, also promote an efficient postal market and promote that the postal market is effective from competitive aspects.

Although the Swedish postal market has been liberalised since 1993 already, until now no legal provisions have been taken to mandate regulatory access to the facilities of the postal operator. In the opinion of PTS, there is no need for regulated upstream and downstream access in the near future. According to the NRA, one of the Swedish postal operators has so far requested any regulation of this kind. Also the Committee does not go into detail about regulated access in the Swedish postal market. The Committee only states that the true essential facilities in postal provision (access to P.O. Box, address database and mail redirection) should be dealt with appropriately.

The Committee report on the development of competition in the Swedish postal market has been offered to the Swedish government in January this year. At the moment of writing, the Swedish government has not taken a decision on a modification of the current Postal Services Act., but is preparing the matter.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

Government regulation

Initially, the legislation was not adapted to support or to create the development of competition and contained a number of opacities. Disputes on access to address change notifications, mail redirection and the P.O. Boxes were ultimately resolved in 1999. In general, the regulatory framework in Sweden became since the end of the last century more supportive to the development of competition on the Swedish postal market. At the moment, entry is possible in the entire postal market in Sweden.

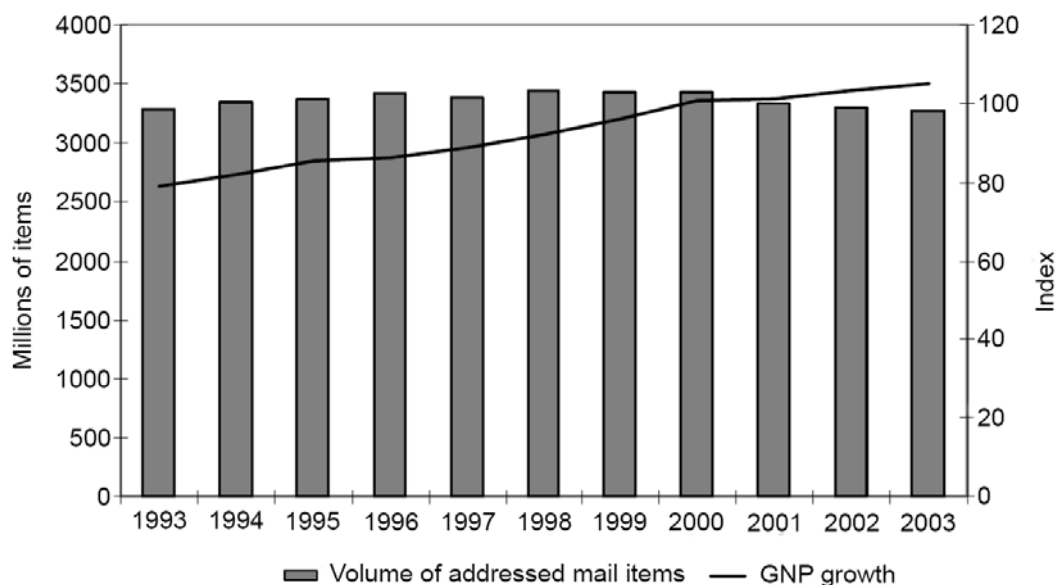
New entrants

The main competitor of Posten in the delivery of addressed mail is CityMail. In addition, around 26 other, smaller, domestic competitor postal operators are active. In the distribution of cross border mail approximately ten postal operators are active. Therefore in 2004, a total of 36 postal operators have a licence to operate. In un-addressed mail, Svensk Direktreklam and S-Post are the main competitors of Posten. Some other small operations exist, like sport clubs distributing leaflets and flyers.

Substitution

Since 2000 mail volumes have decreased mainly due to substitution by electronic media and competition in the advertising market by alternative media. Items of correspondence are specifically decreasing in volume, but addressed direct mail still shows a rising volume.

Figure 1 Decline of mail volume since 2000

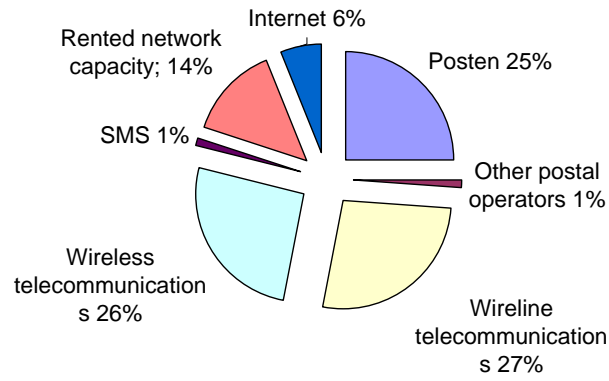


Source: Postmarknad i förändring, February 2005⁶³

⁶³ The boxes indicate the volume of addressed mail items and growth in the gross national product of Sweden.

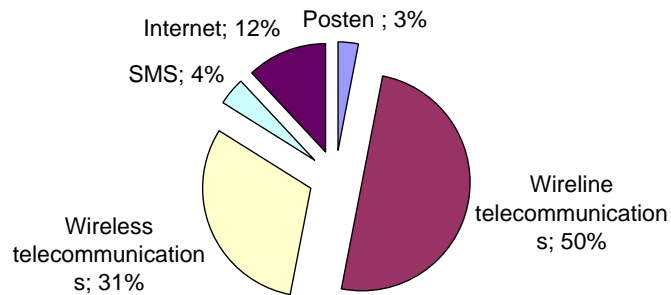
Figure 2 Competition from alternative media

Corporate communication, excl. print media and advertising, 2003



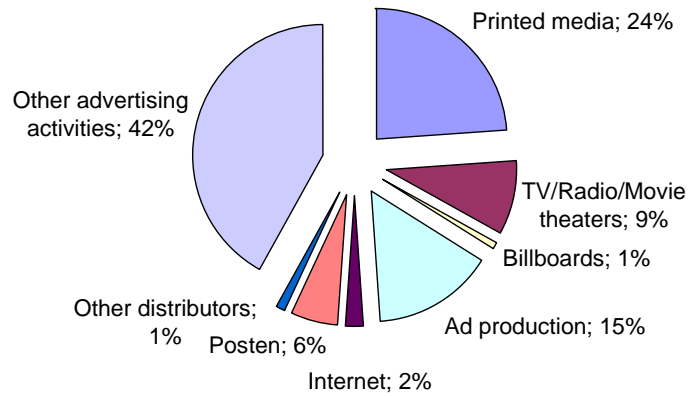
Source: Annual Report 2002 Posten AB

Private communication consumption in Sweden, 2003



Source: Annual Report 2002 Posten AB

Posten's share of Sweden's advertising market



Source: Annual Report 2002 Posten AB

Competition from alternative media in Sweden		
Postal communication represents 25% of corporate communication, excl advertising	Private consumption is only 3% of communications costs of households	Postal advertising takes 7% of communications through advertising

Source: Annual Reports Posten AB

Buyers

The competitive force of buyers of postal services (the suppliers of mail) is large in most segments of the postal sector. Large customers such as banks, utilities and publishers are the main sources of computer-generated mailings, which is a highly competitive segment in the Swedish postal market. Moreover, the increasing outsourcing by businesses of mail activities and the need for value added services are an important factor at work. Top 50 especially national accounts have a considerable impact on total revenues.

Short analysis of contestability/attractiveness of market segments in the mail market (if different from general analysis), in relation to the market size of the postal sector and country information

Sweden is a large country with relatively low population density. The barriers to develop a nation wide delivery network are hence relatively large. However, the ten largest cities in the country house the majority of Swedish inhabitants while the three large cities count more than two million people. Until now (see further below) no competitor postal operator has developed a nationwide network for addressed mail. The main competitor, CityMail, focuses on B2C bulk mail deliveries in Stockholm, Gothenburg, Malmö and its surroundings, and the island of Gotland covering 40% of the Swedish households.

The main area of competition is the B2B and B2C markets and especially computer generated bulk mail and value added services delivered in the urban areas. High barriers to entry are present for new entrants especially in the overnight nation-wide delivery

market. It is considered very expensive to build up a parallel nation-wide delivery network for letters.

1.1.3 The universal postal operator: facts, figures, strategy

Facts and figures for the national postal operator

The management of Posten AB is in recent years faced with a structural decline of mail volumes. Posten AB concludes after analysing long term mail developments:

- Huge mail growth since its existence as Sweden's postal operator;
- The peak in mail volumes has passed in 1995 with 347 letter items per capita;
- Prognosis is made with a development to 288 letter items per capita in 2010.

In the period 1996–2003 letter mail volumes have been decreasing with an average of 1.4% per year in spite of a gradual increase of GDP (see figure 1). The decline of volumes show a structural trend from the year 2000, due to the increasing use of alternative media, such as mobile telephony, SMS messaging, internet and electronic mail.

The main objective of the liberalisation process was to make the Swedish postal operator/sector more efficient and to this effect three developments have pressed management of Posten AB to show results:

- The forecast of gradual decline of mail volumes;
- The liberalisation and opening of the market to competition;
- The task of maintaining universal service obligations.

For the understanding of the Swedish case these developments have to be taken into consideration as these factors play a major role in the Swedish postal sector policy aiming at maintaining universal service obligations for the national postal sector. According to Sweden's regulator PTS, Posten AB's service has improved as a result of the emerged competition. Posten now delivers 96% of first-class letters overnight.

Strategies of the universal service provider

The financial performance of Posten has been poor during the first years of this decennium. Improving performance is therefore a key objective for the management.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

The Swedish postal market is fully open to competition since 1993 and has seen or still shows a number of competitors. In the distribution of addressed mail CityMail is only postal operator of respectable size followed by 25 other small, mostly, local postal operators. Several local and regional newspaper publishers have their own delivery

network. An example is MorgonTidningsDistribution. In the delivery of un-addressed mail two large operators are active, SDR and S-Post, that have a large delivery network.

CityMail has started as a private company in 1991 set up by Bror Anders Månsson. The first entrant on the liberalised postal market in Sweden faced many difficulties.

“When CityMail entered the postal business in 1991 politicians, both right and left, thought that the letter monopoly was still effective, and the right-wing government at that time hastened its abolishment. The postal sector was in fact a lawless territory from 1 January 1993 to 1 March 1994 when a postal law was introduced. At the same time the Post Office was turned into a joint-stock company, Posten, and a regulatory body, PTS, was established. In 1997 Posten raised the price for single letters and thereby triggered quite a massive entry on local markets by small firms. Many of these local postal operators went bankrupt, or did not even begin its services. Also CityMail has had problems, going bankrupt three times, and has recently been rescued from another bankruptcy by Royal Mail (Britain)”

Source: *An institutional model for deregulation analysis*, Mats Bladh, Linköping University, 2000

Some analysis at the time of first year’s problems from the side of CityMail management:

Hakan Ohlsson, CityMail's deputy chief executive, says deregulation has taken time to work. The failure to be clear about access to infrastructure, such as address changes, mail redirection and post office boxes, has led to problems. Weak competition authorities also hampered the new operators who found it difficult to battle against exclusive contracts and alleged predatory pricing, he says.

Source: *Financial Times*, 2 February 2002

CityMail went almost into bankruptcy in 1995 and was taken over by Posten buying their main competitor on the Swedish postal market. The move was remarkable, as CityMail had experienced many problems with the incumbent following price increases and disputed over mail operations. According to Posten, the stake was acquired to avoid the need for CityMail to cease its operations and thereby decrease the stimulus that free competition provides to all operators. The move was supported by the regulatory body and approved by the competition authority. The new board and management were to consider the company’s future direction. Given the arguments and prior history the new combination was not going to last.

CityMail became a public company CityMail AB in January 1996. In 1998 the company was initially for 11% owned by Royal Mail.

CityMail claims 1999 as a crucial year as most disputes with Posten AB were resolved in a new settlement concerning address changes, mail redirection and use of post office boxes.

Source: *Annual Report 1999 OptiMail*

At the end of 1999 the British Post Office and CityMail AB went into a joint venture to the effect that CityMail’s mail distribution was transferred to a new company of which the Post Office owned 67%. For this CityMail Group, the holding company of CityMail AB, was compensated by £5 million. The Post Office acquired an option to buy the remaining 33% in 2004–2006.

In 2000 Royal Mail run into problems with CityMail AB, as to some insiders in the postal industry, because it was run to much like Royal Mail and not as an entrepreneurial company with flexible staff and flexible operations. Officially the argument has been that Royal Mail was focusing on their UK core market, which also may have contributed as activities abroad received much criticism at home because quality of service in the UK was seen as critical by a lot of Royal Mail customers.

CityMail Group transformed into OptiMail AB on July 2001, initially a business area within CityMail Group for international mail. In 2002 Norway Post became the new (majority) owner of CityMail. As a result of the agreement, Norway Post assumed 57% ownership in CityMail to subsequently acquire the remaining 43% in the first quarter of 2006. Currently CityMail is owned by Norway Post (57%), Bror Anders Månsson (founder of CityMail) (29%), and OptiMail AB (14%). OptiMail AB will transfer its shares to Norway Post in 2006, with a purchase price based on the results of CityMail over 2005.

OptiMail AB has established alliances with major players in the postal market, such as:

- ASG Direct AB, active in e-commerce and fulfilment, with a stake of 35% and the rest owned by Deutsche Post;
- CityMail International, a business run in close co-operation with Royal Mail in the UK;
- AddressPoint International AB, in collaboration with Swedish Post (85%), which uses a sophisticated address change system through two subsidiaries (Svensk Adressändring AB and AddressPoint AB) gathering information by telephone and internet;
- Traconi AS, a Nordic transport and logistics company with a stake of 25%.

OptiMail, as the holding company of CityMail, is showing positive results since 2001, also the year that CityMail financial data were consolidated in the OptiMail financial results and 12 years upon its establishment in 1991.

Key figures OptiMail

Year	Turnover (mln SEK)	Operating result after tax (mln SEK)
1991	10	
1992	20	
1993	25	
1994	50	
1995	60	
1996	103	-83.6
1997	248	-90.3
1998	319	-58.7
1999	374	-53.6
2000	223	-51.2
2001	170	1.1
2002	245	26.8
2003	308	12.0
2004	429	18.0

Source Annual Reports OptiMail 1999-2004

Business model

CityMail Sweden is established in Stockholm, Gothenburg, the Malmö region, and also on the island of Gotland. The distribution organisation currently covers 4 out of 10 Swedish households. The company's business concept is to distribute, with great accuracy, large volumes of pre-sorted mail at low cost. Since its entry onto the Swedish market just over ten years ago, postage rates have fallen considerably in the segment in which the company competes. The company currently employs just over 1,000 persons, and handles almost 200 million postal items per year.

CityMail is since its start targeting computer addressed mailings generated from offices and placed in mail boxes, a segment that consists primarily of business-to-consumers correspondence or physical mailings utilised by companies to establish a direct contact with their customers and other interested parties. According to CityMail the market should be segmented in computer generated mail (50%), office mail (45%) and letterbox mail (5%). The computer generated mail can further be differentiated in mail to addresses covered by CityMail (40%) and mail to the rest of the country (60%). The mail to addresses covered by CityMail consists of three sub segments of the postal market such as newspapers and magazines; addressed advertising mail and administrative mail. Addressed direct mail is considered to be the most rapidly growing segment of the computer addressed mail market.

The business model is based on offering tailor-made solutions for optimal administrative solutions of their postal flows, without having to use a fixed infrastructure as in Posten and outsourcing parts of the activities to sub-contractors, while maintaining the overview over the supply-chain. The company has no ambition to build such an infrastructure. Traditionally mail was sorted manually or by machine, but CityMail introduced electronic sorting on postal code, while it is preparing for electronic sorting on type of distribution channel in the future, in this way contributing to value added services and decrease of costs for its customers.

Potential competition

Although the postal market is liberalised for more than ten years, few new competitors entered the market. CityMail is the only significant competitor postal operator to Posten in the Swedish market. In the past several postal operators have tried to establish a permanent postal business, but many have left the market since. SDR has tried to enter the market for addressed mail in the past but did not prove very successful.

Other potential postal operators are the regional publishers of newspaper that have their own delivery organisations. The Committee, mentioned before that investigated the development of competition, has analysed the opportunities for co-distribution with newspapers. They started from the presumption that possibilities for co-distribution exist for un-addressed newspapers and magazines and addressed items of correspondence. They concluded that the opportunities for co-distribution are modest:

- If a newspaper agent is also to deliver addressed items of correspondence it will be difficult to meet the requirements of overnight delivery of letters in accordance with Posten AB's licence conditions, to maintain counter service in the rural areas and management of parcel delivery and registered mail in the rural areas;

- If the postman is to deliver newspapers in his ordinary rounds this will lead to late delivery of newspapers;
- This analysis shows that internal and external requirements will have to be changed to make co-distribution possible in the future.

Effect of competition on market structure and market performance

In January 2005 the results were published of a postal expert study “Postmarknad i förändring” on developments of competition in the postal markets in Sweden on behalf of the government.⁶⁴ The aim of the study were, in addition to the ones mentioned earlier, to describe the postal market and carry out an analysis of the effects of liberalisation of the postal market on the national economy.

In the study, a distinction is made between bulk mail (73% of total mail volume), office mail (20%) and letter-box mail (individual mail items, 7%). The bulk mail area includes the sub-areas economy letter (28% of total volume of deliveries), first-class letter deliveries (21%), addressed advertising mail (33%) and addressed magazines (18%).

In the delivery of addressed mail, the market share of Posten AB was 92.9% in 2003 (measured in number of deliveries), with CityMail having a market share of 6.6% and 26 other active competitor postal operators sharing the remaining 0.5%. Moreover, Posten AB has a market share of 64% in un-addressed mail, followed by Svensk Direktreklam (SDR) with 30%, S-Post with 5% and a number of small local distribution companies and sports associations with the last 1%.

Although the combined market shares of the competitor postal operators have remained fairly modest and none of the competitor postal operators in the addressed mail segment have national delivery coverage or have the ambition to develop this, the Committee assessed the results of the liberalisation rather favourably. The positive results mentioned are the adaptation of products and services to demand, the fact that prices had better reflect costs and a favourable price development on the sub-market deliveries. The latter in particular reflects pre-sorted or bulk mail delivery of economy letters, first-class letters, addressed advertising mail and addressed magazines. The study states that barriers to entry are high to provide overnight nationwide delivery of single items of correspondence. The weak development of competition stresses that it is very expensive to build up a parallel nationwide delivery network.

The impact of competition in the postal market on price developments in the letter market has been different, depending on the sub-market analysed. A very rough estimate shows that for bulk mail the average nominal prices for 50 gram letters was 30% lower than in the early nineties. Considering inflation this should mean a decrease of around 50% in real terms. In the market for individual letters the price for overnight delivery has increased by 50% excluding value added tax and 90% including value added tax over the period 1993–2003. After the liberalisation of the postal market in 1993, prices of letters have taken different directions with the most important divider between bulk mail and

⁶⁴ This is the same study of the Committee as mentioned before in the section on postal sector policy.

single piece items, providing price cuts for important customers and substantially higher prices for small consumers.⁶⁵

The impact on the universal service provision has been rather good. Posten still has a universal service obligation. The requirements have been fulfilled and liberalisation has not resulted in poorer service and quality regarding overnight nation-wide delivery in the last fifteen years. Posten AB continues to have a strong and dominant position on the letter market mainly concerning individual items of correspondence. Given the current competitive conditions it is not expected that this will change noticeably in the near future. The universal service obligation is then not only a burden, but, in a deregulated market, a competitive advantage as well. The ability to offer a full service is a real advantage.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postal Services Act (1993:1684)	1994	2004:832
Postal Service Ordinance (1993:1709)	1994	2002:482
Basic counter services (2001:1276)	2001	-

Source: PTS, ECORYS questionnaire (2005)

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	No	-
Domestic items of correspondence 50-100 gram	No	-
Domestic items of correspondence >100 gram	No	-
Inbound cross border mail	No	-
Outbound cross border mail	No	-
Direct mail addressed (incl. catalogues)	No	-
Periodicals / Magazines	No	Don't need a licence
Newspapers	No	Don't need a licence
Un-addressed mail (direct mail, weeklies)	No	Don't need a licence

Source: ECORYS questionnaire (2005)

⁶⁵ The Swedish postal market, the development during the last ten years (2004)

Table 1.3 Entry regulations

Instruments	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been approved? (2005)
Licence	Postal services under Postal Law	* Satisfy requirements on reliability and integrity protection in specific respects, * Take into account the needs of disabled people for postal services, and * Take into account the needs of Total Defence during times of alert.	36

Source: ECORYS questionnaire (2005)

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes	Yes (amendment 1997)
	Access to sorting centres	No (negotiated access)
	Access to delivery points	No
Upstream access	Access to street letter boxes	No

Source: ECORYS questionnaire (2005)

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the postal market in physical terms (million items)

	2004	% distribution addressed
Domestic items of correspondence <50 gram	1,095	33.5%
Domestic items of correspondence 50-100 gram	618	18.9%
Domestic items of correspondence >100 gram	206	6.3%
Inbound cross border mail	102	3.1%
Outbound cross border mail	115	3.5%
Direct mail addressed (incl. catalogues)	754	23.1%
Periodicals / Magazines	377	11.5%
Newspapers		
Un-addressed mail (direct mail, weeklies)	3,063	-
Total	6,330	100%

Note: PTS present a different division of mail items in their regular publications. These figures are estimates and should be interpreted carefully.

Source: ECORYS questionnaires (2005), PTS (2004, 2005), Fedma (2003), UPU (2005), Postmarknad i förändring (2005), Annual Report Posten AB, calculations based on these information sources

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2004
B2B	26%
B2C	68%
C2B	3%
C2C	3%
Total	100%

Source: Postmarknad i förändring (2005)

Table 1.7 Country information

Sweden	2004
Population (in million)	9.0 *
Size of the country (in 1000 of square km)	410.9 *
Population density (number of inhabitants per square km)	21.9
Degree of urbanisation	89.1 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	2,265,039 (25.2%) ***
Number of addressed mail items per inhabitant (incl. newspapers)	363

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Table 1.8 Government share in incumbent postal operator

	2005
% Government share	100%

Source: Annual Report Posten AB, website

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2004 in millions of euros	% (2004)	Of which earned abroad
Mail	15,000	66%	3%
Express	229	1%	0%
Parcels (Logistics)	7,512	33%	25%
Total	22,741	100%	100%

Source: Annual Report Posten AB, information PTS

Table 1.10 Overview Joint ventures, Alliances and Cooperation Agreements

Country	Mail	Express	Logistics
Austria			
Belgium			
Cyprus			
Czech Republic			
Denmark			Partnership DPD HIT Danmark AS
Estonia			
Finland			Partnership DPD HIT Finland Oy
France			
Germany	Posten Sverige GmbH (not active)		
Greece			
Hungary			
Ireland			
Italy			
Latvia			
Lithuania			
Luxembourg			
Malta			
Netherlands			Swedish Post Group
Poland			
Portugal			
Slovakia			
Slovenia			
Spain			
Sweden	AdressPoint International AB (85%) together with CityMail AB (15%)		Partnership DPD
UK		Direkt Link Worldwide	

Note: main participations only

Source: Annual Reports Posten AB

Table 1.11 Postal network

Posten	2004
Number of postal service points	2,845, of which 816 simple retail outlets
Number of P.O. Boxes	-
Number of street letter boxes	30,000
Number of delivery offices	2,029
Number of delivery points / addresses	4,500,000

Source: NERA (2004), Annual Report Posten AB 2004, information provided by PTS

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators in 2005

	No. of competitor postal operators	Overview of competitors
Domestic mail	26	Leading operators Posten AB and CityMail AB. Smaller local postal operators in all segments of the postal market
Cross border mail	10	Large international consolidators, Nordic universal service providers, all mainly active in outbound cross border mail

Source: ECORYS (2005)

Table 1.13 Competitors in the postal market

Postal operator	Volume mail / Turnover mail	# of employees	Service level (number of deliveries a week)	Coverage
CityMail (holding OptiMail)	428.8 mln SEK (turnover 2004) 216 million items	Over 1000	2/3 times a week	40% (4 out of 10 households)
MorgonTidningsDistribution (example of newspaper deliverer)	-	-	-	-
SDR	600 mln SEK (turnover) 920 million items (un-addressed)	350 employees, 12,000 delivers		4.3 mln households, 55 franchises

Source: ECORYS questionnaire (2005), website operators

Table 1.14 Market share of the incumbent operator letter market

2004	%	Developments in addressed mail (excl newspapers)
Posten AB	92.9%	In period 1996 -2003 Posten AB's volumes fell by 9.6%, while the total decrease of the market was 4.4%. From the top year 1996 until 2003 the mail volumes have decreased with an average of 1.4% per year or 30 million items.
CityMail (Holding OptiMail)	6.6%	CityMail has increased its market share from 1.5% in 1996 to 6.6% in 2003 in a gradually shrinking mail market due to increasing substitution of letter mail by alternative media.
Other operators (26)	0.5%	In mail volumes 17 m items, of which the eight largest have almost 90%.
2004	%	Developments in un-addressed mail
Posten AB	64%	Market leader in un-addressed mail items
Svensk Direktreklam (SDR)	30%	Generating promotion messages and extending the core activities to delivery as well.
S-Post	5%	-
Other operators	1%	Small local distribution companies and sports associations

Source: Committee study, Postmarknad i förändring, February 2005

Country information sheet: United Kingdom

1.1 Development of competition – narrative

1.1.1 Postal sector regulation and postal sector policy

Short description of regulatory framework, liberalisation and entry regulation

Postal services regulations in United Kingdom are laid down in the Postal Services Act 2000 with the latest amendments approved in November 2003. The Postal Services Act established Royal Mail as the successor to the Post Office and the Postal Services Commission (Postcomm) as the sector regulator with duties in relation to the universal service, consumers and competition.

Before the introduction of the Postal Services Act of 2000, Royal Mail had the exclusive right to provide postal services within the United Kingdom for items weighing less than 350 gram and costing less than 1 pound. The provision of value added services, courier and express services and document exchange was already open to competition. The delivery of un-addressed mail is not considered a postal service and was already open to competition. Since April 2001 the provision of postal services within the former reserved and consolidation area is partly allowed as the delivery of bulk mailings over 4,000 items is open to competition. In addition, the provision of niche services is liberalised, but it remains somewhat unclear how these niche services deviate from value added services and document exchange. The conveyance of all domestic and inbound postal products with a weight of at least 100 gram and priced at three times the public tariff of the lowest weight category is liberalised since 1 January 2003.

Royal Mail, the universal service provider, currently provides the universal service. The universal service includes the delivery and collection of mail (not exceeding 20 kilogram in weight) at least once every working day, and the provision of a registered postal service, all at affordable prices that are uniform throughout the whole of the United Kingdom. The services by Royal Mail are subject to quality of service requirements.

Postal operators in the United Kingdom need to acquire a licence to operate in the market within the scope of the licensed area. The licensed area consists of items weighing less than 350 gram and costing less than 1 pound. Royal Mail, as the universal service provider, has been granted a licence for a minimum of 15 years in March 2001 to provide the universal service. The licence includes conditions relating to the continued provision of the universal service, controls on prices and performance targets for service quality. Competitor postal operators need to apply for a licence to provide bulk mail services of 4,000 items or more per day, consolidated mail services (see below), and / or designated

mail services.⁶⁶ The standard licences have a minimum life of seven years. The conditions to obtain a licence mainly relate to guarantees that mail integrity will be secured.

Royal Mail's licence provided a legal framework for the introduction of access arrangements between Royal Mail and third parties. Postcomm introduced a licence for consolidation activities, that is, the collection of mail by a consolidator before handing it over to Royal Mail for final delivery. In the United Kingdom there does not exist mandatory regulated access to the facilities of the universal service providers. In the absence of an access code, it is up to third parties to negotiate access with Royal Mail. If an agreement cannot be reached, either party can request a determination of the terms of access from Postcomm. Postcomm has put effort in establishing third party arrangements to Royal Mail's network by consulting market participants and subsequently preparing a sample access agreement, although agreement was subsequently reached between Royal Mail and the first access seeker. In this respect, the principle of transparency and non-discrimination is applied, but the regulatory intervention by the regulator goes a bit further than in almost all other EU Member States.

The price of the postal products offered by Royal Mail is regulated by Postcomm. Postcomm has imposed a price freeze on most Royal Mail products in April 2001. In March 2003, Postcomm replaced the freeze by a more flexible price control system until 1 April 2006.

The Secretary of State for Trade and Industry (DTI) is responsible for postal sector policy and compliance with EU postal directives. DTI has currently two roles:

- The role of the owner, as DTI, along with the Treasury, are the sole shareholders of Royal Mail Holdings plc., and
- The role of the Postal Sector Policy maker setting out guidelines for future development of the postal services sector.

Postcomm's duty is to seek to ensure customers continue to enjoy a universal postal service. Postcomm is charged with furthering the interests of users of postal services by promoting effective competition between postal operators. A main function is the issuing of licences to operators within the former monopoly area. In performing its duties, Postcomm must have regard to the need to ensure that licence holders are able to finance the activities authorised or required by their licences.

Short description of relevant developments with regard to the regulatory framework

The main barriers for market entry and the development of competition are not only legal ones, but also Royal Mail's VAT exempt status and the huge scale of Royal Mail's operations giving it advantages in branding and lower unit costs. Entry barriers related to licensing procedures and legal certainty are considerably reduced after Postcomm has identified the main barriers to entry. In addition, Postcomm puts in great effort to eliminate strategic barriers to entry in the postal market arising from anti-competitive practices by the incumbent. The most important barriers to entry are discussed below.

⁶⁶ Up to December 2002, with the exception of Royal Mail, postal operators have been initially restricted to apply for interim licences of a maximum of 12 months duration.

Unlawful state aid

The core elements in a possible dispute about unlawful state aid are the special privileges granted to Royal Mail only, like the immunity to prosecution for carrying prohibited items, and Royal Mail's special status regarding VAT (exempt from charging).

Potential anti-competitive behaviour

Recently, Postcomm reached a decision following an investigation into apparent anti-competitive practices by Royal Mail. Royal Mail had developed promotion schemes to encourage customers to use mail as part of their marketing activities. The two Royal Mail schemes under investigation were the catalogue customer reactivation and acquisition test, introduced in July 2003 and the Mailsort 31400 incremental advertising promotion, introduced in October 2003. Both schemes gave a discount on "incremental" mailings posted by eligible catalogue and advertising mailers. A competitor alleged that Royal Mail was behaving anti-competitively by encouraging non-Royal Mail customers to switch to Royal Mail. Postcomm concluded that Royal Mail appeared to have contravened two conditions in its licence designed to facilitate competition. As a result Royal Mail established new procedure in which senior management must assess new promotion schemes in the framework of regulatory and competition laws.

Discrimination

In January 2005, a Postcomm investigation has started to deal with complaints of three competitor postal operators (Express Ltd., TPG Post UK Ltd., and UK Mail Ltd.) about Royal Mail's zonal pricing system for downstream access. The complaint focuses on the opinion of the competitors that the offer of zonal pricing on access contravenes one or more Royal Mail's licence conditions as Royal Mail has concluded different arrangements with competitive operators in the UK.

Short description of the Postal Sector Policy

In February 2005, Postcomm decided to bring forward the date for full market opening from 1 April 2007 to 1 January 2006, after having consulted extensively with stakeholders. This recently approved postal sector policy is laid down in the Report "Giving customers choice: a fully open postal service market" a decision document from Postcomm as of 18 February 2005, fully supported by DTI. This implies that from 1 January 2006, no part of the postal market will be reserved to Royal Mail any more. With this recent decision, Postcomm goes beyond the European postal services directives (envisaging a reduction in the reserved are to 50 gram on January 2006) as Postcomm is convinced that there are sufficient safeguards available for continued universal service provision.

Crucial in the considerations for further market opening is that it gives incentives to Royal Mail to increase its efficiency and flexibility to face long-term challenges in the postal industry (not only ability to guarantee universal service provision, but also facing substitution by alternative (electronic) media, more options for new business developments and widening of the product and service range). In the decision it is also considered that a large-scale competitive challenge to Royal Mail will take some time to develop, while it will accelerate certain operator's investment plans for entering the market.

As of 2006, Postcomm is planning a new licensing regime that is better suited to the liberalised market. The main component is that there will be a standard licence, granted for a term coterminous with Royal Mail's licence term, with specific conditions on:

- Complaint handling and performance measurement systems should be in place and information on the licensee's performance should also be available,
- A code of practice for mail integrity, and on common operational procedures should be in place,
- Ongoing reporting supported by revocation provisions to ensure the continuing fitness and propriety of licensees is required, as is,
- Regular and ad hoc provision of information,
- Measures in place to ensure that, if a licensee goes out of business, any undelivered mail is properly dealt with, and
- Accounting separation for licensees whose ultimate parent has a state monopoly in another jurisdiction in the provision of postal services.

In addition, an annual licence fee has to be paid, which increases according to turnover of the licensee.

Postcomm is currently considering whether a mandated access code is required, and whether access prices should be included in Royal Mail's price control. This was one of the issues raised for consultation in Postcomm's competitive market review, proposals for consultation published in September 2004.

1.1.2 Forces governing competition (Porter analysis, contestability of markets)

Short analysis of relevance of Porter's forces governing competition (if different from general analysis)

Government regulation

With the recently approved postal sector policy heading towards full market opening in 2006, a clear sector policy is put into place to develop competition in the postal sector in the United Kingdom. Postcomm has indicated that it will take some time to put into place a framework more tailored to a fully open market, including a new licence regime and common operational procedures. The light-handed licensing regime does however not pose severe restriction on (potential) postal operators. Postcomm is working on the removal of legal barriers to entry, as listed above.

New entrants

Around 4,000 operators are active in express and courier services. In the licensed area, Postcomm has currently issued 13 operators a licence (including double counts). Three operators have concluded an access agreement with Royal Mail, namely UK Mail, TNT Mail UK and DHL Global Mail UK. The remainder is active in the delivery of bulk mail services, consolidation / access and / or niche services (tracked business to business, enhanced document exchange).

Substitution

Volume developments in the United Kingdom have been positive with annual growth of 2.1% in recent years. In 2003/2004, the number of domestic letter post items grew by

1.5%. Royal Mail expects the market to continue growing by at least 2% per year for the next two years or so.⁶⁷ However, the incumbent and the postal regulator Postcomm frequently mention increasing substitution by alternative (electronic) media as one of the main reasons to establish a more competitive UK postal market. The impact of substitution is likely to differ significantly between segments. The demand for direct mail has grown and will continue to grow faster than the demand for non direct mail.

Buyers

The competitive force of buyers of postal services (the suppliers of mail) is large in most segments of the postal sector. Large customers such as banks, utilities and publishers possess buying power and demand value for money. Moreover, the increasing outsourcing by businesses of mail activities and the need for value added services are important factors at work. Top 100 accounts have a considerable impact on total revenues (in terms of volume for addressed mail. The top 50 is responsible for 29.2% of the total number of postal items, the top 100 for 36.7% and the top 500 for 49%.⁶⁸

Short analysis of contestability/attractiveness of market segments in the mail market, in relation to the market size of the postal sector and country information

The UK postal market is currently only partly liberalised as 40% of total postal volume is open to competition (30% in terms of revenue).⁶⁹ According to Roland Berger, 36.9% of the market is liberalised currently. The differentiation of the UK licensed postal market in weight categories is indicated in the next table.

Weight step	As a percentage of total (volume and revenue, respectively)	UK Liberalisation steps
101 – 350+ gram	13/23%	From 2003
51 – 100 gram	14/12%	Initially intended as from March 2005, now integrated in new proposals for full market opening
21 – 50 gram	34/20%	Effected by full market opening
0 – 20 gram	36/31%	decision as from 1 January 2006

Source: Royal Mail and Postcomm "Promoting effective competition in the UK", June 2001, a consultation document. Data in column two refer to 1999/2000.

Although major steps are taken towards a more competitive postal market, competitors have taken less than 1% of Royal Mail's volume in the licensed area above 100 gram and it becomes clear that effective and sustainable competition will take some time to develop. With the recent approved decision for full market opening, real competition in the UK postal market has just begun and is expected to lead over time to a fall in market share of the incumbent operator Royal Mail.

⁶⁷ Postcomm (2005), Tackling barriers to entry in postal services, March 2005

⁶⁸ Postcomm (2004), The UK letters market 2000 – 2003, January 2004, Monitoring developments in the postal market – Market Survey, Roland Berger consultants, 2004

⁶⁹ Postcomm (2002), Postcomm's proposals for promoting effective competition in UK postal services, January 2002

1.1.3 The universal postal operator: facts, figures, strategy

Royal Mail is considered as an international postal operator in mail and express while the company is active in the logistics market through its participation in General Logistics Systems International Holdings (GLS) based in The Netherlands with a network of over 33 countries.

Turnover of Royal Mail

	1999/2000 in millions of euros	2003/2004 in millions of euros
Mail (licensed area)	-	6,770
Express	3,988	3,900
Logistics	-	-
Total	-	-

Note: calculation in euros by ECORYS

Source: Postcomm, MSI Data Report Express Deliver Services UK (2004)

Total volume of mail by Royal Mail

	1999 / 2000 in millions of items	2003 / 2004 in millions of items
Letter post (Addressed mail in licensed area)	-	19,273
Parcel Mail	-	-
Express	728	827
Logistics	-	-
Total	-	-

Source: Royal Mail Annual Report 2003-2004, ECORYS questionnaire (2005)

The Royal Mail Group increasingly earns its income abroad. In the year 1999-2000, 4.1% of the total revenues was earned abroad; in 2003-2004 it has increased to 9.5%.

The financial performance of Royal Mail has improved considerably in the past few years. In 2003-2004, Royal Mail made a profit from operations of 348 million pound on its regulated profits with corresponds to a return on sales of about 6%. The total group profit grew to 217 million pounds, compared to 55 million pound in the year before.

Strategies of universal service provider

Royal Mail is mainly focusing on improving its performance in the domestic market. In its renewal plan, Royal Mail aims at improving its efficiency and cost effectiveness. In the international market, the Royal Mail group, their business in logistics (via GLS) is expanding, especially in eastern European countries. In mail, Royal Mail cooperates with TNT and Singapore Post in Spring, an international mail consolidator.

1.1.4 Competitor postal operators and effect of competition on market structure and market performance

Existence and strategies of competitor postal operators

Since the enactment of the Postal Services Act 2000, Postcomm has licensed the following postal operators in various segments of the UK market.

Licensed postal operators

	Mailroom services	Bulk mail E2E	Consolidation	Enhanced doc exchange	Tracked B2B	Other licensed mail
AMP Ltd.						
DHL Global Mail (UK) Ltd. (DWPN)		xx				
DX Network Services Ltd.		xxx		xx	xxx	
Express Ltd. (TNT)		xx				
Mail Plus Ltd.		x	x			
Racer Consultancy management Services Ltd.		x	x		x	
Securicor Omega Expres (DWPN)	x					
Special Mail Services Ltd.		x	x			
Speedmail International Ltd.	x	xx	xx		x	xx
TNT UK	xxx					
TNT Mail UK Ltd		xx				
UK Mail			xxx			

Note: x: over 1,000 items; xx: over 100,000 items; xxx: over 1 mln items.

Source: Postcomm Competitive Market Review (September 2004), web site info April 2005

Royal Mail agreed on commercial access terms with UK Mail on 12 February 2004 and subsequently with TNT on 7 April 2004 and Deutsche Post World Net (DPWN) on 16 April 2004. Currently, Royal Mail also has access agreements with one mailing house and one customer.⁷⁰ The conditions in these agreements are similar and consist of a pricing component, i.e., 13p for every letter sorted and delivered by Royal Mail, and a determination of access points. Prices do not vary between delivery locations. The business models of UK Mail, TNT Mail UK and DHL Global Mail UK are based on the access agreements with Royal Mail

Speedmail International, the DPWN subsidiary, has elaborated its entry strategy as having two main choices: to offer similar products but at lower prices or to offer differentiated products at similar prices. Speedmail developed a strategy for operational excellence

⁷⁰ Source: Postcomm (2005), Tackling barriers to entry in postal services, March 2005.

outperforming the incumbent in the operational processes collection, sorting and delivery and meetings customer demands where the incumbent has shown weaknesses. Use of new technologies and dedicated customer focus support this approach. More or less the same strategies are applied by other entrants initially focusing on specific business and bulk mail customers and gradually extending this approach to all customers, especially in the B2B and B2C markets.

UK Mail, part of Business Post and FedEx's UK partner, states that the market for express deliveries has been challenging throughout the year although the company has made good progress, and is expected to increase turnover for the year ended by nearly 6%. According to the company the market for cross border shipments continues to grow at roughly twice the rate of domestic and, with the introduction of new services its international division is expected to increase its turnover by approximately 16%. UK Mail, which commenced trading in May 2004, continues to make excellent progress. Market penetration has been achieved at a faster rate than expected, and UK Mail is currently handling an annualised 250 million items a year. For its business, UK Mail uses the network of Royal Mail for final delivery, 2 days a week. On day one, sorted mail is collected from customers, sorted at the Business Post regional hub, hauled to national hub, and hauled to the 61 Business Post delivery locations. On the subsequent day, bags of sorted mail are delivered by local Business Post hubs and depots to Royal Mail, where Royal Mail carries out the local sortation. The next day, Royal Mail delivers the mail to the final customer. By using the network of Royal Mail, UK Mail is able to offer its services throughout the whole country.

The domestic market for express in the United Kingdom has a few large operators Parcelforce, Securicor, TNT, Parceline and Business Post. In the international market for express delivery, DHL Global Mail, TNT UPS and FedEx are the largest operators.

Effect of competition on market structure and market performance (result indicators), including on US provision

The UK mail market is still growing according to insights from Postcomm and postal operators. Our calculations lead to a lower number of addressed postal items delivered in 2003-2004 compared to four years earlier.

Total number of addressed mail items delivered (in millions)

Postal category	1999 / 2000	2003 / 2004
Inland first class	5,900	5,581
Inland second class	12,800	12,596
International mail	800	1096
Total	19,600	19,273

Note: the data for 2003-2004 are very rough estimates.

Source: Royal Mail Published Accounts 2001, ECORYS

Royal Mail currently has a market share of more than 99 per cent in the delivery of addressed mail items (within the licensed area).

Market share of Royal Mail in the delivery of addressed mail

End to End letter mail volumes in licensed area 2002 - 2005			
Operators	End to End (E2E) letter volumes (mln items)*		
	2002 / 2003	2003 / 2004	2004 / 2005**
Royal Mail***	18,865	19,216	19,600
Non Royal Mail	51	57	76
operator E2E volumes			
Total E2E market	18,916	19,273	19,676
Growth	-	1.9%	2.1%
Royal mail market share	99.73%	99.70%	99.62%
Competitors market share	0.27%	0.30%	0.38%

* Excludes access volumes (estimated at 111 m items for the year 2004/05)

** Postcomm forecast

*** Based on monthly data Royal mail to Postcomm

Source: Postcomm Competitive Market Review (September 2004)

The domestic market for express in the United Kingdom has a few large operators Parcelforce, Securicor, TNT, Parceline and Business Post with respective markets shares of 20%, 16%, 13%, 6% and 6% in 2001.⁷¹ In the international market for express delivery, DHL Global Mail, TNT UPS and FedEx are the largest operators with market shares of 30%, 14%, 12% and 9%.

According to a study conducted for Postcomm “Only 18% of all customers and 31% of Top 500 mailers are willing to switch more postal business to new competitors. However, more than 45% of all customers who, so far, have not used a new entrant, are just waiting for ‘the right supplier’ to enter the market.”⁷²

The quality of service of the postal services provided by Royal Mail has improved since the year 2000. For first class mail, the total number of items delivered next day increased from roughly 90% to almost 93% between 2000 and 2004. For second class mail, the percentage increased from 98.3% in 2001/2002 to 98.5% in 2003/2004.

⁷¹ Source: MSI Data Report (2001), Express Delivery Services UK, August 2001.

⁷² Source: Monitoring developments in the postal market – Market Survey, Roland Berger consultants, 2004.

1.2 Accompanying tables and information

1.2.1 Regulatory framework, liberalisation and access regulation

Table 1.1 Postal law and regulation

Postal law and regulation	Date of introduction	Date of latest amendment
Postal Services Act 2000	2000	Amendments approved in November 2003
Postal Services (EC directive) Regulations 2002	2002	Incoming cross border mail is liberalised above 100 gram for a single item Direct mail is liberalised above 100 gram for mailings over 4,000 items For magazines and catalogues, no volume requirement exists. To implement the requirements of the 2002 postal directive in the UK and to define the scope of the universal service.
Postcomm's decision document	18 February 2005	Full market opening in the UK from 1 January 2006

Source: Postcomm (2005), ECORYS questionnaire (2005)

Table 1.2 Liberalisation of postal services and the reserved area

Postal product	Within reserved area (Yes, no or unclear)	Remarks
Domestic items of correspondence <50 gram	Yes	Except for bulk mail over 4,000 items and consolidated mail till January 2006
Domestic items of correspondence 50-100 gram	Yes	Except for bulk mail over 4,000 items and consolidated mail till January 2006
Domestic items of correspondence >100 gram	No	-
Inbound cross border mail	Yes	Except for >100 gram or consolidated mail
Outbound cross border mail	No	-
Direct mail addressed (incl. Catalogues)	Yes	Except for bulk mail over 4,000 items and consolidated mail till January 2006
Periodicals / Magazines	No	-
Newspapers	No	-
Un-addressed mail (direct mail, weeklies)	No	-

Note: tracked B2B mail and enhanced document exchange services are also open to competition.

Source: ECORYS questionnaire (2005)

Table 1.3 Entry regulations

Instrument	For what service? Which services can a postal operator provide?	What are the conditions?	How many have been issued? (2005)
Licence	Consolidation / access, bulk mail delivery, niche services (enhanced document exchange, tracked B2B)	Requirement for all postal operators to safeguard the mail, to set their own service standards and report on both of these twice a year to Postcomm and Postwatch, the consumer watchdog. The licence also requires operators to put in place measures, which would ensure that, if they go out of business, any undelivered mail is properly dealt with.	2 access only 8 end to end services and access

Source: Postcomm Reports, ECORYS questionnaire (2005)

Table 1.4 Network access

Access	Form of access	Regulated? (Yes, no or unclear)
Downstream access	Access to P.O. Boxes Access to sorting centres Access to delivery points	No No, in downstream access and pricing arrangements between Royal Mail and competitor operators Postcomm can act as dispute settler Arranged in same agreements as above
Upstream access	Access to street letter boxes	No specific arrangements

Source: ECORYS questionnaire (2005), legal documentation on website Postcomm

1.2.2 Market size of the postal sector and country information

Table 1.5 Size of the mail market in physical terms (million items)

	2003 / 2004	% distribution addressed
Domestic items of correspondence <50 gram		
Domestic items of correspondence 50-100 gram	12,596	65.3%
Domestic items of correspondence >100 gram		
Inbound cross border mail	469	2.4%
Outbound cross border mail	627	3.3%
Direct mail addressed (incl. catalogues)	5,438	28.2%
Periodicals / Magazines	145	0.8%
Newspapers	-	-
Un-addressed mail (direct mail, weeklies)	10,170	
Total	29,445	100%

Note: ECORYS has made calculations to split total mail volume over the various postal products. The figures need to be interpreted with utmost care.

Source: ECORYS questionnaire (2005), Postcomm (2004, 2005), FIPP (2004), Fedma (2003)

Table 1.6 Postal streams in the market for addressed mail

Postal stream	2000	2004
B2B	29%	27%
B2C	57%	61%
C2B	4%	3%
C2C	10%	9%
Total	100%	100%

Note: Royal Mail presents for 2002 out of the National Audit Office report "Opening the Post" of January 2002 the following percentages: B2B 28%, B2C 58%, C2B 5% and C2C 9%.

Source: ECORYS questionnaire (2005)

Table 1.7 Country information

United Kingdom	2004
Population (in million)	59.7 *
Size of the country (in 1000 of square km)	243.8 *
Population density (number of inhabitants per square km)	244.9
Degree of urbanisation	65.8 ¹ **
Number (and percentage) of inhabitants 5 largest cities (2005)	10,070,823 (16.9%) ***
Number of addressed mail items per inhabitant (excl. newspapers)	323

¹ 2003

Source: * Eurostat / ** UN (2003) / *** World Gazetteer

1.2.3 Facts and figures for the national postal operator (US provider)

Royal Mail (Holdings plc) is a corporatised state enterprise.

Table 1.8 Government share in incumbent postal operator

	2005
% Government share	100%

Source: ECORYS questionnaire (2005), Annual Report Royal Mail

Table 1.9 Division of turnover of the national postal operator per business area

Business area	2004 / 2005 in millions of euros	% (2004 / 2005)
Mail	9,592	75%
Parcels (Parcelforce Worldwide)	394	3%
Logistics	1,314	10%
Other	1,415	12%
Total	12,715	100%

Source ECORYS questionnaire (2005), Annual Reports Royal Mail

Table 1.10 Overview acquisitions, alliances and partnerships

Country	Mail	Express	Logistics
Austria			General Parcel (2000)
Belgium			
Cyprus			
Czech Republic			General Parcel Cechy (2001) 25.1% acquisition, subsequently exited
Denmark		Stafetten (2000) 83.3% acquisition	Pakke-Trans A/S (2000) Stafetten (2000) 83.3% acquisition
Estonia			
France	Crie group (2000)	Crie group (2000)	Exland S.A. (2000)
Germany		Der Kurier (1999)	German Parcel (1999) of Domberger Paket Dienst GmbH & Co. KG and Deutscher Paket Dienst Dachser GmbH (2000)
Greece			
Hungary			
Ireland			Williams group (1999)
Italy		Direzione Gruppo Executive S.p.A (DGE) (2000) 49% acquisition, (2001) full acquisition, (2003 and 2004) franchise business of DGE in Verona, Firenze and Vicenza	Direzione Gruppo Executive S.p.A (DGE) (2000) 49% acquisition, (2001) full acquisition (2003 and 2004) franchise business of DGE in Verona, Firenze and Vicenza
Latvia			
Lithuania			
Luxembourg			
Malta			
Netherlands			Selektvracht (1998) joint venture, until 1999 Nederlandse Pakket Dienst (2000)
Poland			Szybka Pazka (2001) 25.14% acquisition
Portugal			
Slovakia			
Slovenia			General Parcel Slovenia and M Express (2001)
Spain			
Sweden	Citymail (1998), 10% acquisition, (2000) 67%, until 2001		
UK	FDS group and CFI group (2001), Mail marketing		

Country	Mail	Express	Logistics
International	international Ltd. (2001), 25% acquisition, Spring (2001), acquisition 24.5%		

Source: Royal Mail Annual Reports, website Royal Mail

Table 1.11 Postal network

Royal Mail	2004
Number of postal service points	16,000
Number of P.O. Boxes	n.a.
Number of delivery offices	1,400
Number of street letter boxes	121,000
Number of delivery points / addresses	27,000,000

Source: Annual Report Royal Mail 2003 / 2004, WIK (2004), Postcomm (2004) NERA (2004)

1.2.4 Competitor postal operators and market structure of the postal sector

Table 1.12 Presence of competitor postal operators

	No. of competitor postal operators	Overview of competitors
Domestic items of correspondence		Speedmail, Express, DX Network services, SMS
International mail		DHL Global Mail, TNT, La Poste, Swiss Post International, Spring, IMX, Mercury International, Pharos International
Addressed direct mail / catalogues		Speedmail, Express, DX Network services, SMS, AMP
Periodical / Magazines	Numerous	Newsagents offering a home delivery service
Newspapers	Numerous	Newsagents offering a home delivery service
Un-addressed mail	Many	Mainly local operators
Upstream mail services	Many	Mailing houses, large customer and postal operators UK Mail, TPG, Deutsche Post, Anon

Source: ECORYS questionnaire (2005), information Postcomm

Table 1.13 Competitors on the postal market

Postal operator	Products active	Volume mail / Turnover mail	# of employees	Service level (number of deliveries per week)	Coverage
UK Mail	Upstream letter mail and addressed direct mail, periodicals - magazines	33 mln items, 8.3 mln euro (end of 2004), 250 million items handled in March 2005 on annual basis	-	2 times a week	Nationwide (via Royal Mail)
Speedmail International (DPWN)	Addressed mail (tracked B2B)	-	-	Daily collection and delivery, 100% guaranteed delivery	Collection 200 addresses, Delivery to 5,000 addresses

Source: ECORYS questionnaire (2005), websites, Burke (2004)⁷³, Stapleton (2005)⁷⁴

Table 1.14 Market share of the incumbent operator

	2004	Remarks
Market share of USP (in terms of volume) in the delivery of addressed mail	99.5%	Fallen to 99% according to Royal Mail because of increase downstream access by competitors
Market share of USP (in terms of turnover) in addressed mail	>99.5%	-

Source: Postcomm's decision document February 2005

⁷³ Burke (2004), Deregulation in the UK postal sector: the niche players perspective

⁷⁴ Stapleton (2005), Promoting competition and higher quality service, presentation at IEA conference, March 2005